



UNIVERSITY OF GOTHENBURG
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**Corporate Social Responsibility:
An illustration of Supplier Codes of Conduct Management
in MNCs**

-A case study of IKEA and its suppliers in Thailand

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ABSTRACT

Following the increasing international business focus on developing economies, global sourcing and procurement are gaining importance in MNC operations. Simultaneously, due to the increasing stakeholders pressures mainly the customers, Corporate Social Responsibility (CSR) has become a major business performance indicator over the last decades. Consequently an essential dimension of CSR today is the business responsibility of foreign suppliers from whom MNCs' procure goods and services to meet global demand. The literature on CSR covers a large spectrum of areas, mainly supply chain sustainability; stakeholder theories; agency theories all of which model various CSR and supplier codes of conduct (SCC) implementation processes from different angles.

In this study the main purpose is to find out motivations and obstacles for suppliers' commitment to MNCs' SCC focusing on the labor issues. Our analyses empirically supported utilizing the example of IKEA's SCC-IWAY- implementation among suppliers in Thailand. A total of 49 interviews have been carried out with IKEA and supplier company representatives both in Sweden and Thailand. Findings indicate MNCs' commitment, suppliers' management view and strength of business relationships as the main features which drive CSR compliance.

Keywords: Corporate social responsibility, codes of conduct, multinational corporations, supplier, social and working conditions, drivers and incentives, Thailand

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ABBREVIATIONS

CSO	Corporate Social Opportunity
CSR	Corporate Social Responsibility
FDI	Foreign Direct Investment
HR	Human Resource
ILO	International Labor Organization
IMust	IKEA minimum requirements
IWAY	IKEA's codes of conduct
KPI	Key Performance Indicators
MNCs	Multinational Corporations
ODM	Original Design Manufacturer
OEM	Original Equipment Manufacturer
PPE	Personal Protective Equipment
PSR	Purchasing Social Responsibility
QA	Quality Assurance
RCI	Responsible Competitiveness Index
SCC	Supplier Codes of Conduct
TSO	Trading Services Offices

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1. INTRODUCTION

*"...Done in a sensible way, social and environmental work is good for business. It is good for business because our customers will feel reassured that they are doing business with a company that shares their views and values. And it is good for business because it can also support cost efficiency. Using resources and raw materials efficiently, saving energy, improving working conditions at our suppliers and through that getting more motivated people, will have a positive effect on costs and therefore support our business objectives."*¹- Anders Dahlvig, President of the IKEA Group

This chapter introduces the research field of this thesis. It sketches the background of the research for dealing with problem discussion and presents research questions. The reader shall be presented with general deliberations concerning the thesis approach employed in the paper.

1.1. BACKGROUND: CSR in the global supply chain

The Corporate Social Responsibility (CSR) concept reflects the organizations' considerations on the interests of society by simply assuming responsibility themselves for the impact of their activities on customers, suppliers, employees, shareholders, communities, stakeholders, as well as the environment. (Grayson & Hodges 2004) It can be regarded as companies' efforts beyond their legal obligations whereby they take further steps to improve the quality of life for employees and their families as well as for the local community and society at large. CSR is also called "corporate responsibility" or "corporate citizenship" which is subject to increasing attention as numerous surveys conclude that there is an increasing preference towards social and environmental performance of firms among consumers. (ibid.) At the same time, CSR is becoming more critical in the development of the corporate strategies for the companies. Simultaneously, an increasing number of international indices such as the Dow Jones Sustainability Index and the FTSE4Good Index suggest that investors consider social criteria besides the financial factors while making investment decisions (DJSI 2006; FTSE 2008)

As such considerations, many large multinational corporations² (MNCs) increased their awareness and created codes of conducts and social responsibility frameworks. (Egels-Zanden 2007; Sethi 1999; Cowton & Thompson 2000; Somers 2001) Noticeably, the outsourcing activities have been likely to increase consideration on codes of conduct as well. (Frenkel & Kim 2004) Nevertheless, the standards of such CSR policies among developed country MNCs and developing country foreign suppliers have been questioned regarding the feasibility of suppliers' compliance to buyer company codes of conducts. (Egels-Zanden 2007) Besides the increasing MNCs focus on the relationship between CSR and the supply chain, many international organizations such as UNDP and Global Compact have concentrated their efforts on explaining why a responsible supply chain is crucial for development and promoting it. (UNDP & Global Compact n.d.)

¹ Dahlvig (2008)

² In this study, MNCs is defined based on the definition by Cheng (1991) as large multinational buyer organizations that are involved in geographically diverse functional operations especially purchasing as emphasized by the scope of this study.

According to Copenhagen Business School CSR report 2002-2007, many scholars have studied CSR from various perspectives, e.g. CSR driven innovation, CSR in SMEs, CSR and profits. (CBS-CSR 2008) However, some scholar noticed that the relationship between CSR and supply chain management has been neglected in the academic world. (Pedersen & Andersen 2006) In their study the mechanisms which shape suppliers' compliance with the MNCs codes of conduct shall be investigated with a focus on labor and social conditions aspects. In other words the motivations and means that drive suppliers to act responsibly in their business operations are the main concern of this thesis. In the introduction chapter, the problem discussion will be analyzed which is reflected by the problem background with regard to CSR issues in supply chain. Then, the main research questions will be discussed in the problematization part. The research purpose will show the study's objectives followed by delimitations which limit the scope of this research. At the end of this introduction chapter, the thesis disposition part would explain the structure of the thesis by explaining each chapter in detail respectively.

1.2. PROBLEM DISCUSSION

1.2.1. Reflections on the Problem Background

Profitability and competitiveness have been understood as the major objectives of the business organizations. These objectives need to be sustained in the long term for a company to remain in its market where the consumer demands and technology are continuously shifting towards higher standards. In such an environment CSR standards receive far less attention than they deserve since the business managers are preoccupied by more direct issues.



Figure 1: CSR Pyramid
Source: Adapted from Carroll (1979)

Carroll (1979) developed a CSR pyramid presented in Figure 1 where the business priorities are categorized according to their importance in sustainability of companies' businesses. The first layer in the pyramid is *economic responsibility* of the company which is basically producing goods and services that society wants. This is the basic and the most important part of company responsibility since the profit comes from economic activities. The second layer represents the *legal obligations* that need to be fulfilled during economic activities of the companies. *Ethical responsibility* refers the society's expectations of business over and above legal requirements. The final layer is named *discretionary responsibilities* representing philanthropic and social initiatives of the company.

As shown by the CSR pyramid, social initiatives and the company's responsibility towards the environment and the society are discretionary actions which are not rigid obligations. However recently with the increasing public awareness, many companies are realizing that this final layer is

now actually among the most debated phenomena in business sustainability. Many governments are extending regulation and mandates in social responsibility reporting. It is argued in the literature that there are three kinds of social issues which affect the company; *Generic social issues* are likely important to society but do neither significantly influence MNCs operations nor affect MNCs long-term competitiveness. Secondly, *Value Chain social impacts* influence MNCs' business activities in the regular course of business. And finally, *Social dimensions of competitive context* are factors in the external environment that significantly affect the essential drivers of competitiveness where the MNCs operate. (Porter & Kramer 2006; Yu 2008) According to Sastararuji and Wottrich (2007) sustainable development is built on three pillars; sustainable economic growth, environmental protection, and social progress. Nevertheless, development of the latter two remain limited when they are compared to the first pillar which can be explained by the neoclassical notion of economic agents being rational. (ibid.)

Porter and Kramer (2006) emphasize that sustainability highlights community stewardship and environmental concern. Additionally former Norwegian Prime Minister Gro Harlem Brundtland developed the definition of sustainability as "*Meeting the needs of the present without compromising the ability of future generations to meet their own needs*". The principle of sustainability is to develop long term self-interest and always bear in mind the so-called three bottom lines of economic, social and environmental performance. Generally speaking, organizations are driven to work in a way that sustains long-term economic performance by evading short-term behavior which is socially or environmentally harmful. Many organizations developed internal CSR concepts by initiating codes of conduct that are anticipated to support socially responsible business performance throughout the supply chain. Nevertheless, there are numerous challenges in controlling and managing codes of conduct. Pedersen & Andersen (2006) pointed out that an active commitment is a precondition for the successful execution of the codes, however the incentive to fulfill the codes does not essentially include all players in the supply chain. Additionally, since the involved stakeholders are separated geographically, economically, legally, culturally and politically, it is intricate to make compulsory codes of conduct in global supply chains. Figure 2 shows samples of CSR issues in supply chain in three different stakeholders. With regard to this study the first two columns; suppliers and manufacturers, are in focus since this topic is a SCC implementation issue in international manufacturer suppliers. The following part introduces and discusses problematization to lay the ground of this study by showing research questions which shall be used through this research.

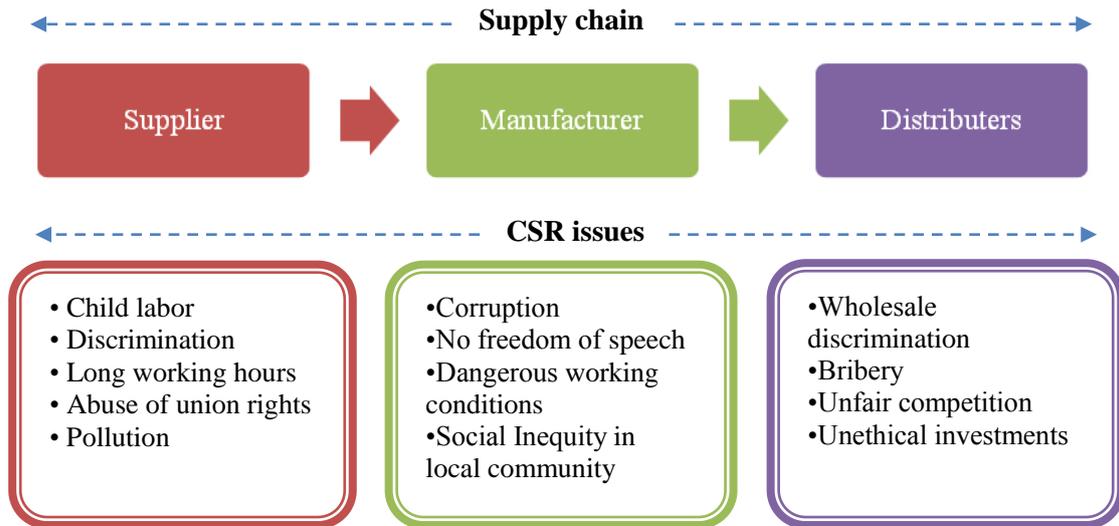


Figure 2: CSR Issues in Supply Chain
Source: Pedersen and Andersen (2006)

1.2.2. Problematization

A recent survey by the World Bank estimates that there are 1,000 corporate codes existing today concerning labor, human rights, and environmental requirements for suppliers. (Yu 2008) Many MNCs in various industries have established their own Supplier Codes of Conduct (SCC) such as NEC, HP, and Reebok. (Porter & Kramer 2006; DCCA 2008; Yu 2008) However, Sethi (2002) noticed that most of the codes of conduct undergo from a number of flaws. For example, MNCs presented codes of conducts as public statements of lofty objective and intent, but they lack explicit content. While MNCs declare the codes of conducts to their customers, employees and others, they pay no attention to the rights of stakeholders that involve in the backward processes of production. Additionally those global companies lack a serious implementation plan. These codes of conduct, likewise, do not present any framework for suppliers' commitment or any incentive for suppliers. (Sethi 2002)

CSR is subject to increasing concentration from private organizations, governments and NGOs. (CSR Europe 2003) However, there is limited academic research concerning the implementation of codes of conduct among MNCs and their suppliers, particularly in developing countries (Egels-Zanden 2007) Even though many scholars have highlighted CSR as the voluntary form of corporate responsibility to the society and environment Porter and Kramer (2006) have noticed that many companies are aware of this issue merely after it has been focused by public media. It has been noticed that many interesting cases reveal that suppliers' compliance control is a growing issue regarding social and labor aspects, especially in developing countries. (Porter & Kramer 2006; Smith 2003; Blowfield & Murray 2008, pp.32) Therefore, the main concentration in this study is upon the drivers and tools that enable flawless implementation of MNCs' codes of conducts. Thus the main research question is;

From an MNC perspective, how can supplier codes of conduct be effectively implemented in global purchasing particularly from social and working conditions aspects?"

It could be easily noticed that the research question is not straightforward, that one can easily develop holistic answers. Rather, effective supplier codes of conduct performance is dependent on two

dimensions; buyer company initiatives that will serve as a driver for suppliers towards responsibility considerations. The other dimension is the supplier company perspective; the drivers and MNC initiatives that motivate suppliers to comply with supplier codes of conduct requirements. Thus, those two dimensions comprise the research sub question;

From a supplier perspective, what are the drivers and incentives that ensure their long term commitment to the MNCs' supplier codes of conducts?"

Within the framework of this study, the authors investigated the case of the largest furniture retailer, IKEA, and its codes of conduct - IWAY- implementation among its suppliers in Thailand due to two main reasons. The first reason is IKEA's superior performance in code of conduct implementation. IKEA was ranked as the second in the list of the world's most respected companies in 2007, behind Lego from Denmark (Forbes 2007; CSR Europe 2007) and the company is based in Sweden which ranks as the first in CSR in the Accountability's Responsible Competitiveness Index 2008³ (RCI). The second reason is that in Thailand, suppliers' SCC performance stands between developed country suppliers' performance and developing country suppliers' performance which would allow the authors to assess the suppliers' compliance drivers and implementation process. (IKEA 2007) CSR development in Thailand has become more highlighted since the previous decades. (Wedel 2007) In order to clarify and answer research questions, the authors shall explain by using relevant academic theories and analyze empirical findings in this research.

1.3. RESEARCH PURPOSE

This study aims to address the mechanism and drivers that result in responsible supplier behavior in a foreign supplier. The main research tool is MNCs' SCC, traditionally seen as the predominant method used by global companies in promoting their CSR codes. Moreover, the authors attempted to analyze effects of the external environment; developing and developed country distinction as well as the cultural context shall represent the assessment of external environment in CSR performance of suppliers. It has been noticed that literature concerning CSR enforcement in the global supply chain has been developing but still research is needed. By utilizing various CSR and supplier management approaches and utilizing existing theories, empirical findings and secondary data this study aims to provide a well grounded holistic explanation to CSR implementation in global purchasing and supplier responsibility. The authors anticipate that this research would not only generate understanding to the individuals, but also to the academic and managerial area through the result of responsible implementation in global purchasing activities.

For academia purposes, the authors hope that this study would attract and encourage academic institutions to become more interested in the research area and develop new talented researchers in order to nurture stronger international networks. For managerial purposes, it is expected to help the companies to be able to understand the root of problems, needs and codes of conduct implementation processes. Through the model, the case company would improve its codes of conduct implementation to become more effectual in practical ways. The following section would present the delimitation of the study which explains the scope and identifies the borders of this research.

³ See Appendix 1

1.4. DELIMITATIONS

In this part, the purpose is to introduce limitation of the scope and define the boundaries and the inquiries of this study. The first limiting was the choice of topic, purpose of study and empirical findings. CSR in fact involves all aspects of businesses from material design to packaging decisions and delivery efficiency. However, the authors limited the scope and focused on the purchasing and supplier related issues in CSR. Suppliers' codes of conduct are the most common tool to promote global CSR initiatives by MNCs' and in this study analysis and discussions are based on the IKEA SCC implementation and supplier responses which is another limitation. The supplier codes of conduct standards of the buyer company have been taken as a guide in determining suppliers' responsibility. The authors acknowledge that these standards could be questionable in other studies and cases therefore should be considered as an authentic aspect of this study. Moreover, although the authors looked into other cases as to find examples, the study concentrates on the retail industry MNC. Besides, this study has been carried out by tools and techniques defined in the methodology part which are mainly background research by secondary sources, interviewing and surveys with three foreign suppliers in Thailand regarding social and working conditions where both English and Thai languages are used as means to collect the information and on site observations that all draw methodological boundaries of this study.

As this study was conducted based on a large MNC and its foreign suppliers, thus, the theoretical frameworks and secondary data would focus on these two stakeholders. The final of the demarcations is the benchmarking as comparing with codes of conduct performance in a different company, industry or other country is eliminated. As the authors have mentioned regarding the boundaries of the study, the authors hoped that this study could develop and enhance CSR knowledge without being biased by boundaries of the study.

1.5. THESIS DISPOSTION

This research is divided into 10 main chapters as shown in Figure 3. The research is begun with the introduction part which described the background information, problem discussion, research purpose and finally the delimitations of the study. The second chapter, the theoretical framework part, was developed to present the relevant theories with CSR and MNCs codes of conduct area. This information then will be used to develop the conceptual model which is presented in Chapter 3. The methodology part which includes qualitative and quantitative studies is exhibited in the following chapter to give the reader the idea of how the authors collected data.

The Thailand background analysis is shown in Chapter 5 in order to present background information regarding Thailand's country profile and the CSR development in Thailand. All the empirical findings of this study are shown in Chapter 6 and such empirical findings would be analyzed in Chapter 7 including overall SCC compliance characteristics and a conceptual model analysis. As the consequence, this research is based on theoretical framework, empirical findings and conceptual model. In conclusion in Chapter 8, the overall outcome of this study is discussed followed by the contributions for future advantage in academic and managerial areas.

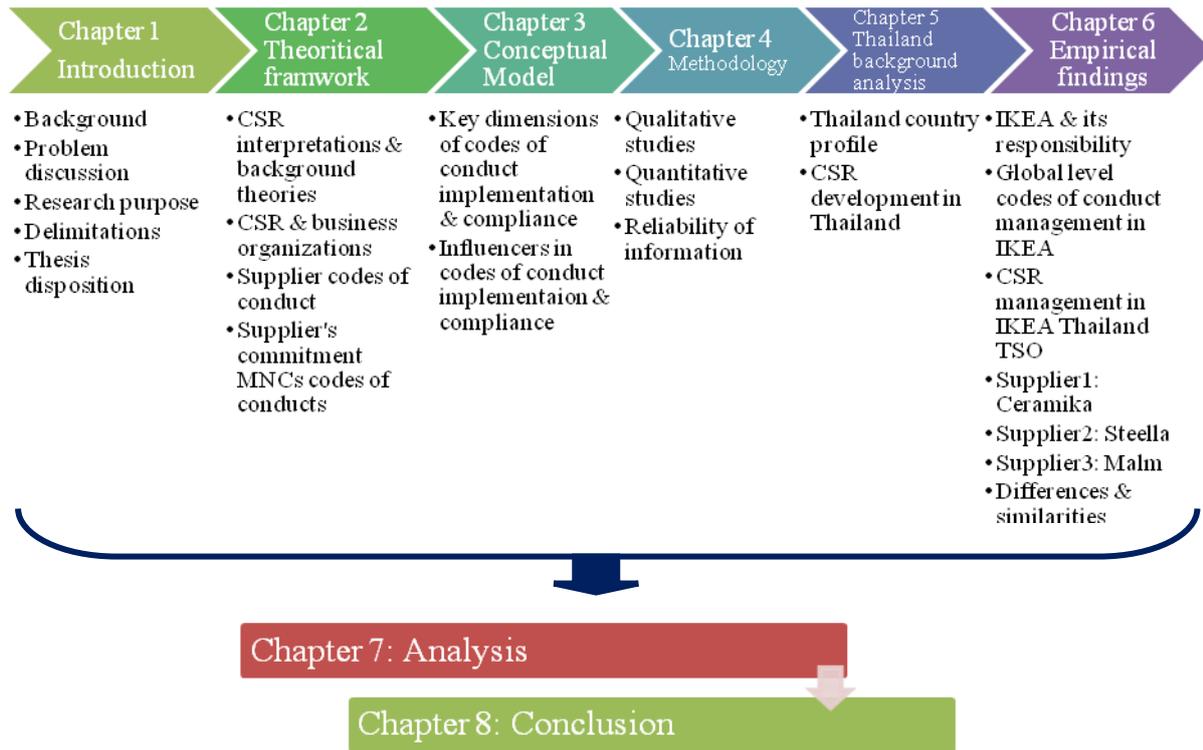


Figure 3: Thesis Disposition

Source: Authors' own

2. THEORETICAL FRAMEWORK

This section has been built upon the purpose of providing a discussion of concepts and theories that is believed to have an impact on the research area. The section starts with a review of literature that will be explained and discussed throughout the section. The sequence of the theories follows a general to specific logic. The aim of the study is to present a rationale for SCC implementation and compliance. However, the term CSR is often used as a proxy to the term SCC as the context of the theories makes it more applicable.

The review and the assessment of the theories have been performed in four sections. The first section named *CSR interpretations and background theories* represents the development of the CSR concept and explains various definitions of the concept. The section comprises of two subsections; the *ethical theory* which presents the basic intuition of responsibility in any action and agency problems to explain the political aspect of business responsibility. The second section is named *CSR and business organizations* and aims to explain the processes and tools that companies use. It is comprised of three subsections; CSR development within organizations which exhibit the organizations' adaptation process to the CSR impulses. Stakeholder theory and CSR represents the actors involved in shaping the organizations' approach to the CSR issues. The following third subsection introduces the concept of SCC and its position in the supply chain literature. The third section is named *supplier code of conduct: formulation and implementation* which explains the antecedents of organizational strategy development which could be utilized to explain SCC implementation strategies from the buyer company perspective. The section continues with explaining and discussing the approaches concerning the mechanisms for successful SCC implementation. The fourth and last section is named *supplier's commitment MNCs codes of conducts* which takes a supplier side and explains the drivers and mechanisms that encourage suppliers towards SCC compliance.

2.1. CSR INTERPRETATIONS AND BACKGROUND THEORIES

CSR is not a new phenomenon. There is extensive literature built about the importance of CSR to MNCs' business, society and environment. (CSR Europe 2003; UNDP & Global Compact n.d.; CBS-CSR 2008; Blowfield & Murray 2008; ILO 2007; BITC 2009, Porter & Kramer 2006) The CSR definition has different interpretations according to different organizations and companies. The European Commission determines CSR as "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*". (EC 2002) In another definition CSR is termed as, "*corporate activity and its impact on different social groups*," (Sethi 1995, p. 18) CSR theories provide many thoughts of ideas and stands in contrast to pure liberal economic theory by emphasizing that the market is imperfect. Prior to CSR was naming, theology had already notified the idea of organization philanthropy, however, the contemporary CSR distinguishes itself by assuming a more central role for organizations such as developing and implementing CSR policies and programs that affect management. From the research perspective the difference between the earlier CSR concept and today's is that the current CSR literature is concentrated on the MNCs rather than the individual entrepreneur. The main focus since 2000s is stakeholder partnerships, business and poverty and sustainability. Three main questions are raised in recent CSR theory; *How can business be responsible? For what is it responsible? And To whom is it responsible?* (Blowfield & Murray 2008)

2.1.1. Ethical Theory

Blowfield and Murray (2008) discuss that business ethics are regarded as a branch of CSR which never fulfilled its promise since it was inadequately incorporated into management practice. Ethical theory illustrates the anticipations that society has towards businesses. Kakabadse et al. (2007) explained two critical platforms of ethical foundation; duty-based ethics, also referred to as deontological, and virtue-based ethics. Duty-based ethics draws from the idea of acting morally while performing the duty whatever the consequences might be. Deontological ethics present a common basis for classifying landmarks of what is good and right. In practice, duty-based ethics is operationalized through codes of conduct or other ethical guidelines (Cavanagh 2000)

Virtue ethics, on the other hand, focuses on 'how man should be' rather than on 'what man should be' (Vardy & Grosh 1999) The agent has to practice to develop these virtues through adopting practical reason to understand those virtues. Then, agents ought to extend this understanding to everyday practices. The 'good' person, as a consequence, is the person who understands the virtues she/he has adopted and who has built a state of balance with his/her character through habit and/or education which makes them act right or apply the good action naturally. (Solomon 2002) From an organizational perspective virtue ethics could be considered as organizations' ability to balance business priorities and ethical considerations as a natural state of business activities.

2.1.2. Agency Problems & CSR

Whatever the form of inter-firm relationships, the opportunism factor always exists and consequently business contracts become progressively more complex to overcome through this basic impulse of business agents. In the context of SCC, which could be regarded as a mutual contract between (the principal) and supplier (the agent), agents have the initiative to deviate from SCC due to motives to eliminate initial costs associated with those requirements. Pedersen and Andersen (2006) point out those agency problems exist due to the fact that SCC implementation requires cooperative efforts whereas the monitoring and cooperation between agents is difficult. Agency theory points out that monitoring activities by a principal brings about increased information about agents' behaviour, and thus enforces the SCC implementation by supplying companies (Holmstrom 1979). Monitoring can be carried out through sending MNC auditors to supplying companies and by written rules programs and procedures. (Boyacigiller 1990)

CSR initiatives usually involve increased costs and time for production which are an extra burden for the supplier. Therefore, opportunism regarding the implementation of SCC and related measures becomes relevant due to supplier companies' cost minimization motives. (Pedersen & Andersen 2006; Utting 2000) Moreover, it is argued that potential gains from responsible production are unevenly distributed between buyer and suppliers. In a buyer supplier relationship, the stakeholder goodwill from responsible production is associated with the brands which are owned by buyer MNC while the supplying company takes the economic burden of CSR initiatives. The supplier may only benefit from it indirectly in the form of an increasing volume of deliveries. (Pedersen & Andersen 2006) The illustrated conflict of interest stimulates the opportunistic behaviour of suppliers.

2.2. CSR & BUSINESS ORGANIZATIONS

2.2.1. CSR Development within Organizations

Organizations' socially responsible buying strategy development is seen as a continuum starting with reactive strategies to proactive strategies. (See Figure 4) (Maignan et al. 2002) As illustrated by these steps responsible behavior evolves over time often due to increasing pressure from stakeholders. The development of the organizational position is as follows in each stage of the process. The reactive strategies are recognized when companies refuse any CSR related stakeholder issue and deny that the organization has taken stakeholder responsibility. The second stages, defensive strategies, are distinguished as the implicit acknowledging of existence of stakeholder issues but avoiding raising these problems. Accommodative strategies are known when companies address stakeholder problems as long as they do not impair created organizational financial performance and processes. The final phases, proactive strategies are regards when companies are systematically addressing, surveying and anticipating stakeholder demands.

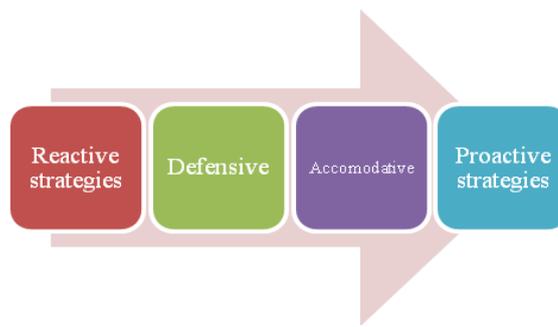


Figure 4: *Socially Responsible Buying Strategies*

Source: Adapted from Maignan et al. (2002)

2.2.2. Stakeholder Theory & CSR

In principle the stakeholder approach suggests that all the internal and external stakeholders have influence on the business performance both individually and collectively and their demands need to be satisfied. In reality organizations are bound to prioritize demands of their stakeholders as it is prohibitively costly to satisfy all stakeholders' demands in the face of limited resources by utilizing instrumental and/or normative considerations. (Galbreath 2006) Such prioritization is usually made according to the value that an individual stakeholder adds to the organization. (Longo et al. 2005) This approach suggests that an inclusive stakeholder approach to CSR may bring an increase in business performance allowing an increase in overall wealth of shareholders and added value. (Hawkins 2006; Phillips et al. 2003; Wallace 2003) In relation to the CSR it is argued that stakeholder pressures over the business entities drive them to focus on CSR considerations. (Morsing 2008; Abreu et al. 2005; Uhlaner et al. 2004; Papasolomou et al. 2005) Based on their empirical study Abreu et al. (2005) concluded that there is a clear tendency by companies to prioritize the demands and expectations of external stakeholders i.e. consumers, the governments, the community, over the internal stakeholders i.e. suppliers, employees. Using a similar approach, Uhlaner et al. (2004) and Papasolomou et al. (2005) economic stakeholders - consumers and employees – are subject to the utmost attention from businesses while the social and community stakeholders were given limited importance. Table 1 represents a comprehensive assessment of stakeholder power on businesses. To sum up, stakeholder theory emphasizes that organizations operate in a hub of a network of interdependent stakeholders and the expectations and demands of each stakeholder has to be valued to create sustainable value for themselves. (Post et al. 2002)

Table 1: CSR as Communication Politics

CSR as communication politics		
MNCs with...	Stakeholders:	Purpose:
	Governments	CSR as compliance to law
	Trade Associations	CSR as competitiveness
	NGOs	CSR as social & environmental global impact
	Investors	CSR as risk management
	Consultants	CSR as a business: standardization & auditing
	Customers	CSR as “feel good” consumption
	Suppliers	CSR as improvement of wages & benefit
	Employees	CSR as improvements of working conditions

Source: Morsing (2008)

2.2.3. Supply Chain Sustainability & Supplier Codes of Conducts

Recently the research on business responsibility on logistics operations such as safety, environment and diversity has been substantially advanced. The term Purchasing Social Responsibility (PSR) refers to the organizations’ efforts on environmental purchasing, sourcing from minority-owned suppliers, and human rights, safety, and philanthropy issues relating to supply management. (Carter & Jennings 2004) In supply chain analysis purchasing companies are sought to respect workers’ rights, local democratic institutions and encourage protection of natural resources and also the use of minority suppliers⁴. (Maignan et al. 2002) Recently, companies have been developing management approaches and implementing new methods and technologies in order for better management of their supply chains. Doing so, supplier related information is turned into unique strategic assets which provide buyers with the ability to align supplier capabilities and performance with their corporate goals.

The buyer initiatives on the supplier responsibility is evidenced by the substantial degree of tension that purchasing departments face in buyers. From a business profitability perspective, if a product or service is cheaper elsewhere pursuit of economies of scale necessitates undertaking the purchasing from that place. From the sustainability perspective (both for businesses and society), however, MNCs’ should consider the impact of their purchasing on local suppliers and the environment. Thus, the sustainability perspective challenges the conventional business thinking by prioritizing suppliers’ responsibility over shareholder value creation considerations. (Mikkila 2003) In terms of CSR, the importance of the interface is explained by the term “extended enterprise”, emphasizing the organizations’ responsibility beyond its business practices. (Carter & Jennings 2002; Post et al. 2002) To develop the CSR policy, companies should perceive it as it is a core business area to see it is in fact a source of innovation and competitive advantage. (Porter & Kramer 2006) Similarly, Dhanarajan (2005) argues that companies need to pursue alternative models that forge connectivity, coherence, and interdependence between their core business operations and their ethical and environmental commitments.

2.3. SUPPLIER CODES OF CONDUCT: Formulation & Implementation

Figure 5, BSR (2007) explains the external pressure from investors, consumers and other stakeholders which required companies to comprise social and environmental considerations in their business activities, counting the supply chain. Firms also encounter social and environmental regulations which affect their abilities to supply and distribute products.

⁴ Including religion, gender, racial background and size of supplier enterprise.

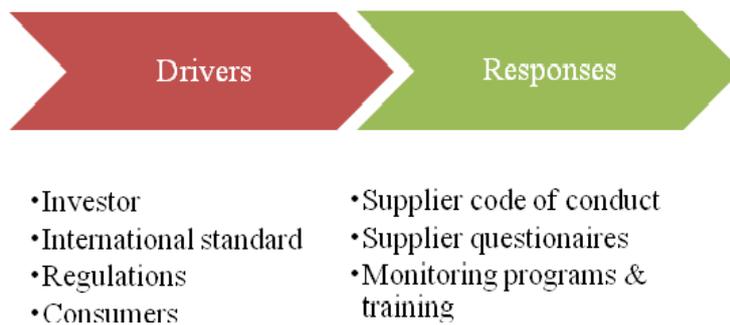


Figure 5: Drivers for Sustainable Supply Chain Management
Source: BSR (2007)

2.3.1. Organizational Strategy Formulation for SCC

While formulating strategies by which the organizations adapt their SCC development and implementation it has been found that there are two predominant approaches; namely competitive forces approach (Porter 1985) and resource based theory of the firm (Foss 1997). The competitive forces approach often referred to as the outside in linkages, argues that organizational strategies should be in line with the external environment in which those strategies will be implemented. External environment includes competitive forces including markets, industries, suppliers, competitors, potential market and/or industry entrants and providers of substitute products and any organizational strategy should be based on insight into those external forces. In summary, the outside-in linkage to organizational strategies implies that ‘resource base follows market position’. (Wit & Meyer 1998) On the contrary, the resource based theory suggests that organizations should seek to develop and acquire a unique set of resources and capabilities which will ensure the uniqueness and success of organizational strategies. (Teece et al. 1997; Foss 1997)

2.3.2. Implementing and Managing SCCs: Safeguard Mechanisms

MNC SCCs are criticised for being weak in operational implementation, haphazard, as well as always too little and too late. (Sethi 2002) SCCs which lack strong organizational insight might conceal the absence of long-term strategies to address underlying problems and inadequate programs of public communications. They are built mostly reactively following the public concerns and past experiences thus they are “awfully slippery”. (Klein 2000, p.430) On the other hand, even though the SCCs have strategic depth, successful implementation might be a big issue for many reasons. Then the question is how to manage and safeguard SCCs in global supply chains. To answer this question the existing literature suggests some measures which can be grouped into two groups; *direct measures* and *indirect initiatives*. (Pedersen & Andersen 2006)

i) Direct Measures

Direct measures can be explained by two facets; *direct sanctions* and *third party intervention*. Direct sanctions refer to the measures taken by the buying company in case of supplier non-compliance as a tool to safeguard business contracts. Although the intended sanctions are seldom mentioned in the contracts they are argued to be efficient tools. (Kolk et al. 1999) In practice the fastest and the most critical form of direct sanctions is business withdrawal. However, businesswise the exit strategy is not always the most efficient choice as the supplier’s products may have vital implications for business

sustainability. The second facet is *third-party intervention*. As mentioned earlier, SCC's are incomplete contracts and noncompliance may sometimes evolve out of buyers and suppliers hands. Although it is argued that the legal system has applicability limitations it is still the most efficient and common form of third party mediation mechanism. The limitations of the legal system regarding SCC compliance are that the SCCs are not legally acknowledged by national laws and the national legal system has general measures which are usually subtler than SCC requirements. Additionally, the national law enforcement level might be unsatisfactory and SCC compliance may not be properly analyzed by the national law systems. (Diller 1999)

ii) Indirect Measures

On the other hand, indirect measures comprise elements which could be regarded as soft values and indirect actions that take place in a longer time period, however, are seen as more influential. Carter and Jennings (2004) and Pedersen and Andersen (2006) suggest that buyer companies can undertake a series of actions that enforce and encourage SCC implementation and compliance among suppliers. The below areas have been addressed by those authors, that buyer MNCs can invest into so that they can build a welcoming environment to SCC implementation;

Firstly, Lambert et al. (1998) suggest that support, leadership, and commitment from *top management* are important antecedents for creating a welcoming environment to SCC implementation. It can easily effect the decision on whether purchasing managers implement SCC and can be an inspiration in providing leadership and examples of socially responsible behavior for employees. (Carter & Jennings 2004) Secondly, *developing a people oriented organizational culture* has been suggested as people-oriented cultures, which support values such as fairness and the desire to be a good corporate citizen, lead to significantly greater levels of organizational CSR awareness, thus effective SCC implementation. (ibid.) In addition, the *encouraging employee initiatives regarding CSR were discussed* by Drumwright (1994). This scholar explained that the initial drive of environmental purchasing came from workers who were personally committed to environmental values. Also a significant relationship between middle management initiatives and environmental purchasing was found which led to the conclusion that employee initiatives are one of the key drivers for SCC implementation. (Carter & Jennings 2004)

Moreover, *goal congruence* was raised by Pedersen & Andersen (2006) that the implementation of SCC requires mutual commitment both from supplier and buyer in a business relationship. The idea of goal congruence is to develop a scheme or target to guide mutual business processes by giving the suppliers incentives to act in accordance with the buyers' interest. Goal congruence can be achieved by asset specific investments such as joint investments in environmental friendly machinery, buyer sponsored trainings in supplier sites to realize benefits of SCC, by allowing successful suppliers' voice in forming SCC and rewarding them. (Pedersen & Andersen 2006)

With *trust and reputation*, both agency and network theories suggest that trust could be costly while business actors have a tendency to be opportunistic; however some kind of trust can be attained over time as the business relationships become more mature. (Johanson & Mattson 1987; Petersen 1993) For the SCC compliance matter, the basic argument is that if a supplier has been performing well during the past transactions she/he could be trusted for the future transactions. In long term relationships the role of trust between buyer and supplier has a more dominant role in relationship management. (Pedersen & Andersen 2006) Reputation is one of the main reasons for organizations in

adapting codes of conduct by which they try to claim and emphasize their responsibility in all aspects of their production. (Bondy et al. 2004)

2.4. SUPPLIER'S COMMITMENT MNCs' CODES OF CONDUCT

The primary expectations of buying firms from suppliers are cost, quality, delivery time and reliability, and flexibility to satisfy their business goals. These expectations result in increased pressure for suppliers; low price requirements bring cost pressure; quality improvement, flexibility, just-in-time delivery requirements result in increased production complexity on suppliers' own cost. (Jiang 2009; Krause et al. 2007) Beyond the general theoretical constructs such as changes in technology, regulatory issues, or stakeholder approach, the supplier compliance with SCC are linked to three specific factors which reflect the primary characteristics of the relationship between buyer and supplier. These factors are contract duration, cost pressure, and production complexity, all of which have been widely studied in NGO reports, International Labor Organization (ILO) papers and institutional surveys. It is also important that how the relationship between buyer and the supplier company has been governed and executed. Therefore, governance mechanisms in inter-firm relationships and the specific factors to explore suppliers' commitment to SCC are the core elements that will be explored throughout this section.

2.4.2. Key Factors in Suppliers' Commitment to SCC's

Mainly, three mechanisms are explored by the literature in governing the suppliers' commitment to SCC. The first one is *contract duration* as it is generally acknowledged by international business literature that the long term relationships can be established and sustained by mutual commitment both from buyer and supplier. (Johanson & Vahlne 2006) Conversely if buying firms are not committed to long-term relationship, suppliers are not inclined to commit resource investment for buyers' procurement rules or policies and do not have the initiative to order to fully understand them and profit from them in the long run (Jiang 2009; Krause 2007; Nordberg et al. 2003) When the relationship between buyer and supplier is managed under hierarchy/relation governance empirical evidence implies that suppliers having long-term contracts would be more likely to comply with buyers' SCC. (Jiang 2009)

The second mechanism is *cost pressure* as the price charged for the goods and services by the providing company is an essential part of the company's profit and competitiveness. To maintain the profitability, buyers are primarily concerned with getting the best price/quality ratio while suppliers' primary concern is supplying the required quality with the best profit margin. (Fynes & Voss 2002) However, since the buyers' main objective is to minimize supplier price, suppliers have the propensity to pass the price pressure down by cost reduction measures such as employing child labor, female-male wage discrimination, low salaries, long overtimes that are either unpaid or underpaid, social security cuts or unhealthy/risky working environment. (Arnold & Hartman 2005) It has been suggested that cost oriented buyer companies avoid specific asset investment and rely on the straightforward market governance to ensure suppliers' commitment to SCC. Under the market governance large buyer companies exert their cost and even transfer the cost of their social responsibility in the form of SCC requirements from suppliers.

The third mechanism is *production complexity*. With the rapid globalization of the production and shortening product life cycles suppliers now have to produce more adapted and quality products in shorter delivery times with smaller volumes at more frequent intervals. (Dicken 2007, pp.326-37; Meredith 2000) Consequently suppliers in developing countries either speed up the production to

extreme physical limits or increase overtime to keep their profit margins in the face of short lead times and high flexibility orders. (The Impactt Overtime Project Report 2005) The effect of production complexity on the suppliers' compliance with SCC depends on the governance mode that has been exercised in the relationship. Market governance has little role in mediating the suppliers' compliance and general approach articulated by market governance may cause larger problems and triggers opportunism since it fails to capture transaction specific aspects. On the other hand investing specific assets sources will facilitate knowledge sharing and adaptation towards higher social standards. Such investments are mediated with hierarchy/relation governance which effectively decreases the opportunistic behavior by suppliers and the buyer. (Jiang 2009)

2.4.3. Governance Mechanisms

In an effectively governed relationship each party shows full commitment to form and sustaining the relationship and there is a low level of opportunism. Opportunism refers to lack of honesty, tendency to distort and mislead, cheat and not deliver the promised action on a systematic basis. Therefore suppliers' SCC violations or lack of commitment can be referred to as opportunistic behavior. (Moore 2001) In the inter-organizational governance literature; using transaction cost economics, it has been argued that every economic actor has propensity to act opportunistically within the extent of asset specificity in the relationship. (Mayer & Argyres 2004) To govern the relationship and avoid the opportunism alternatives are market governance and hierarchy/relation norms governance. Market governance is relatively standardized and straightforward set by common practices and market characteristics, thus it relies on the competition in the market. Firms use market governance mechanisms when it is not required a specific investment for the relationship. Hierarchy/relation governance mechanism, on the other hand, relies on the administrative authority and such a governance mechanism is more effective when the economic relationship involves specific investment by one of the parties. (Mayer & Argyres 2004)

2.4.4. Business Opportunity Model of CSR

The term Corporate Social Opportunity (CSO) developed by Grayson and Hodges (2004) represents the possible gains and advancements in competitiveness through socially responsible behavior. CSO is defined as "*driver for business success is entrepreneurialism, a competitive instinct and a willingness to look for innovation from non-traditional areas such as those increasingly found within the CSR agenda*". (Grayson & Hodges 2004) Jenkins (2009) identifies three areas where CSO can be exploited by companies after integrating CSR into core business and successfully strategizing it. The first area is innovation in products and services which provides a competitive edge in the current market in which the company is active. The second area of opportunities is serving unserved markets that are made possible by a new competitive edge in production and product characteristics. And the final area is building new business models made possible by increased diversity and creativity. (ibid.)

The following section presents the conceptual model which the authors named as processual conceptual model. In this part studied theoretical approaches and our theoretical understanding is summarized and put in a model that could be referred to as a guide for the empirical analysis. It includes four major dimensions, base variables, process variables, buyer initiatives, and supplier drivers and incentives respectively which aim to explain responsible supplier behavior development as an outcome of a process of various actions by external and internal environment.

3. PROCESSUAL CONCEPTUAL MODEL

As discussed in Chapter 2, codes of conduct compliance have been shaped by various variables and drivers. Supported by numerous theoretical frameworks, hence, the processual conceptual model shall present key factors which influence codes of conduct compliance action within suppliers. Therefore, the purpose of this chapter is to analyze and discuss existing theories that have an impact on supplier codes of conduct compliance.

3.1. KEY DIMENSIONS OF CODES OF CONDUCT IMPLEMENTATION & COMPLIANCE

As stated in the main research question this study takes an inclusive approach to the SCC implementation by analyzing both buyer and supplier perspective on the phenomenon. Before taking this approach theoretical studies started with a supplier-based theories perspective by asking the research question regarding the drivers for suppliers toward SCC commitment. Soon after this departure it has been noticed that suppliers' SCC commitment cannot be analyzed without including buyer perspective to the issue as the buyer is the dominant actor in SCC imposition over suppliers. Inclusion of buyers is taken into consideration in the second step with research sub-question where the SCC implementation by buyer (referred to as MNCs in the question) has been questioned. Thus, studying those perspectives and background theories a processual explanation of CSR implementation by buyer and supplier has been built which will be elaborated in the following sections by utilizing the developed conceptual model presented in Figure 6. The processual conceptual model (See Figure 6) comprises four dimensions; the first one is named *base variables* which attempts to explain buyer and supplier preconditions prior to the implementation of CSR. It includes ethical explanations where the personal and organizational ethics are seen as existing preconditions for assuming responsibility for individual and organizational actions. A principal-agent conflict is the other element of base variables; implementation of any strategy responsibility or business involves a principal which is a buyer in this context and an agent which is a supplier.

The second dimension in Figure 6 is named *process variables* which are seen and facilitators of initial efforts for CSR initiatives. One of the elements is stakeholder pressures which empirically are found to be influential for organizations' initiation of CSR. (Bondy et al. 2004) The other element is organizational process for responsible behavior development which is represented as proactive buyer strategies. In this dimension SCC as a proxy to CSR implementation has been introduced in the context of buyer supplier relationships as well. The third dimension is named *buyer initiatives* as an introduction to the two-sided approach to the SCC implementation issue. First, by utilizing the competitive forces and resource based approaches to organizational strategy development, SCC implementation strategies of buyers are questioned. Then direct and indirect mechanisms used by buyers in implementing SCC are introduced.

The following and the last dimension presents the supplier aspect of SCC implementation, called *supplier drivers and incentives* in Figure 6. This aspect represents the supplier responses to buyer SCC implementation efforts and explains the mechanisms and processes for supplier commitment to the SCCs. The first element is suppliers' business relationship with buyers that presents the hard facts which drives suppliers towards SCC compliance. The next element is business opportunities which

are soft but the most profound drive for suppliers in SCC compliance which are potential business opportunities with CSR. (See Figure 6)

3.1.1. Base Variables: Ethical Values vs. Agent-Principal Conflicts

Ethics and CSR have been widely selected as the basic perception of business responsibility. Based on Kakabadse et al. (2007), the authors believe that virtue ethics and duty based ethics are fundamental in developing the appropriate mindset for responsible business behavior. These platforms could come from individual-based or from team development. The authors deem those ethics not to be knowledge that organizations can learn by training or memorization. They are more likely skills that could be gained by practicing and inclination to do the right thing. Supported by Blowfield and Murray (2008) who discussed *consequentialism*, the authors assume that when businesses use outcome-oriented approaches by balancing against the benefit of being responsible, they would understand that there could be many ways of the advantage, e.g. business circumstance, social and environmental. Then, in this stage, organizations will be eager to proceed with responsible behaviour without any forces or binding from other factors. As such, the ethical considerations were selected to be the base of responsibility considerations both for buyers and suppliers.

On the other hand although individual organizations have the inside drive for choosing the responsible way of acting, agency theory implicates complications. CSR initiatives are in nature non-legally binding requirements and they have no legal obligatory power. (Fisher & Lovell 2003) When SCCs are regarded as mutual contracts between buyers it is not realistic to expect that suppliers will act ethically in all their actions but they are inclined toward easy options that are at the same time ethically irresponsible. On the other hand monitoring activities by buyer are criticized to be either shallow or resource-consuming. (Pedersen & Andersen 2006) Therefore, any model trying to analyze SCC implementation and compliance should not underestimate the agency dynamics in buyer supplier SCC contracts.

3.1.2. Process Variables: Stakeholder Pressures & Proactive Buyer Strategies

Business organizations depend on society for the continuity of their existence and business sustainability and they are bound to integrate social demands to their agenda. Roberts (2003) emphasizes the influence of external society on companies' CSR approach by saying that "*CSR efforts do not exist in a vacuum but are closely linked to a wider range of pressures from a company's stakeholders*" especially corporate stakeholders are argued to be the most influential group which are grouped into four categories. (Roberts 2003) Authorisers are government, regulatory agencies, trade associations, professional societies, shareholders and board of directors that provide businesses with the possibility to function and monitor their activities. The second group is business partners comprised of employees and suppliers and they facilitate the functioning of the company. The third group are external influencers which are typically non-governmental organizations and the media and this group's pressure mainly stems from its interest in the effect that businesses have on the others. The final group is the customers who by the best capacity have the influence on organizations' existence.

Such stakeholder pressures cause various reactions at the organizations and usually businesses' initial responses to responsibility impulses are immature. The capacity to acknowledge and assume responsibility to organizational actions evolves over time and with practice. Nonetheless, from a processual perspective, a mature organizational approach to CSR is likely in ease the transition to a proactive position to CSR issues mainly is based on the bitter experiences. (Maignan et al. 2002) The

studies led the authors to conclude that stakeholder pressures and organizational positioning to CSR will serve as facilitators for businesses to see CSR requirements in a strategic setting.

3.1.3. Buyer Initiatives: Buyer Strategized SCC & Safeguard Mechanisms

One of the major argumentation points by scholars in promoting CSR is that CSR initiatives that are connected and integrated with core business and strategy promise great prospects. (Dhanarajan 2005; Porter & Kramer 2006; Yu 2008) In this study it has been suggested that formulation and implementation aspects of CSR have to be treated as organizational strategic objectives thus; they have to be carried out in conjunction with organizations internal and external conditions. Two major strategic approaches to strategy formulation are discussed; competitive forces (Porter 1985) and resource based (Foss 1997) explanations. It has been suggested that those external forces that shape organizational actions such as industry conditions, markets, competitors has to be clearly considered in formulations to CSR and lofty and unrealistic SCC standards have to be replaced by ones that fits those external constraints. Simultaneously, companies' internal resources especially the intangible ones should be allocated accordingly in SCC implementation to ensure the functioning and success of efforts. In doing so, the CSR initiatives and SCC implementation can be strategized and prioritized in organizational operations.

In buyer-supplier relationships, strategically calibrated SCC implementation plans have to be enforced as many studies reveal that otherwise such plans have limited effect. (Jiang 2009; Krause et al. 2007) Those plans have to be operationalized by using safeguard mechanisms (Diller 1999; Lambert et al. 1998; Carter & Jennings 2004) which could be groped as direct and indirect mechanisms. The authors' interpretation of SCC enforcement mechanisms is that indirect measures provide a more insightful explanation as they have greater influence on long term perceptions of suppliers. The efforts such as value creation, organizational culture alignment, setting common goals with suppliers look more promising than those that are direct and short lived measures. When buyer and supplier encompass the same goal, they will perform better and work more effectively. The buyer and supplier who are able to declare clear CSR strategies, would be able to plan and collaborate more strongly as well as agree on common points of interests. However direct measures are crucial in expressing the buyers commitment and decisiveness on SCC issues and external authorities' sanctions on irresponsible behaviour.

3.1.4. Supplier Drivers & Incentives: Business Contract & Opportunities with CSR

From the theoretical studies of business contract & opportunities with CSR, the authors were able to identify these factors as the potential supplier drivers in codes of conduct management. A business contract is important in that a long-term contract agreement shall create and support mutual commitments among buyer and supplier together with establishing long-term development within the supply chain link. (Johanson & Vahlne 2006; Jiang 2009; Krause 2007; Nordberg et al. 2003) In addition, to fight with globalization issues such as low production cost pressure, high profit margins and high competitiveness is to comply with codes of conduct standards in order to meet the same international requirement and prevent upcoming issues. Another main key dimension that the authors see as a significant aspect in the model of business opportunities with CSR which has been discussed by Grayson and Hodges (2004) and Jenkinsn (2009) is that the effective engagement of CSR would benefit supplier business by increasing its capability and competitiveness.

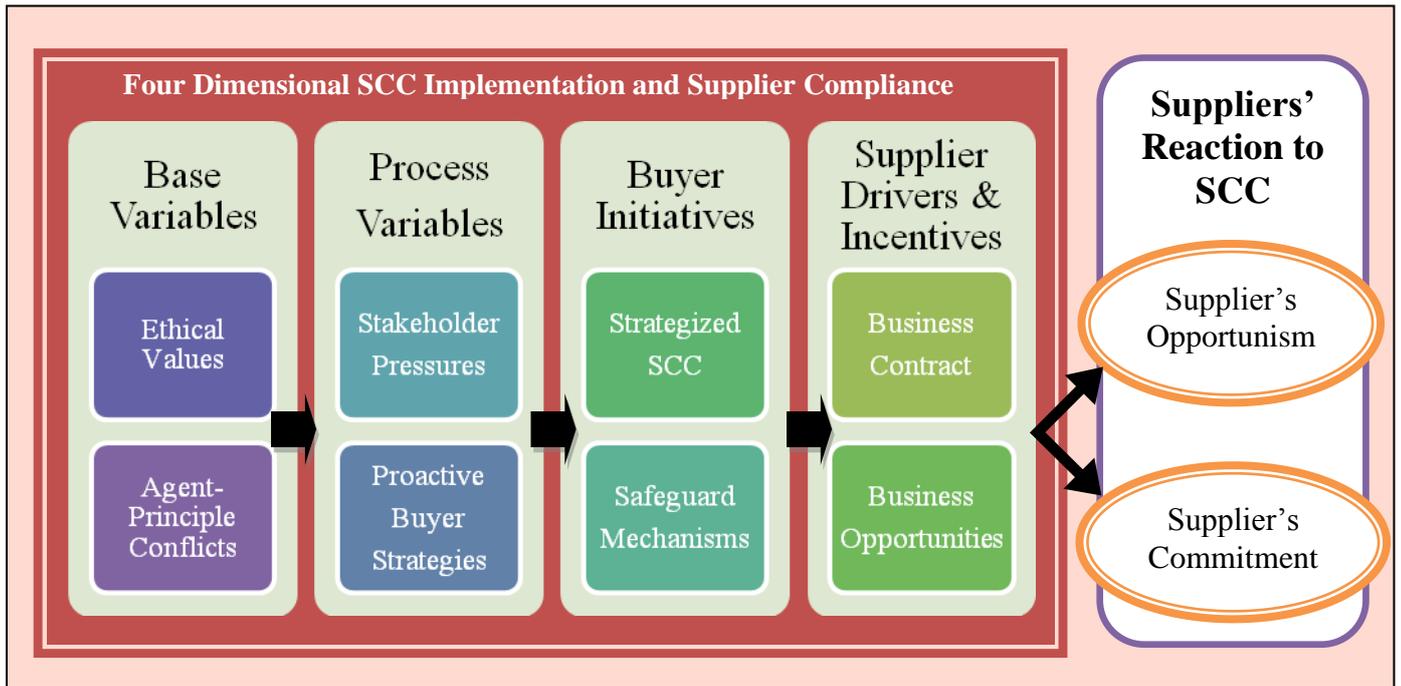


Figure 6: *Theoretical Conceptual Model*

Source: Authors own compilation

3.2. INFLUENCERS IN CODES OF CONDUCT IMPLEMENTATION & COMPLIANCE

Utilizing the principles and concepts discussed in the theoretical framework, such key dimensions were selected as have high concentration in the academic literature. The authors' model for effective codes of conduct implementation and compliance is shown in Figure 6 and identifies significant dimensions that influence codes of conduct management in buyer and supplier relationships. Four main dimensions, base variables, process variables, buyer initiatives and supplier drivers and incentives are believed to affect codes of conduct implementation.

This processual conceptual model was created to confront and test the actual business case in Chapter 6: Empirical Findings. This model was used as a principle to guide the authors through the data collection process and to be a reference of the empirical findings. After empirical data has been gathered, it will be assessed, analyzed and compared with this processual conceptual model in Chapter 7.

4. METHODOLOGY

Following the introduction and discussion of existing literature on the supplier commitment to SCCs, this section presents a specific research methodology employed in the study. In this research, it was carried out by using a case study with qualitative and quantitative studies. As the objective of this research is to explore the effective supplier codes of conduct implementation in global purchasing, semi-structured interviews and surveys were used to carry out the case study.

4.1. QUALITATIVE STUDIES

The research approach applied in this thesis is a qualitative research method. As argued by Bogdan and Taylor (1998), one of the central objectives of qualitative research is to provide a holistic view of the organizations. The objective in this study is to investigate and unfold the SCC compliance process for foreign suppliers. Looking at the research problems, research questions and purpose of studies in the first section, it became clear that actual CSR enforcement and implementation could substantially vary depending on the context and actors involved in the process. Therefore by employing a qualitative research approach it is expected to reach an understanding of which factors shape specific CSR practices adopted by the case company and its suppliers.

4.1.1. Research Strategy: Case study

The research strategy in this study is case study. The case study approach is particularly recommended for the studies where the research questions begin with “What” and “How” questions, where the objective of the study is to develop recommendations for further studies. (Ghauri 2004) as suggested by Eisenhardt (1989) case studies are applicable to the cases where the purpose is to capture effects of organizational internal forces and external environment on the organizational dynamics and practices. In other words, case study allows researchers to capture uniqueness of specific organizational preconditions and organizational dynamics that shape the current and future organizational responses in the face of internal and external dynamics.

Therefore, it was best that the authors treat the company information as an individual case study by which the authors could gain insight into the roots of the CSR implementation issues which later will enable us to make generalized conclusions. As pointed out by Ghauri (2004), a case study involves multiple data collection, such as interviews, observations, verbal and written reports. Finally, the case study approach is appropriate when the data is gathered from cross-border and cross-cultural environments. (Ghauri 2004)

4.1.2. Choice of the Case Company

In parallel to background research in literature the authors utilized empirical findings in developing the analysis, and the empirical part of the research has been realized in cooperation with IKEA, the largest furniture retailer. IKEA and its suppliers in Thailand were chosen as the exemplary case for many reasons. First, IKEA has several years’ experience of working systematically with CSR in its supply chains, the company was awarded the honor of being one of the world’s most ethical

companies in 2009 from over 100 countries in 35 industries where IKEA have demonstrated real and sustained ethical leadership within its industry. (Ethisphere 2009) Thus, an illustration based on IKEA operations is the far richest explanation of issues and obstacles in CSR implementation. Second, the issue of supplier responsibility in global operations of MNC's could be very efficiently explained by utilizing the IKEA case as the company's business model heavily relies on buying finished goods from third party suppliers and then distributing them through a very efficient logistics model. Third, the IKEA case is a great representation of major influential factors in CSR implementation such as national legal and business context variations, cultural contributions and issues related to economic development. Generally, in developed countries awareness of CSR is higher than it is in developing countries. The authors had the opportunity to observe perspective of IKEA office located in advanced country Sweden which ranks as the first country in the Responsible Competitiveness Index 2007⁵ (RCI) that measures the degree of embedding responsible business practices at the heart of the economies. (Zadek & MacGillivray 2007) and perspective of IKEA employees in developing country Thailand has been observed.

4.1.3. Data Collection

Within the framework of the case study three methods of data collection have been used; interviews, supplier employee surveys and observations. Each of these methods will be discussed in detail in the following sections of this following methodology part.

i) Interviews

Following the argumentation by Daniels and Cannice (2004) that interview based research studies are particularly well suited for exploratory and theory building studies, the authors may conclude that the interviewing method is suitable for the research purpose. Therefore, comprehensive and opinion-based interviews were the most dominant tool employed in the empirical part of this study. As pointed out by these scholars, interviews allow researchers to develop a deeper empathy with informants than is possible through written questionnaires. The interview guide, as Appendix 2, was developed for a clear and complete introduction in order to present to the respondents including non-leading, specific, short and open-ended questions as much as possible. (Hamberg 2009; Egels-Zanden 2007) The questions were asked in a logical sequence from general questions to more specific ones. Semi-structured interviews were carried out as well as additional relevant contributors were identified during the course of discussion for the purpose of further interviews. (Kakabadse et al. 2007)

There were four main interview groups; representatives of MNC in Sweden, MNC regional office in Thailand, supplier general management level employees and employees working at the production lines in the supplier sites in Thailand. As pre-established discussion clearly shows that CSR implementation is a dynamic interplay between the buyer company⁶ and suppliers, the individual perspectives representatives of both sides were of extreme importance to best serve the research purpose. Also, the nature of the interviews was different depending on the role and geographical position of the interviewees.

⁵ RCI covers 108 countries and blends with 21 data streams from authoritative sources in assessing countries progress in advancing responsible business practices at the heart of their competitiveness strategies and practices. (AccountAbility 2009)

⁶ In this study, the buyer company refers to IKEA Trading Hong Kong Ltd which is the affiliate of IKEA Trading AB responsible from purchasing in South East Asia.

Interviews with MNC: For the IKEA side, the interview with the Sustainability Manager at IKEA Service AB in Helsingborg, Sweden was more valuable in understanding the company's philosophy and approach to the issue while interviews with IKEA Thailand employees were more valuable in reflecting the operational aspects of the CSR implementation in an international context. The main contact person was a representative of IKEA at general management level for the South-East Asia region with whom the authors had initial discussions on topic development and focus areas. Later, the authors have been referred to IKEA Sustainability Manager Thomas Bergmark in IKEA Service AB at Helsingborg, Sweden and made an interview with him at IKEA for 90 minutes. During the interview an interview guide was followed as a basis of questions asked. The authors had the opportunity of adapting questions depending on the nature of the actual situation and importance of questions and answers received. The interviewee was informed prior to the interview that the voice recording would be used throughout the interview. Interviewers also took notes during the discussions.

Then, the authors were given contact information of a Sustainability and Environment specialist (S&E specialist) representative from Thailand Trading Services Offices (TSO) who is responsible for IWAY implementation in all supplier sites in Thailand. She made a presentation illustrating methodologies and measures used by the Thailand TSO to implement IWAY in a sustainable way. Then the authors proceeded with a type-recorded interview to better understand the current state of IWAY among suppliers. In addition, S&E specialist interviews have been carried out with employees working on the business development and product related technical areas from Thailand TSO all of which have been carried out in a private environment and tape-recorded following their consent. This group of interviews varied between approximately 60 to 90 minutes per person. All the interviews were conducted by the same means in a private and quiet environment typically in the company meeting rooms without interpreter as one of the authors could communicate both in Thai and English.

Selecting supplier cases: Thailand TSO general management and S&E specialist chose and introduced us to three selected supplier companies. These suppliers were chosen neither based on the "best compliance supplier" nor "critical case", but rather were chosen by difference of product categories and their availability to host researchers following the request of a diversity of sectors. The names of supplier companies, supplier management representatives and production employees' names were guaranteed anonymity to ensure the objectivity in their responses. The authors referred to the suppliers by imaginary names; Ceramika, Steella and Malm. The supplier companies were informed of the purpose of the study, for instance, to study supplier compliance with their codes of conducts and asked to address compliance issues from their own standpoints.

Interviews with the supplier management team: The interviews have been recorded following the consent of interviewees leaving time for interviewers to make observations during the interviews. The general management level of suppliers was conducted as the third group of the interview, e.g. President, Managing Director, HR manager, Sales Manager, QA Manager and CSR responsible person. The purpose of interviewing with general management is to develop an understanding of how MNC codes of conduct are formulated and adopted to supplier employees. The interviews were varied from 60 to 90 minutes depending on the role and responsibilities of the interviewees and were conducted in both English and local languages which were translated by the interviewer later. In some interviews, IKEA co-workers were participated as MNC representatives during the interview while in some interviews, the authors were able to conduct the interview privately with the supplier management team.

Table 2: Study Participants

Stakeholders		Participants	Methods	CSR cascade
IKEA Trading AB		1 Sustainability manager	Corporate CSR policies. Informal conversations & semi-structured interview.	Policy generation
IKEA Thailand Trading Office		6 CSR involved persons: 1 S&E Specialist, 1 Material Area Manager, 2 Technician, 1 Business Developer & 1 Business Support	Corporate CSR policies & documentations. Informal conversations & semi-structured interview.	Policy review & adoption Policy enactment
Suppliers	Ceramika	4 General Management: Managing Director, Marketing Manager, HR Manager & CSR responsible person	Informal conversations, semi-structured interview, survey & observation	Policy application
		10 workers interviews 50 workers survey		Policy application & effect of CSR policy application
	Steella	2 General Management: President & CSR responsibility person	Informal conversations, semi-structured interview, survey & observation	Policy application
		11 workers interviews 50 workers survey		Policy application & effect of CSR policy application
	Malm	3 General Management: QA Manager, HR Manager & Assistant Key Account Manager	Informal conversations, semi-structured interview, survey & observation	Policy application
		12 workers interviews 50 workers survey		Policy application & effect of CSR policy application

Source: Compiled by the authors

Interviews with supplier employees: The last group of interviews was made with supplier employees who were chosen with the intention of constructing the most heterogeneous sample of employees in terms of place of origin, age, gender, race, nationality and functional role. The

interviews were conducted individually at a time. During the interviews a previously prepared list of questions have been re-sequenced and modified according to emphasis of the employee on the particular topics to her/his job description. The objective of the follow-up questions was to gain more specific answers to predefined core questions. (Egels-Zanden 2007) In order to collect precisely data from the respondents, interviews were type-recorded so as to take these findings to analysis afterwards. Moreover, as the authors considered interviewees' expressions as the important part of this method, note taking was conducted to ensure the collection of details. This group of interviews and a few from other groups have been undertaken in the local language due to the foreign language barrier. However, since one of the researchers is able to communicate with local language, she acted as "cultural interpreter" in order to present better understanding of the nature of the views expressed. (Yin 1987 in Kakabadse et al. 2007) A total of 49 conversations were completed. Table 2 exhibits the number and methods of interviews and corresponding official positions of interviewees. Also the fourth column named "CSR cascade" illustrates the roles of interviewees in overall CSR implementation process. For instance the interview with IKEA Trading AB, a Sustainability manager explains the CSR policy generation phase of implementation while interviews with supplier employees illustrate the CSR policy application and effect of CSR policy.

ii) Observations

Finally, the authors carried out continuous observations at each stage of the empirical research. Mainly in each supplier visit the guided factory tours were conducted where the authors had the possibility to develop an understanding of workflow and production process. Utilizing this understanding, observations focused more on the work-specific aspects; for instance, Ceramika, ceramic manufacturer, internal heat was a significant point as the ceramic products are processed in high temperature ovens inside the factory. Similarly, at stainless steel producer Steella, majority of employees were working with heavy machinery where a small accident might imply serious injuries. In the Malm main functional processes were cutting and painting which make good protective equipment essential.

4.2. QUANTITATIVE STUDIES

4.2.1. Supplier Employee Survey

Apart from the interviews, the authors prepared a short fact based survey for supplier employees to grasp the extension of CSR implementation and address the general opinion of employees about their working conditions and environment. In the beginning of the survey the authors presented the purpose related to the research and introduced ourselves as independent researchers. These surveys have been distributed in a way that ensures the highest possible sample diversity in age, sex, position, ethnicity and other related factors. Since most of employees in Thailand cannot communicate by foreign languages, the questionnaire was sent to them in both English and the local language. In each supplier the authors surveyed 50 employees which satisfies the statistical pre-conditions of sample size ($n > \text{Population}$ or $n > 30$) to ensure soundness of inferences. Also, it is exploited in effective ways to gather specific answers for the case. The questionnaire included personal information, CSR perceptions, suppliers' production information and working conditions. (See Appendix 3) The empirical data has been analyzed in the aggregate to identify the general level of compliance with MNC codes of conduct without making comparison or differences between selected suppliers. All of three suppliers' compliance was observed based on nine main criteria included in MNC codes of conduct and

Thailand local labor law.⁷ However, due to an agreement between University of Gothenburg and IKEA, the detailed results of supplier employee survey were sent directly to the school and the company.

4.3. VALIDITY AND RELIABILITY OF INFORMATION

The internal and external validity are the two major components for establishing objectivity of a study. (Merriam 1998, p. 177) In this study internal validity has been tried to establish via discussing the most relevant and as many as possible prior studies. In doing so the authors believe that conclusions will be applicable to other cases where the issue is the SCC implementation.

External validity is basically the reliability of external sources that used in this study. In this study main external sources are IKEA and its suppliers. From the IKEA side the answers were guaranteed anonymity and interviews were held in a private atmosphere. Additionally, answers from IKEA employees were triangulated by asking the same question to the different employees of different roles at different times. From the supplier side objectivity relies on the diversity of suppliers. Three suppliers have been studied in as much detail as possible and one to one interviews have been held with employees of different roles. Another technique was asking the confirmation of supplier business owner and manager claims to the employees who were not in a position to hide the truth as the anonymity of their identity and interview privacy were guaranteed. During the interviews, in order to ensure the utmost sincerity, it has been strongly emphasized in each interview that the researchers were not employed or paid by IKEA and the research was supported by the university itself.

⁷ Work safety, wages and working hours, child labor, forced & bonded labor, discrimination, fire prevention, freedom of association, harassment, abuse and disciplinary practices, and provided housing facilities.

5. THAILAND BACKGROUND ANALYSIS

The objective of this section is to outline the overall economic development and corporate approach to social issues in Thailand. First, the economic, political background and foreign trade relations in Thailand will be briefly discussed followed by social and demographic background. The second section finalizes CSR development in Thailand.

5.1. THAILAND COUNTRY PROFILE

5.1.1. Economic, Political Background & Foreign Trade Relations

Thailand is one of the five founding members of ASEAN and one of the predominant economic powers in South East Asia. Thailand is a middle-income country in Southeast Asia, and despite the recent political uncertainties, the country's GDP trend has slightly declined in the past decade and was recorded as 4.8 percent in 2007 and the consumer price index trend has been increased to 5.7 in 2008. (IMF 2008) Economic size in 2008 was recorded as USD 208.6 billion, GDP per capita was USD 3,930 in 2008 and the main sources of national income are industry, mining and services (IMF 2008). With the continuation of economic recovery, the unemployment trend declined from 2.2 percent in 2003 to 1.4 in 2007. (Global Insight 2009) The country's competitive strengths originate respectively from labor market strength, which ranked 13th, low non-wage labor costs, ranked 20th and the result of strong cooperation in labor-employer relations, ranked 17th out of 134 countries. The political turmoil situations over the recent years brought about rising concerns about the transparency of policy-making and public sector efficiency. In fact, government instability/coups, policy instability and inefficient government bureaucracy are the main problem areas. (World Economic Forum 2008)

The investment climate is welcoming overall while the majority security risks come from the insurgency in the predominantly Muslim areas in the South of Thailand. (Global Insight 2009) The Global Competitiveness Report 2008-2009 has ranked Thailand for overall competitiveness placed as 34 placed out of 134 countries. In terms of trade agreement, Japan is the main trader of Thailand with a free trade agreement which eliminates many imports and exports tariffs. The relations with the European Union (EU) concentrate on trading which accounts for around 15 percent of Thailand's total trade. (Global Insight 2009) Though Thailand has good infrastructure, particularly air and road transportation, the country lacks technological infrastructure as the country ranks 66th out of 134 in the technological readiness index with low entry rates for Internet use, broadband and cell phone. Intra-regional Trade is one important facet of foreign trade. (World Economic Forum 2008)

5.1.2. Social & Demographic Background

The total population is estimated to be around 63 million in the 2007 census. The life expectancy has increased gradually to reach 69 and 75 years in 2006 in men and women respectively. (WHO 2008) In a study by the World Economic Forum (2008) covering 134 countries Thailand's workers' health has been issued (76th) and existing major diseases are as follows; high rate of HIV (108th), tuberculosis (96th) and malaria (93rd). The recent reforms in government health improved the ease of accessing health care services which now cover the larger part of the population. Thailand has nine years of compulsory education which has created the increasing enrolment in secondary school in the past decade, but lack of skills and low labour productivity have been significant barriers to developing

Thailand's competitiveness. (UNDP 2007) Household incomes have increased along with the economic recovery and achieved around THB 15,000 (USD 411)⁸ per month in 2004. However, the main challenges are the distribution of income, which remains uneven overall, increasing debt and a significant number of people living in poverty. (UNDP 2007)

5.2. CSR DEVELOPMENT IN THAILAND

Wedel (2007) has studied about CSR developments in Thailand and has noticed that the Thai CSR models mostly come from the efforts of MNCs which have executed CSR activities. Many Japanese companies, mostly joint ventures with Thai organizations, have likely provided philanthropic assistance to the needy and community rather than focusing on strategic alignment with their business. (Wedel 2007) Although the Thai government does not require CSR, it had been active in supporting CSR activities. For example, Thailand's Ministry of Labor initiated a Thai labor standard to assist Thai organizations to meet the expectations and requirement of international clients. (MOL 2009) In 2007, the Ministry of Social Development and Human Security established CSR Thai Center⁹ to promote and support private and other organizations to perform their business with social and environmental responsibility. (MSO 2007)

The 2003 Asian Forum on Corporate Social Responsibility was held in Bangkok with the theme "Business, Government and Civil Society Collaboration in Nation Building". (CSR Wire 2003) In 2005, The ISO Working Group on Social Responsibility (WG SR) established the foundations of ISO 26000 in Bangkok which provided internationally agreed guidance for social responsibility and organizations harmonized. (ISO 2005) The Stock Exchange of Thailand (SET) started to concern CSR and announced its first SET CSR awards in 2006 to the companies which showed tangible performance on social and environmental responsibility. (Wedel 2007; SET 2008) Recently, SET has announced THB 10 million budgets (Around USD 270,000)¹⁰ to support and create motivation for CSR activities to the companies which registered with SET. This initiation is one of the most important activities for the Thai business sector in order to sustain long-term development which concerns social and environmental issues. (Bangkokbiznews 2008) Yodprutikarn (2009) indicates that CSR considerations are increasing in business operations in Thailand. In the activities involving exporter and importer, exporting companies are required to agree and comply with regulations and codes of conduct until these practices become norms of that industry. Another scholar, Kraisornsuthasinee (2007) sees in the future of CSR in Thailand that it needs true commitment, needs to illuminate general understanding, ascertain more engagement, along with expanding transparency, support accountability and meet the global strategic CSR demand as well as maintain the local supply. Wedel (2007) concludes that the future of CSR in Thailand would be impacted by various factors including government decisions on CSR promotion, international influence and the public perceptions of problems. In the Responsible Competitiveness Index 2007 which measures the relationships between CSR and competitiveness Thailand is ranked as 37th out of 108 countries¹¹. Besides, South East Asia is falling behind compared with other regions in the world. (AccountAbility 2009) Appendix 4 shows the relationship of responsible competitiveness and Foreign Direct Investment (FDI) performance for South East Asian countries in 2007. (Ibrahim 2007)

⁸ Rate as 5 March 2009, USD 1= THB 35.47 (Bangkok Bank 2009)

⁹ www.thaicrcenter.com

¹⁰ Rate as 5 March 2009, USD 1= BHT 35.47 (Bangkok Bank 2009)

¹¹ See Appendix 1: Responsible Competitiveness Index 2007

6. EMPIRICAL FINDINGS

This chapter presents the information collected by secondary and primary sources particularly with in-depth interviews with IKEA in Sweden, IKEA Thailand trading office and three suppliers based in Thailand. The background information regarding IKEA and its codes of conduct, IWAY, will be outlined. This part also describes the company's social responsibility efforts and mechanisms employed at the international level. Three selected suppliers located close to Bangkok, Thailand, were chosen to conduct the study namely; Ceramika, Stella and Malm. The interviews with top/mid management teams and employees survey were conducted throughout these three suppliers. Each company is introduced in the following sections. An explanation of how each supplier company reacts with codes of conduct is provided together with their drivers and incentives. The information presented in empirical findings shall later be exploited in order to conduct the analysis and conclusions.

6.1. IKEA & ITS RESPONSIBILITY

IKEA is the largest furniture retailer in the world and offers a wide range of well-designed and functional products, including furniture, accessories, bathrooms and kitchens at a low price with the idea of serving low-middle income groups. The company was established by Ingvar Kamprad in 1943 in Sweden. The IKEA Group is owned by Stichting INGKA Foundation which owns INGKA B.V. This INGKA B.V. is the parent company of the IKEA group. IKEA has about 127,800 co-workers, 253 stores in 24 countries, 41 trading service offices in 30 countries, 1,380 suppliers in 54 countries, 27 distribution centres and 11 customer distribution centres in 16 countries. Sales for the IKEA Group in the financial year 2008 were a total of EUR 21.2 billion. Almost 2/3 of the suppliers are located in Europe and 1/3 in Asia. (IKEA 2009) To guarantee its low price concept, IKEA needs to purchase products at a low price from its suppliers while ensuring its responsibility to both social and environmental concerns. However, some scholars argue that low price always comes at a high social cost (Bailly et al. 2006).

6.1.1. IKEA Codes of Conduct

Looking at the IKEA's responsibility initiatives it can be said that the company has taken a proactive role in CSR development and implementation. The first CSR actions date back to 1989 when the company started to look at the environmental impacts of its business. In the following 7 years the company adopted an environmental policy, employed an environmental manager and a central internal unit and adopted the first environmental action plan which then was reviewed every three years. In the following years until 2000, internal environmental training for all employees started and an internal network of environmental coordinators was established at all IKEA units. In the year 2000 codes of conduct, the IKEA Way on Purchasing Home Furnishing Products (IWAY) has been introduced in all IKEA units and a compliance audit group has been formed to perform and calibrate the audits. (Andersen 2005)

Focusing on the supplier CSR management, IKEA found that some of its suppliers had exploited children in the goods manufacturing for IKEA such as the wretched working conditions in Romania after which the International Federation of Building and Wood Workers threatened to boycott IKEA. (ICMR 2006; Bailly et al. 2006) Therefore IWAY included not only environmental concerns but labor, social, and forestry issues. IWAY explains the minimum requirements on social and working conditions and environmental demands at IKEA's suppliers range. It includes 19 different areas divided into more than 90 specific issues and defines what suppliers can expect from IKEA and what IKEA requires from suppliers concerning environment, labor and working conditions, and forestry management. (IKEA 2009) It is based on 8 core conventions which are identified in the Fundamental Principles and Rights at Work, ILO declaration June 1998 and the Rio Declaration on Environment and Development 1992. Further, IKEA recognises the fundamental principles of human rights as described in the Universal Declaration of Human Rights (United Nations 1948)¹². In addition to the international conventions, IKEA receives practical input from trading areas from all over the world. Then the company updates them, sets up the standards, sends out, finalizes it and then have formal decision body, which is the IWAY council which deals with update standards. (Bergmark, pers. comm., 13 March 2009)

IWAY is composed of three main modules; *legal requirements* which stipulate that suppliers must comply with national regulations and law, with international conventions involving social and working conditions, child labor and the protection of the environment, *social and working conditions*¹³ which stipulate, for instance, that suppliers must agree to pay at least the minimum legal wage and compensate for overtime and provide a safe and healthy working environment. In addition, suppliers must not use illegal overtime, make use of child labor and discriminate. And finally, *environment and forestry* which indicates that suppliers are required to work to cope with chemicals in a safe way and decrease waste and emission to air, ground and water, for example. (Bergmark 2007) IWAY standards have been updated three times since the first launch in 2000. The latest revision has been made in august 2008. However, it is effective after April 2009 in order to give time for personnel's and suppliers' training in the revision areas. (Bergmark, pers. comm., 13 March 2009; Srisa-ard, pers. comm., 19 March 2009)

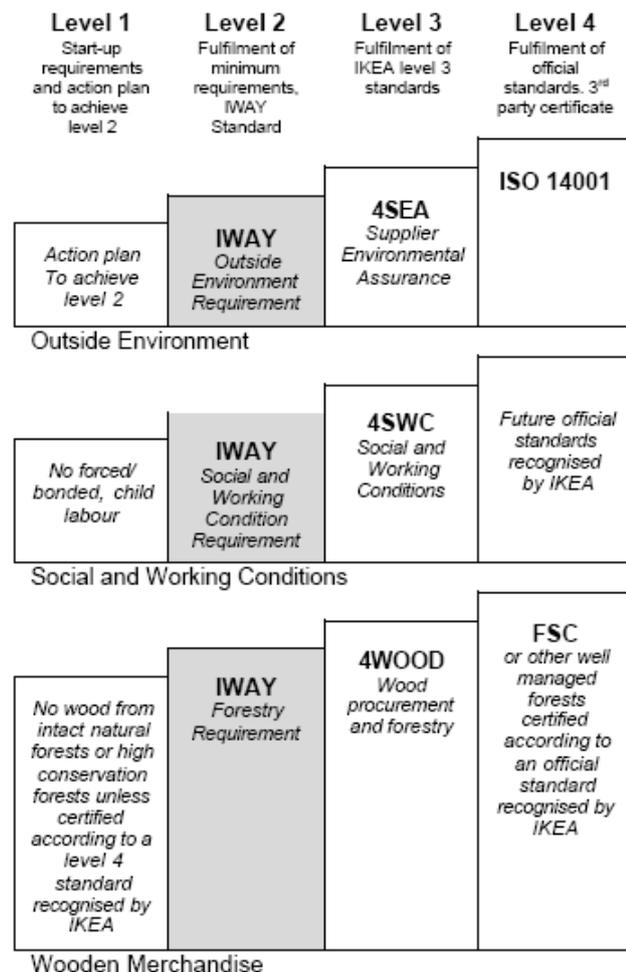


Figure 7: IWAY Staircase Model

Source: IKEA (2002)

¹² The UN Universal Declaration of Human Rights available at <<http://www.un.org/en/documents/udhr/>>.

¹³ See Appendix 5: IWAY Standard: Minimum Requirements for Social & Working Conditions

6.1.2. IWAY Staircase Model

IKEA's Staircase Model as Figure 7 defines, is a 4-step approach aimed at improving the suppliers' overall performance in 3 areas; Outside Environment, Social & Working Conditions and Wooden Merchandise. The first level indicates IMust¹⁴ requirements which have to be satisfied by suppliers prior to the first delivery. The second level represents the IWAY approval level which includes the minimum criteria to maintain a business relationship with IKEA. Level three represents the assurance level while level four is seen as equivalent to international standards such as ISO 14001. Throughout this study, the focus would be on the second level which is the minimum target for suppliers and IKEA's objective is to keep all its suppliers above this level.

As reported by IKEA's (2008) annual report, IWAY fulfilment performance and suppliers' CSR consciousness improves over time due to IKEA's business objective being to create long-term relationships and support suppliers in their business activities.

6.2. GLOBAL LEVEL CODES OF CONDUCT MANAGEMENT IN IKEA

The Copenhagen Centre for Corporate Responsibility (CCCR 2006) describes that social requirements, from a business perspective, are always to be seen as an aspect of controlling risks involving the cooperation with suppliers in developing countries in which social standards are always under pressure. On the other hand, from the social perspective, corporate social requirements are important due to the fact that they are able to provide a positive linking between trade and sustainable development. (CCCR 2006) Acting as a socially and environmentally responsible company makes good business sense as Anders Dahlvig, President of the IKEA Group said,

*"...By making demands on suppliers with regard to environmental and social responsibility and by helping them meet these demands, our business relationship contributes to a better everyday life for the people manufacturing IKEA products. Better working conditions lead to more efficient production and better productivity. In this way suppliers can produce at a lower cost and IKEA can sell at lower prices in its stores."*¹⁵ - Anders Dahlvig, President of the IKEA Group

Regarding codes of conduct compliance by suppliers, Thomas Bergmark, IKEA Sustainability Manager, gave his view that currently the suppliers in Europe and the America are likely to be more positive than suppliers in Asia as follows;

"...You can say suppliers in Europe and the Americas are generally more positive. If we speak about Asia, it differs a lot. Some suppliers, they buy the concept right away. Others are very ... I would say not resistant but questioning -- why should we do this? It is a big job to convince them to start the process.

Some of these suppliers after a while think, no, it's too much, so they'll say, we are leaving IKEA. We have to live with that. Other suppliers, they go through a different journey. They explain it like this to me, that when they first got the requirements, they thought it was a lot, but since they had a good experience with IKEA for many years, they thought, these guys from IKEA, they're clever, so we'll give it a try. Then they get going. I have a couple of cases of suppliers I have met in Asia that tell me, "You know what happened next? I got a couple of new potential customers visiting my factory the other week, and they asked about codes of conduct issues and environmental and working conditions.

¹⁴ IKEA minimum requirements

¹⁵ IKEA (2004)

And I could show them what I have been doing so far together with IKEA. And I got new business."
¹⁶ - Thomas Bergmark

During the interview on March 13, 2009, he pointed out that the IWAY motivation plans from IKEA have been done by the purchasing team; including planning information, gathering of the number of suppliers, training as well as informing and selling the concepts to the supplier. The motivation plans, however, would be altered according to the different cultures which IKEA needs to adapt to according to suppliers' level, management, attitudes, skills, and need of support. Along with IKEA's responsibility of codes of conduct, suppliers have to comply with the requirements and IKEA would support them with the knowledge and find the best solutions for each supplier. (Bergmark, IKEA Sustainability Manager, pers. comm., 28 April 2009) Overall, he also pointed out that IWAY's requirements and levels to achieve is the same worldwide, but how to reach the goals varies. In case the supplier achieves fulfilment of codes of conduct, the supplier is able to increase productivities, profitability, create a better production floor, production order, create better conditions for the people and decrease quality problems. If the suppliers would like to take voluntary action by going beyond IKEA's codes of conduct, it shall be their own responsibility. (Bergmark, IKEA Sustainability Manager, pers. comm., 13 March 2009)

Regarding the obligation of labor and working conditions in supplier factories, he explained that since IKEA wants to reduce working hours, IKEA would cooperate with the suppliers at the first stage by working and improving together. For long-term direction, the company collaborates with authorities in each country; influences them regarding auditing and inspections to ensure that the suppliers fulfil legal obligations. The resistance, sometimes, comes from suppliers, workers and migrant workers since they want to work and earn as much as possible. But the end, IKEA and suppliers agree on the identical production management with shorter working hours but producing the same amount of products, and paying the same salary for the workers. IKEA has tried to create in-depth understanding with the suppliers for long-term business relationships, but in extreme case, if it does not work, IKEA would use business consequences by not ordering more products, having no product development cooperation, and in the end, the supplier shall be phased-out if there is no development. (Bergmark, IKEA Sustainability Manager, pers. comm., 13 March 2009) Dahlvig also explains that the company always supports suppliers in fulfilling codes of conduct demands. As long as the suppliers carry out their efforts and positive attitudes toward improvements, IKEA normally does not terminate the contract. However, in the case that suppliers do not present any progress, IKEA has no choice but to terminate the relationship. (IKEA 2004)

Recently, IKEA has joined the GSCP project (Global Standard for Compliance) in which the company coordinate with other retailers where they agree on common codes of conducts, discuss the requirements, auditors and share auditing resources. The standard covers social, working and environmental conditions. Walmart, TESCO and H&M are three of the total 25 members. This initiative has great potential in eliminating the operational difficulties such as repetitive audits by different buyers and has prospects for both minimizing the cost and time consumed on auditing and unifying the auditing standards and procedures that could lead better understanding of CSR policies. Additionally, IKEA works with NGOs, e.g. Save the Children, UNICEF at this moment as well.

¹⁶ Robert (2007)

6.3. CSR MANAGEMENT IN IKEA THAILAND TSO

IKEA Thailand TSO was established in 1988 as a purchasing office to meet the demand in mostly European markets. The aim of TSO is to receive the best quality/price ratio from the local suppliers and try to increase the amount of orders in the global supply chain. Currently, 35 employees work in four main product categories which are solid wood; flat line; ceramic; metal plastic and others. The employees work in business teams specialized in product categories. Each business team is composed of three employees, one business developer, the person who is mainly responsible for sustaining business relationships and performing supplier contract negotiations; the business supporter, the person who is responsible from a logistics aspect for purchasing and communicating timeline constraints of orders; and one technician, the person who has particular expertise about the purchasing material and he/she works closely with the supplier design team and communicates design and material requirements to the supplier. For each material category there are material area managers who are responsible for all suppliers in the particular material category. And the top management in TSO is the trading area manager who is responsible for overall performance of the Thailand TSO performance. (Sirisa-ard, IKEA S&E specialist, pers. comm., 19 March 2009)

6.3.1. IWAY Implementation-Tools & Mechanisms

As a part of the global strategy TSO introduced IWAY to its suppliers in 2000. To carry out implementation the office recruited and trained a person, S&E specialist who is solely responsible from IWAY implementation in all suppliers in Thailand. From the very beginning of the business relationship with suppliers she communicates IWAY requirements, determines the specific requirements and ensures that requirements are being implemented in accordance with the required timeline. She performs the initial IWAY training, additional IWAY training if needed, IWAY audits, works closely with IWAY suppliers responsible for preparing and executing their action plans regarding IWAY implementation. Each supplier has an IWAY workbook for the IKEA business team to write down their observations and problems regardless of their role. (Sirisa-ard, IKEA S&E specialist, pers. comm., 19 March 2009) To ensure that suppliers shall receive accurate information, she translates IWAY standards to local language and organizes training in the supplier company at the very beginning of the business relationship.

In addition to an S&E specialist, the business team members who have the closest contact with suppliers also have been trained regarding IWAY standards and requirements. While performing their jobs in supplier sites it is a part of their responsibility to observe the factory environment, and make sure that a supplier complies with IWAY standards and maintains the level of IWAY. They are supported by an S/E specialist in performing such duties regarding the SCC implementation. They communicate the missing standards to the supplier management and inform S&E specialist if they notice a major outbreak.

6.3.2. Supplier Evaluation & Implementation Process

IKEA evaluate potential suppliers by various factors. Prior to starting any business contact, suppliers are monitored regarding their financial stability, production process and quality, and their past business performance to determine whether they are capable of entering a long term business relationship which at the same time involves requirements with financial aspects. At the starting point, the supplier is required to sign IWAY agreement contracts which make IWAY implementation

binding for the continuity of the business contract and satisfy IMust¹⁷ level requirements. Before the first delivery to IKEA suppliers have to pass IMust audit by an S&E specialist. Typically, after 12 months, suppliers are expected to reach IWAY approval level and they have to present an action plan and timeline for that period. It is very clear to IKEA that some requirements could be implemented immediately while some others require higher resource commitment and transition time. In such difficult issues suppliers are allowed to use more time than 12 months but they have to persuade IKEA about their commitment to the changes by presenting an additional action plan and timeline. (See Figure 8) At the end of the IWAY adaptation process an S&E specialist makes the audit in the supplier site to decide upon approval or extra requirements. In the following 21 months suppliers are subject to unannounced audits to ensure that the supplier maintains the IWAY approval level. After receiving IWAY approval, suppliers have to maintain that level and starting from 2009 they are subject to annual unannounced audits by an S&E specialist. All of the suppliers the authors visited were IWAY approved suppliers and they clearly mentioned that IWAY implementation is a very dynamic process and they have to show continuous improvement in each audit. Additionally, the business team members make monthly follow up audits to see whether the IWAY requirements are being practiced. The supplier IWAY evaluation process is presented in the following figure;

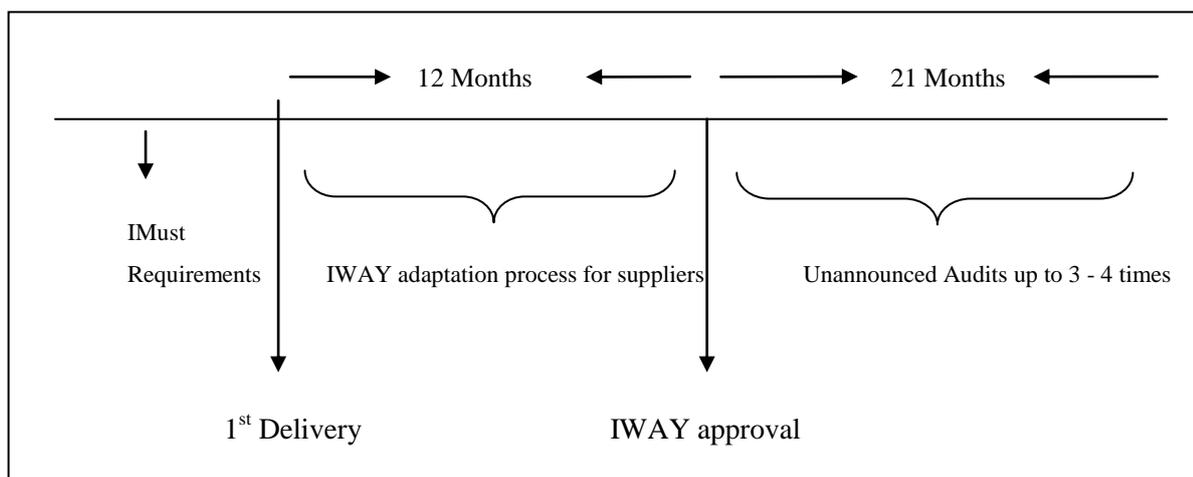


Figure 8: *Supplier Evaluation Process for IWAY Approval*

Source: Adapted from Sirisa-ard, IKEA S&E specialist, pers. comm., 19 March 2009

i) Implementation Follow Up

Twice a year, the S&E specialist invites the supplier IWAY team to IKEA TSO for a workshop and additional training. This is a good possibility for suppliers to meet each other and learn about IWAY implementation. IKEA also select well-performing suppliers and assigns them as good examples for other suppliers to learn and see from each other in order to ensure and increase the compliance level of the supplier. However, IKEA does not have any incentive other than the orders even though it was requested by the supplier. (Sirisa-ard, IKEA S&E specialist, pers. comm., 19 March 2009)

IWAY requirements are updated once every three years; outdated requirements are being replaced by more applicable ones. For instance, regarding chemicals handling, IKEA technical group calibrates the optimum standards in line with the availability of these techniques in both developed and

¹⁷ Minimum requirement made by IKEA which IKEA suppliers must approve for this level in order to start a business relationship. It includes measures against child and bounded labor, environmental and safety issues.

developing country suppliers. When a new IWAY standards edition is launched, the supplier management team and/or the IWAY responsible person in each supplier company receive additional training to make them catch up with changes. During the visits, there was at least one safety officer in the supplier company which is compulsory by Thai law and one HR person who communicates IWAY to the employees. Due to the fact that in Thailand establishing labor unions is not a common way of collective bargaining, an S&E specialist tries to establish good relationships suppliers' employees and listen to their demands. (Sirisa-ard, IKEA S&E specialist, pers. comm., 19 March 2009)

ii) Suppliers' Responses to SCC

Following these procedures and efforts, suppliers respond heterogeneously; some are more receptive to IWAY requirements while some are reluctant towards such advancements. Additionally, although the drivers are well in places for some suppliers extensions of IWAY requirements are found to be overwhelming. In Thailand the most difficult issue is working hours which Thai law allows up to 84 hours per week while IWAY requirements allow up to 60 hours. In such matters, IKEA is flexible by providing a certain period of time for suppliers to adapt themselves. The time to adapt for IWAY codes of conduct depends on suppliers; their knowledge, willingness, resources and capacities, size and so on. However in case suppliers do not use the adaptation period wisely and neglect IWAY requirements they eventually lose their business contract with IKEA. IKEA TSO co-workers reported two cases where the suppliers did not show the expected response to IWAY requirements;

"In one of our suppliers we noticed that the amount of overtime payment was calculated with deliberate errors many times by an accountant who is business owner's wife. At the first place she said that it was wrong calculation, but then she claimed that handicapped employees' working abilities are lower than other employees, so they deserve to receive less salary. This showed unfair treatment and discrimination problems. Even though we made our stance very clear we have seen that those practices are being repeated several times. Finally, IKEA decided to phase out this supplier..." (Sirisa-ard, IKEA S&E Specialist, pers. comm., 19 March 2009)

Another example illustrates a different situation from Ceramika Business Developer;

"There was one case where the supplier passed IMust level and we started doing business together, but as time passed and we evaluated that it was too difficult for the supplier to fulfil IWAY, so we needed to stop doing business with that supplier. We were making repetitive visits to their factory to observe the developments we requested but instead we received the same answers every time from the management. So we realized that they are not interested in being our supplier. But from a business point of view, they have high potential of production, but for IWAY, they don't care. The problem for them, for example, was the air emission and the water treatment. Even it's a local law, they don't comply with it. They said that they don't have enough money to improve this..." (Kasemchaiprasong, IKEA Business Developer, pers. comm., 20 March 2009)

While working with suppliers there are sometimes emergency situations where suppliers need to excess overtime to finish their orders on time. Material shortage and machine breakdown issues are common problems for suppliers and they ask permission from IKEA to do excess overtime. Also some orders come with very short delivery time requirements which could not be completed by suppliers' current workforce. For IKEA such emergency orders are extremely rare as business planning is a very strong aspect of IKEA's supply chain management. Temporary overtime

exemptions are approved by IKEA's S&E specialist and she says that they try to avoid this practice and usually IKEA do refuse such requests since excess overtime has a negative effect on the business as well, such as low productivity, worker safety and higher cost.

The majority of the suppliers in Thailand are said to be receptive to efforts in implementing IWAY requirements and even though there are costs associated with reducing working hours or installing new machinery and devices, suppliers try to see the good aspects of those requirements. Additionally, suppliers try to develop alternative solutions to eliminate associated costs.

In the following section, the authors exhibits the information collected from supplier sites through in-depth interviews with the management team and production workers in three supplier companies located closed to Bangkok, Thailand including; Ceramika, ceramics producing company; Steella, stainless steel manufacturer; Malm, furniture producing company. A description of how IKEA and those suppliers manage the codes of conduct implementation is provided along with the factors that are influential in making compliance decisions. Using the empirical insights and theoretical intuitive, the authors will construct the conceptual model on which to base the analysis.

6.4. SUPPLIER1: CERAMIKA

6.4.1. Background & Organizational Resources and Capabilities

The Ceramika is a medium size 100 percent family-owned company. It manufactures and exports ceramic products e.g. ceramic bake ware, kitchenware, tabletop and bathroom accessories. Currently, the company has approximately 250 employees including office workers and main export markets are Sweden, Switzerland, France US, and Japan.

The company established a business relationship with IKEA in 1997 and since then sustained a strong business performance. Currently, 20 different IKEA products are being supplied which accounts for 75 percent of the entire production capacity of 200X40 ft containers. A very large majority of employees are Thai nationals and some of them are migrants from other parts of the country and on average they are 30 years old. Employees receive a national minimum wage plus 150 percent of normal hourly wage for overtime and annual labor turnover rate is 20 percent. In the normal course of business employees work up to 60 hrs/ 6 days a week which both satisfies Thai labor laws and IWAY requirements. Daily normal working hour is 8 hours which is usually complemented with 2 hours overtime.

As all other IKEA suppliers, the company's business performance and financial strength is subject to constant monitoring to ensure the applicability of business and CSR requirements. Currently, the company employs an IWAY responsible member of staff who is responsible for communicating IWAY to the employees and ensuring IWAY implementation in the factory. Also she prepares action plans after IKEA audits, works with management in developing appropriate responses to the IWAY requirements, works closely with human resources management and participates in departmental decisions.

6.4.2. IWAY Implementation by IKEA in Ceramika

Following the training sessions, the company started IWAY implementation in 2000 and sustained a strong IWAY performance with close cooperation and monitoring by IKEA. As said by the managing director of the company, at the beginning there were some standards that had already been satisfied

but there were also tough requirements that the company needs to rearrange and develop as well. In total it took approximately 2 years for the company to reach IWAY approval level (As mentioned in Figure 7: IWAY staircase model) due to the financial implications of increased standards such as investment in waste management and water treatment procedures. But the most important and persisting problem area has been the working hours and overtime restrictions. The resistance was two-sided; on one hand it was a considerable reduction in the company's production capacity which had to be compensated either by employing new workers or rearranging the production process in a more efficient fashion. The seasonality of the Cermika business illustrates the cost of adding new workers; increasing volume of orders in the high season necessitates extra manpower which previously were supplied by excess overtime up to 84 hrs/w. However, after the 60 hrs/w standard, the company needs alternative labor sources usually provided by short term employment contracts which increases labor turnover, thus, labor cost. On the other hand, the company's employees were not in favour of the 60 hours limitation due to the reflected decrease in their salary. In fact, the company lost some of its employees in the process of adapting to 60 hours standard. The Ceramika IWAY responsible member of staff says that when time passed, employees realized IWAY has many requirements which are also beneficial for them such as their being provided Personal Protective Equipment (PPE), that the working atmosphere is improving, internal heat in the factory is being balanced with a newly-installed temperature controlling fan, the number of work injuries decreasing, and fire exit routes and fire prevention equipment are constantly being checked. Overall, working standards have improved considerably like no other factory in the area as many quitting employees came back and asked for their old jobs.

The only and the most difficult standard for Ceramika has been the limitation regarding the working hours. At first glance it looked harsh to limit factory capacity from 84 hrs/w to 60 hrs/w. However, Ceramika management says that IKEA has been aware of the implications on the production capacity. When IWAY was introduced to them, IKEA's S&E specialist together with the Ceramika management team agreed on a time frame and action plan to gradually decrease the working hours in the factory. This has been possible via a mixture of internal measures taken in the production lines, in quality control and increasing effectiveness. Ceramika has been able to reach IWAY approval level in required time with an exception. Regarding working hours limitation, the company needed an extra 2 months which has been approved by the IKEA S&E specialist.

There was recently an exceptional situation for 60 hrs/w limitation; the Ceramika technical team was working on a prototype for a new IKEA product and they had a short deadline. So they had to work longer than 60 hrs/w for two weeks.

In Ceramika the only complaint from IWAY has been the fact that IWAY is considerably more detailed and demanding which involves too much paperwork and it is time consuming to prepare and follow supporting documents. Such a complaint is known to IKEA and at the time of the interview with the sustainability manager, IKEA was at the initial step of a project where multinational buyers incorporate their auditing activities and thus reduce the work load and paperwork.

6.4.3. Drivers for Ceramika's Codes of Conduct Compliance

Before IWAY was introduced to Ceramika, the company was implementing Japanese 5S¹⁸ with an effort to improve work flow organization and work environment. According to the management team at Ceramika, 5S principles were in line with IWAY requirements and those principles set a good environment to start with IWAY requirements.

The government labor agency makes general audits at factories in Thailand because the labor law and IWAY requirements in many areas coincide with legal obligations. However, as was reported by the Ceramika management, IWAY audits are far more demanding and frequent. To start with, the IKEA business team who on average visit suppliers twice a week has to observe factory environment in terms of whether the IWAY is being implemented. The business developer says that there are situations where she sees that employees do not wear gloves or masks and she talks to the supplier management directly. Also, there are sub-random check points performed once a month. Finally an S&E specialist makes detailed unannounced audits once a year and performs follow up audits if needed. Ceramika had an unannounced audit one month before our visit and audit results showed that Ceramika did not have issues regarding workers and working hours. The areas that needed to be improved were waste management and IWAY communication to the sub-suppliers. The Ceramika management team confirms that when compared with CSR activities of its other international buyers; IKEA has a more effective team and working process to introduce, to follow up, and support its codes of conduct implementation. Management's commitment to the improvements has been another driver for IWAY. Management in Ceramika says that IWAY has been a good motivation for them to make "everyday improvements" and increase the standards. The IKEA business developer for Ceramika says,

"According to my experiences, everything begins with top management, implementation heavily depends on management's commitment." (Kasemchaiprasong, IKEA Business Developer, pers. comm., 20 March 2009)

Among all other factors maybe the strongest drive for suppliers has been IKEA's commitment to the IWAY. As said by the Ceramika Managing Director,

"The most influential factor for our compliance with those requirements is that if we do not comply with IWAY, IKEA won't buy our products, this is the real answer. Right now we are selling 75 percent of our production to IKEA and IKEA orders are stable so we do not want to harm our business relationship with IKEA" (Ceramika Managing Director, pers. comm., 23 March 2009)

IKEA's Ceramika business team makes IKEA's standpoint very clear by saying that

"Even though a supplier has the best quality or the best price, we cannot start business with them as long as that supplier does not satisfy IWAY requirements and show commitment to improve towards IWAY approval level. It is our job to negotiate and try our best to make them implement IWAY but if

¹⁸ 5S is a Japanese business philosophy which is a way of organizing and managing the workspace and work flow with the intent of improving efficiency by eliminating waste, improving flow and reducing process unevenness. 5S translated into English as 5C stands for five phases: Phase 1: Clearout and Classify (Seiri) ; Phase 2 - Configure: (Seiton); Phase 3 - Clean and Check: (Seisō); Phase 4 - Conformity: (Seiketsu); Phase 5 - Custom and Practice: (Shitsuke)

we do not see the results, we will not make business with that supplier.” (Kasemchaiprasong, IKEA Business Developer, pers. comm., 20 March 2009)

6.4.4. Incentives for Ceramika’s Commitment to IWAY

Even though IKEA has strong implementation and monitoring tools for IWAY, the incentives for implementing IWAY ensures that suppliers sustain their commitment. In Ceramika the management has a long-term vision by which they try to foresee the future benefits of IWAY compliance. The incentives are grouped in two areas; work environment improvements and business improvement.

The first work environment improvement is cleanliness, and clearer work related signs which created a more positive atmosphere. Second, safety conditions improved which decreased both work injuries and accidents helping the company to reduce medical treatment expenses. Third, employees are happier and more motivated to work, their working environment has improved and working hours are shortened so they are more productive.

The first business benefit is overall improvement in factory standards; IKEA has world class requirements implemented in many different countries. Having such standards made the Ceramika more competitive as claimed by the Managing Director. Second, the reject rate decreased so that internal production flow enhanced so that there is less interruption with production and the company can notice the inadequacies in its production flow more clearly. Third, ceramics production requires some specific skills and Ceramika tries to keep internally trained and skilled employees. From a human resources management perspective, Ceramika has now higher employee loyalty and less labor turnover. The company, as a consequence, is able to reduce training expense and time for new employees. Fourth, from a marketing perspective, having IKEA standards improved relationships with other customers. Other foreign buyers usually follow Thai national as their CSR standard and they know that IWAY is much more developed. So the supplier’s product and production quality improved which provided an increased reputation for current and potential buyers. The last and most important aspect is that the supplier business relationship with IKEA improved. When the company had to install a water treatment facility IKEA promised to give higher orders to compensate the supplier’s cost. While working on IWAY requirements the supplier has been in close communication with IKEA and proved its commitment to the business relationship. The supplier company have seen the benefits of this commitment as increased orders by IKEA over time and now produces 75 percent for IKEA. An IKEA business developer says;

“I have a good relationship with suppliers and we are quite open about their problems and demands...this year business turnover grew more than over the last 2-3 years and we have lots of projects for them to improve their production.” (Kasemchaiprasong, IKEA Business Developer, pers. comm., 20 March 2009)

6.4.5. Ceramika Employees’ Survey Findings

As mentioned in the methodology section 50 employees out of 250 have been surveyed using the questionnaire in Appendix 3. This section presents a snapshot of employees’ perception towards their employer and their working conditions.

The IWAY knowledge among employees presented by 74 percent of knowledge however the interviews confirmed that most of the employees do not know IWAY by name but they know that changes in their work environment is result of the IKEA standards. Even though the common demand

from employees is the desire to work longer hours, the survey result confirms that their demand is rejected by the company and 96 percent of the employees confirm that they work between 48 to 60 hours a week. Majority of the employees were positively influenced by IWAY per the survey results and ethnic discrimination is an extinguish issue. Surveys indicate that the employees are covered by social and medical insurance which are deducted from their salaries per Thai labor law. In general, employees emphasized that the company provides them high degree of freedom in working environment. This might be because of company structure with family-owned business and this merit has positive effect towards low labor turnover rate which is proved by the fact that 30 percent of employees have been working here for approximately 5-10 years. One of the employees states that;

“This is the second time that I have decided to come back to work here again, because I think that this factory provides me with a high degree of freedom. The previous factory allowed me to go to the toilet only twice a day and there must be someone standing by me at work. Here I can freely use my time for my personal needs, my supervisor never gazes at me like the previous company.” (Ceramika Employee, pers. comm., 24 March 2009)

6.4.6. Summary of Findings in Ceramika

Being a group company, there is no doubt that Ceramika’s own resource base has a strong input in the company’s strong IWAY performance. The push from government authorities in business responsibility in form of waste management regulations have been facilitators as well. However, the greatest driver was IKEA’s assertion of IWAY as a precondition for business. However, as an IKEA supplier for more than 10 years it is clear that both IKEA and Ceramika have a strong understanding of mutual needs and requirements in all aspects of business including social responsibility. Therefore the initial IWAY implementation process and follow up period have been smooth. The roles of communication and gradual approach in IWAY implementation have been emphasized many times in the interviews to ensure the health improvement IWAY initiatives within Ceramika. The sustainable responsibility is made possible with gains from IWAY which serve as incentives for Ceramika such as work environment and business incentives.

6.5. SUPPLIER2: STEELLA

6.5.1. Background & Organizational Resources and Capabilities

The second supplier the authors visited is a large family-owned company which produces stainless steel kitchenware, bathroom accessories and furniture fittings. The owner himself has international experience in US as well as the countries where the company operates. The interview on March 30, 2009, with business founder and the President of Steella showed that the company has 3 factories in Thailand, one factory in Beijing and one factory in Taipei and has one trading company in Cologne, Germany. In Thailand factories the company employs around 600 people. It manufactures OEM¹⁹ (Original Equipment Manufacturer) and ODM²⁰ (Original Design Manufacturer) under the IKEA brand. The owner family has Taiwanese roots but they decided to move business to Thailand since Thai people are friendly, there is a safe working environment and lost cost production.

Before moving to Thailand the company had buyers from the US. After establishing the first factory in Thailand, they saw prospects in European markets and established a trading company in Germany. The business owner first saw an IKEA store in Germany and contacted store management, IKEA in

¹⁹ A company which produces hardware to be sold under another company's brand.

²⁰ A company which manufactures and designs in-house the products that are branded by the buying firm.

Sweden, IKEA Southeast Asia Regional HQ based in Singapore and finally IKEA Thailand TSO since he saw that his company had potential to be a supplier for IKEA. Thailand TSO employees visited the factory and made an initial supplier evaluation and in 1998 a business relationship started with the first order. Currently, 70 percent of the entire production volume is made for IKEA with 50 different articles out of 200 different kinds of products.

Employees are on average 24 years old and annual labor turnover rate is around 30 percent. Employees work 58 hrs/ 6 days in a week and there is not a significant difference between low season and high season regarding the working hours. Employees receive the national minimum wage plus 150 percent of normal hourly wages for overtime according to Thai law. The yearly holiday varies between 10 and 25 days changing according to how long the employee has been working and the great majority of employees have holidays between 8 and 14 days a year.

6.5.2. IWAY Implementation by IKEA in Steella

Since the establishment in Thailand, Steella management had a different view of employee management. The owner introduced some measures by his own initiative such as 10-minutes-breaks for workers every 2 hours with the idea of improving employee motivation and productivity. From the beginning the Steella management team had seen the IWAY as a part of a long-term strategy with its key customer, IKEA, and the company tried alternative methods to surpass direct costs of this mutual strategy. Therefore, when the IWAY was introduced to them the first time it was not a big surprise except the condition of 60 hrs/w working hours. Before, the company used to work 66 hrs/w and employees received THB 204 plus the overtime payment. For employees, the 60 hours standard meant an approximate 10 percent decrease in their salaries which is a high portion of their total income. Simultaneously, it meant a 10 percent decrease in Steella's production capacity for which the company was not prepared. However, as said by the Steella president, the company has traditionally been open to different regulations so that alternative measures have been quickly put into action to overcome the implications. The company modifies its payment system for production employees and has started to pay by piece rate. Reportedly the piece rate payment system did not attract sympathy from employees since they are not used to be pushed in production speed by others as a part of their culture and they were satisfied with a fixed rate income. For employees it took 6 months to adjust to the new system and some employees left the company.

Currently, although the company implements a piece rate payment system, 10-minutes-breaks every two hours is still applied and employees work 58 hrs/w. The production volume increased by 35 percent compared to fixed rate payment system. At the same time salaries of employees increased by 45 percent since the employees adapted to work faster and more efficiently in a shorter time. Therefore, it has been a win-win situation for Steella and its employees.

6.5.3. Drivers for Steella's Codes of Conduct Compliance

As all other IKEA suppliers IWAY compliance is a precondition for continuity of business relationship for Steella. The company has very strong reliance on IKEA orders as the company produces 70 percent for IKEA. IKEA orders continuously grow according to the supplier's performance and remain stable even in the economic crisis conditions. Management in Steella has the vision that investments in IWAY will benefit the company in the long term so the company has been proactive from the beginning of IWAY implementation.

The Steella IWAY responsible person pointed out that IKEA is the company's most cautious buyer when it comes to training and monitoring activities regarding its codes of conduct; it has detailed and clearly defined procedures. The President said that other buyers do not have long term business contracts so their CSR commitment is not as visible as it is for IKEA codes of conduct. The company's IWAY compliance is routinely being audited by an IKEA S&E specialist and its business team. Besides, the company is subject to unannounced third party audits by KPMG every year. In the most recent audit report, the emphasis was on environment protection and labor issues. Although the company passes the requirements in each audit it is critical to show improvement every time. For instance, it is a particular issue to wear PPE as employees find it uncomfortable to wear them while working but the company is urged to continue training sessions for employees to increase understanding.

6.5.4. Incentives for Steella's Commitment to IWAY

For Steella the long-term gains like productivity efficiency improvements are the major factors to sustain commitment to IWAY. For example, the company started an efficiency program for which it receives technical assistance and guidance from IKEA. During the recent three years the company recorded an annual 8-9 percent efficiency increase. Together with the packaging improvement requirements Steella president claimed that IKEA provided safe packaging training by which the company realized a major decline in the reject rate, decrease in packaging time and drastic decline in number of machinery related injuries and accidents. The very essence of the Steella President's motives for IWAY commitment is that;

"IWAY never costs you! If we pay by quality, for example, when you drive a car you have to turn the lights on. So it's the same, if we don't comply with IWAY, other costs will come. If someone says that the safety is the cost, it is totally wrong..." (Steella President, pers comm., 30 March 2009)

6.5.5. Steella Employees' Survey Findings

The results from the survey of 50 employees out of 600 using the Appendix 3 questionnaire are presented in this section. Employees in Steella are less aware of the IWAY by name but other supporting questions regarding IWAY standards showed that they benefited from it. In addition to performed employee interviews, findings from employee surveys support the findings revealed by manager interviews at Steella. Majority of employees claim that IWAY has a positive influence on their work environment although it caused a dramatic reduction in their working hours and amount of their pay. However interviews reveal that employees prefer working 60 hours and have time for their private lives.

In general, employees have moderate level of satisfaction over the amount of influence they have over the job, the amount of payment, the sense of achievement they have from work, and the respect they get from supervisors. The employees, overall, want the company to improve payment, holiday and leaves and the safety. Employees are covered by social and medical insurance deducted from their gross salaries. The employees generally feel that the supervisors have good understanding about their needs and problems. 48 percent of employees are proud to tell other people who they work for and 44 percent of employees feel loyal to the company. However, employees' financial situation seems to be the most important issue since they want the government to increase minimum wages in order to cover their daily expense. The following dialogue is an opinion from one of the Steella employee;

“Since IWAY is implemented in this company, I feel that the working safety and cleanliness has increased, which makes me more comfortable in working for this factory...In my previous company, if I get injured, no one takes care of me, in this company, there is a nurse standing by at the factory every day to treat us and the company will responsible for such expenses.” (Steella Employee, pers. comm., 31 March 2009)

6.5.6. Summary of Findings in Steella

Steella itself is an MNC with operations in Thailand, Taiwan, Germany and exports to the US, Japan and many other European markets. The company had CSR initiatives prior to IWAY and as explained by the owner, the company had no difficulty but gains from IWAY in many areas and he claimed that the IWAY has been a strong guideline for them in having sustainable responsibility policy. The initial positive response to IWAY can be explained by managements’ strong desire and commitment to responsibility initiatives and available organizational sources. Strong partnership with IKEA facilitated the communication and mutual understanding as well as the gradual implementation approach employed by IKEA. The outlined drivers and incentives were the most important reason for the company and the company had a long term vision in CSR which helped them to foresee future benefits from it.

6.6. SUPPLIER3: MALM

6.6.1. Background & Organizational Resources and Capabilities

The third supplier the authors investigated is a large furniture company. In the company there are 7,000 employees of which 1,000 solely work for furniture end products. 30 percent of the products are exported mainly to European, US and Japanese markets and the remaining 70 percent is for domestic demand for the company’s own product line as the dominant share of Thai furniture market is captured by the company.

Business relationship with IKEA was revived in 2007 with the proposal from Malm which was cut off earlier due to IWAY requirements. Between 15-20 percent of the entire volume is being made for IKEA in the three factories. Currently, the company is building the fourth factory for IKEA production following the increasing orders. Normally the company had been working 72 hrs/w but after commitment to business relationship with IKEA this number has been gradually decreased to 60 hrs/w after the adaptations which took approximately one year as claimed by the QA Manager who is responsible for IWAY implementation. The annual labor turnover rate is 28 percent and on average employees had been working for 4 years in the company.

6.6.2. IWAY Implementation by IKEA in Malm

After signing the business contract with IKEA which includes IWAY requirements, the company took a set of actions to implement IWAY. The immediate measures were; first, proper safety and user’s instructions have been prepared and hanged in front of every machine which later was complemented with an improved accident record system. Before, the company did not have a preventive plan for accidents and the number of injuries was twice the current figures. Recently, the annual injury numbers have been included in the company’s Key Performance Indicator (KPI) together with the price, delivery, and quality performance and acceptable number of annual injuries is set to be 20. Regarding first aid, internal facilities have been improved and the company signed a special agreement with a nearby hospital for the serious injuries. The fire exit routes have been signed clearly, the obstacles on the evacuation routes were removed and employees have been trained about the fire

evacuation which is now being repeated twice a year. Additionally per nature of furniture production, internal dust and chemical substances were a serious threat to employees' health; these problems were solved by investing in machinery improvements which emits the dust from cutting and by supplying proper PPE for employees working in the painting sections and clean drinking water is being supplied at each work station. Also, the company employed additional people for IWAY; one IWAY person responsible as required by IKEA and three internal auditors. (Malm QA Manager, pers. comm., 3 April 2009)

Besides, the company committed its resources to requirements which were costly at the beginning; first, a new waste water treatment facility has been established for approximately THB 2 million (Around USD 56,000)²¹ and with technical support from IKEA and the company has been guaranteed increasing orders as an incentive to its commitment. Another, and the most difficult, requirement was again the 60hrs/w working hour requirement. The company has high orders which necessitated them to do continuous overtime and employees were favoring overtime so that they could earn more by working more. It was impossible to reach the target in a short period of time and it took approximately one year to rearrange its internal system. Employees reacted negatively at the beginning and the company lost some of its employees. However, the overall result has been positive for employees as well. (Malm Assistant Key Account Manager, pers. comm., 2 April 2009)

Also, the authors received different answers regarding the working hour limitation. The formal procedure for working in excess of 60 hrs/w is available for suppliers which have emergency situations in meeting their orders. The permission is given by IKEA if the preconditions and excess of overtime is found to be reasonable. However, during the interviews the authors confirmed that sometimes employees worked 70 hrs/w without prior notice to IKEA and there were night shifts that employees could participate voluntarily. Although the company tries to avoid excess overtime, efforts for improvements need to be increased when compared to the other two suppliers.

IWAY communication to sub-suppliers is also another improvement area noted by recent audits and additional training is going to be made by QA Manager in sub-supplier companies and Malm purchasing employees are being trained about IWAY. (Malm QA Manager, pers. comm., 3 April 2009) Currently, the authors observed that in the working areas there was very high internal heat in the factories which makes it uncomfortable to work and wear PPE for the employees. The company tries to overcome this problem by increased training regarding the importance of wearing PPE.

6.6.3. Drivers for Malm's Codes of Conduct Compliance

IWAY commitment is a precondition for suppliers to start and maintain their business relationship with IKEA. For Malm this was the only drive at the beginning as the company once cut off its business relationship with IKEA due to IWAY requirements. Assistant Key Account Manager said that;

"We have a long-term business contract with IKEA, so we implement IWAY. If we had only short-term business contracts, the IWAY compliance would not happen. That is the reason why we invest." (Malm Assistant Key Account Manager, pers. comm., 2 April 2009)

²¹ Rate as 5 March 2009, USD1=THB 35.47 (Bangkok Bank 2009)

Later the company realized that the IKEA contract provides good potential for a company expanding in European markets where the company sees future prospects. It also should be noted that Malm wants to grow aggressively and IWAY is a condition for receiving larger orders from IKEA. (Malm Assistant Key Account Manager, pers. comm., 2 April 2009) Also the technical support and business incentives from IKEA have been another drive for Malm to proceed with IWAY requirements; IKEA is aware of the cost of the requirements and contract negotiations include such costs. As noted by interviews with both IKEA global and local managers in Sweden and Thailand, IKEA usually increases its orders to motivate suppliers against the costs.

Another point that should be noted is that effective IWAY compliance monitoring by IKEA ensured the implementation and necessary corrections in the company. The company employs 12 employees as internal auditors, nine employees for ISO14000, ISO 9000 and for local laws, and three employees for IWAY and IWAY responsible functions with an internal audit team. Also, the company is regularly being audited by a monthly follow-up by the IKEA business team and annual detailed audits by the IKEA S&E specialist. The QA Manager stated that other European customers do not have codes of conduct and even if they do, their audit processes are quite simple. However, from her view, IKEA audits are very crucial and continuous which make Malm record continuous improvement. CSR requirements of other buyers seldom conflict with IWAY requirements; one Japanese customer requested that a first aid kit should not be directly available to the workers and access should be provided under supervision since they think that employees will use medical substances without proper knowledge. However, IWAY requires that first aid kits should be conveniently located to ensure the easiest access. Malm management decided to follow IWAY standard by accompanying it with additional training regarding the proper use of substances included in the kit. (Powattana, IKEA Technician for Malm, pers. comm., 2 April 2009)

6.6.4. Incentives for Malm's Commitment to IWAY

The discussions related to the difficulty of measuring benefits of CSR are more evident for the case of Malm due to CSR implementation is being fairly new in the company. In practice the long-term commitment is the key for realizing benefits, as returns from CSR implementation do not occur immediately. Therefore, the observations cover a shorter time span of IWAY implementation than the other two suppliers.

Clearly, the business benefits of being an IKEA supplier is the most important incentive for Malm, IKEA orders are stable, high in volume and increases with the suppliers' commitment to the business relationship. The company has been producing for IKEA for the last two years and due to increasing demand from IKEA, the company is on the verge of establishing a new production facility. (Assistant Key Account Manager, pers. comm., 2 April 2009)

From the human resources management perspective, the decreases in labor turnover and enhanced employee motivation are other improvement areas that keep Malm on the right track. After IWAY implementation the initial impact was a sudden increase in labor turnover as the employees wanted to earn more by working more overtime in other companies. However, employee satisfaction and efficiency due to shorter working hours increased over time and the majority of employees claim that they do not want to work excess overtime. Instead, they wanted to have time for their private lives. This decreased the internal training costs in Malm, decreased reject rate, and the product quality improved. (Malm QA Manager, pers. comm., 2 April 2009)

The interview with Assistant Key Account Manager on April 2, 2009 shows that the company wants to grow in foreign markets as the company's market penetration has reached satisfaction point in the Thai market. In new markets, being an IKEA supplier is a good reference for other potential customers; she emphasized that;

"Other foreign customers trust us in terms of quality and environment when they know that we are an IKEA supplier" (Malm Assistant Key Account Manager, pers. comm., 2 April 2009)

6.6.5. Malm Employees' Survey Findings

A quick snapshot of survey results from Malm employees confirmed authors' idea that it requires time to adapt internal work environment to IWAY standards as Malm started to work with IKEA and implement IWAY in 2007 and there are some issues that still improving.

Employees' perceptions towards IWAY were confirmed to be positive although 23 percent of them do not know IWAY by name and they claim that they are influenced positively by IWAY. 80 percent of the employees work less than 60 hours. The main improvement areas are work place safety and work environment hygiene as the surveys show that about 50 percent of the employees sometimes feel unsafe. Employees want the company to provide housing facilities, workplace nursery or help with the cost of child care, and improve payment respectively. They are covered by social and medical insurance. Employees are satisfied with the sense of achievement they have obtained from their job and level of respect they see from their supervisors. The majority of employees are proud to work in the company and they confirm that their needs and problems are considered by their employer.

6.6.6. Summary of Findings in Malm

Malm was the largest organization compared to other case companies and it had a strong presence in its' home market by its own line of furniture products. Also the company has briefly been working with IKEA and its code of conduct. When looking at the organizational resources and capabilities, the company used its strength both as a facilitator for IWAY implementation and also as a tool to negotiate upon IWAY requirements. In the case of Malm, IKEA had to work extensively compared to other suppliers in implementing its code of conduct. Business contract had been the major drive for Malm to implement IWAY requirements but in a gradual manner. The interviews with IKEA and Malm representatives confirmed that since 2007 the company had gone a long way but there is still time needed to ensure stronger commitment.

6.7. DIFFERENCES & SIMILARITIES OF CODES OF CONDUCT IMPLEMENTATION

This section explains the differences and similarities of codes of conduct implementation within three supplier company cases. Concerning the length of the business relationship, the authors believe that this is one of the significant causes which affect codes of conduct implementation in different ways. While Malm had started its business relationship with IKEA in the past few years, this might affect the relationship with IKEA into formal form, while Ceramika and Steella have closer and informal business relationships.

Simply, the authors see codes of conduct development as Figure 9, Steella has its own CSR policy within the company which was initiated by the President. Malm has complied with ISO 14000 and ISO 9000 prior to business with IKEA. While some CSR policies have existed in these two suppliers,

Ceramika had no prior CSR policy, but this is neither a serious issue nor barrier to code of conduct compliance. After the buyer introduced codes of conduct requirements, all three suppliers provided commitments to the buyer, adapted and developed their internal management towards MNC requirements.

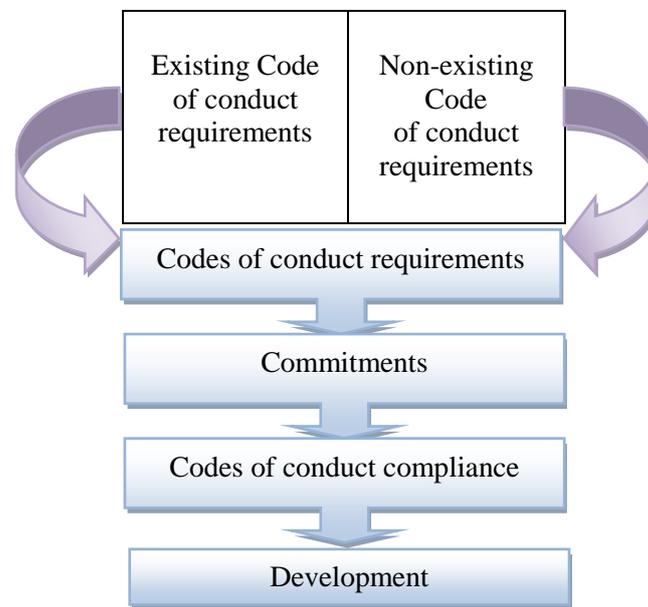


Figure 9: *Suppliers' Code of Conduct Compliance Development Process*

Source: Author's own

7. ANALYSIS

The purpose of this section is to compare and contrast the theoretical framework with empirical analysis in five major steps. First, the overall codes of conduct compliance characteristics shall be discussed. Second, general analysis based on the preconditions in MNC and supplier sides will be exhibited. Third, process variables which are existing CSR initiatives of buyer and supplier will be discussed. Fourth, the analysis of MNC codes of conduct management shall be discussed according to empirical findings. Fifth, case studies of three supplier companies shall be analyzed in order to find similarities and differences. Finally, the processual conceptual model of CSR and SCC shall be exhibited to demonstrate drivers and incentives that ensure suppliers' long-term commitment to the MNCs' supplier codes of conduct.

7.1. OVERALL SCC COMPLIANCE CHARACTERISTICS

Before going into detailed analysis of driving factors, a general assessment of case supplier company compliance behaviours is provided utilizing the three major elements which are *Performance-driven behaviours*, *Stakeholder-driven behaviours* and *Value-driven behaviours* as shown in Figure 10.

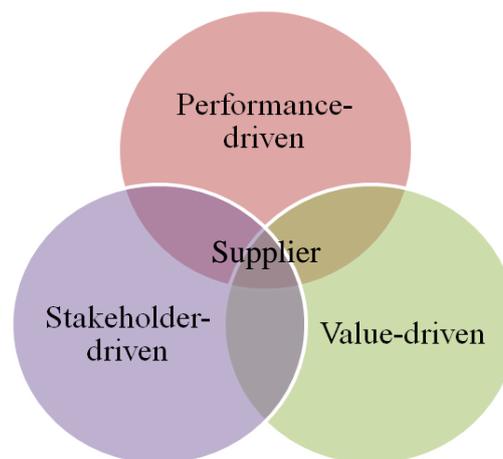


Figure 10: Codes of Conduct Driving Factors

Source: Authors' own

With *Performance-driven CSR*, the buyer would generalize its business incentive in terms of product orders when suppliers maintain and develop their code of conduct compliance. This is the main driver the authors observed for the suppliers and it is the most effective way when compared to the other financial support methods which might spoil and might be the wrong way to help suppliers. According to stakeholder theory for *Stakeholder-driven CSR* (Hawkins 2006; Phillips et al. 2003; Wallace 2003), it states that stakeholders with an inclusive approach to CSR would bring an increase in business performance, enlarge wealth of stakeholders and add value. In these three cases, many

stakeholders in the code of conduct complying process show their roles to push and support suppliers in the different ways. The buyer, IKEA, is the major driver among other stakeholders as IKEA creates main requirements. Buyer does not only support knowledge and information to suppliers, but also provides suggestions when they face problems. Another stakeholder, the Thai government, plays a fundamental role in encouraging CSR policies as Thai law sets the minimum requirements and performs audits. This could be confirmed by the Kraisornsuthasinee and Swierczek study (2006) which stated that the majority of Thai companies have the legal compliance as the basis for CSR.

Value-driven CSR can be explained by the buyer and suppliers having the same goal congruence as Pedersen and Andersen (2006) had explained earlier. IKEA and its suppliers made a joint investment in environmental friendly machinery and buyer-sponsored training at the supplier site to realize the benefits of codes of conduct. Both buyer and supplier would like to improve in all aspects of business performance with high quality and low cost production while compose high commitments on social and environmental responsibility. Since they have the same ethical background, this is a good start when they negotiate business and codes of conduct requirements. This phenomenon could be one of the explanations in many ethical theories. (Vardy & Grosh 1999; Solomon 2002; Blowfield & Murray 2008) When suppliers could manage their commitments on codes of conduct, other buyers also have higher confidence with supplier internal management and finally, the new business agreement would follow as a benefit.

7.2. GENERAL ANALYSIS; Base Variables

This section aims to explain the relationship between general conditions in empirical observations that are found to be influential in effective SCC implementation. It is based on two elements; previous CSR practices and standards in buyer and supplier companies and local business contexts and culture in buyer and suppliers' home country.

7.2.1. Local Culture

Chapple and Moon (2005) and Welford (2005) explain that at a national level, there is substantial variance in cultural contexts which is reflected by the level of endorsement of CSR and the types of activities promoted by firms in particular countries. In Thai culture, philanthropy activities seem to be preferred by many companies, such as the donation to children or victims from deluge. Even though philanthropic activities were not mentioned in these three case studies, they could prove their commitment to the buyer code of conduct requirements. Overall working environment in Thailand is open for foreigners. This has literally been confirmed by the President of Steella who is a foreign investor. Thai people, by root of culture, adapt to changes and are willing to alter their practices from new suggestions. In this CSR context, Thai people do not show high resistance towards international standards from the buyer. The question here is not "*why* I have to change", but rather "*how* I should change". Suppliers' corporate culture which supports CSR policies is embedded in the management philosophy and they are able to absorb codes of conduct easily.

7.2.2. Local Business Context

It is also empirically proven that economic development in a country directly influences the economic actors' CSR awareness in that country. (Bondy et al. 2004) This could be attributed to the fact that in developed economies, economic actors may see their responsibility beyond their economic and legal responsibility to the society but they are able to identify their ethical responsibilities as well which is exhibited by Figure 1. Sweden being a highly developed country, the IKEA is one of the highlights in

the global business arena in business responsibility matters. With the same logic, Thailand-based suppliers who operate in the developing Thai economy are receptive to imposition of CSR requirements. However, they are comparatively less proactive than the buyer company.

7.3. SCC IMPLEMENTATION ENABLERS; Process Variables

This section explains the existing preconditions found in buyer and supplier organizations prior to the SCC implementation. From the buyer's perspective it is reasonable to conclude that previous internal practices and standards are profound confirmation of the company's dedication to CSR as the initial CSR actions date back to 1989. In supplier companies visited, even though the codes of conduct by buyer did not exist before, two of them had their own CSR policies, such as 10-minutes-breaks in Steella, ISO 14000 and ISO 9000 in Malm. Although the IKEA CSR requirements were radically more demanding, supplier companies had a smoother transition since they have been experienced in CSR implementation; they hired an IWAY responsible person, production workflow and factory organization were rearranged for safety reasons. Employee training gained higher importance and suppliers' management dedicated more time and resources to that area.

"I have been working here for more than 10 years. There is 10-minutes-break for every two working hours, excluding lunch break. I can say that this company provided good working conditions even before IWAY was implemented." (Steella Employee, pers. comm., 31 March 2009)

7.4. DRIVERS FROM MNC PERSPECTIVES; Buyer Initiatives

Per research questions this section together with the following section regarding suppliers' drivers comprises the nucleus of the analysis. The first research question *"From an MNC perspective, how can supplier codes of conduct be effectively implemented in global purchasing particularly from social and working conditions aspects?"* will be answered in the following explanation to the issue which are based on the literature and empirical investigation exhibited throughout this paper.

7.4.1. Prioritizing CSR in Business Relationship

In the CSR literature it is often suggested that successful CSR practices needs to be supported by strong business alignment and CSR has to be incorporated in to the business practices at the strategic level. (Johanson & Vahlne 2006) According to the IKEA supplier evaluation process, the very first order cannot be realized unless the supplier satisfies the IMust requirements in the IWAY staircase model. Moreover, IWAY approval is a precondition for the long term business relationship. In short IWAY is at the core of the business for IKEA and this has clearly been communicated to the suppliers.

"I cannot motivate them more than business can do; we have the business for them, in order to get the business they need to do things that we require mainly IWAY..." (Sirisa-ard, IKEA S&E Specialist, pers. comm., 19 March 2009)

7.4.2. Organizational alignment

Socially responsible practices require an organizational mindset and infrastructure especially in the purchasing departments, among other functions. It is essential that either party in purchasing are in collaboration with CSR practices to ensure the mutual commitment to common CSR policies. (BSR 2007) As the authors have been informed by the supplier, the commitment of codes of conduct would not happen if the buyer would not follow up the actual practices. Not only the buyer generates policies and guidelines, the buyer transfers its knowledge and expertise in certain issues to cooperate with

suppliers to fulfil CSR requirements. This phenomenon can be confirmed by the agency theory, (Holmstrom 1979; Boyacigiller 1990), that the monitoring activities conducted by buyer would increase the information about the supplier behaviour and, therefore, raise the CSR implementation by the supplier. IKEA has a global and local approach to its CSR; all the employees in the global supply chain are bound to study codes of conduct requirements in intranet and they are trained by a CSR specialist afterwards. The company cooperates with global organizations and NGOs such as Unicef and WWF. At the same time the company employs local staff in trading areas whose role is to transfer global standards to their region and support and ensure IWAY implementation. Additionally, the sustainability manager Thomas Bergmark of IKEA has important role between corporate codes of conduct and its business activities. His responsibilities have an influence on business by social and environmental strategies and directives to the group. On a local scale a TSO S&E specialist is in close cooperation with the business team and she can influence business decisions according to IWAY performance of suppliers.

In a buyer supplier relationship, the most important issue is, of course, the continuity and health of business relationship. It is the whole purchasing department's job to keep good relations with the supplier and make sure that business requirements are being followed. In IKEA it has been observed that CSR implementation follow-up is one of the business team's responsibilities; they visit suppliers at least twice a week for mainly business reasons. However, at the same time they always have to take care of the CSR requirements. In global supply chains, there is a continuous competition among local suppliers to increase their share of orders from the buyer. Their competitiveness is determined by buyer criteria and their performance has been closely tracked. In IKEA, together with the major criteria such as price, delivery, and quality, suppliers are evaluated according to their IWAY implementation performance and they have to show continuous improvement.

7.4.3. Implementation Approach

Another vital aspect in ensuring the success of CSR implementation is the methodology by which the CSR practices are being carried out. In buyer supplier relationships initially, it might be overwhelming for suppliers to be left alone and deal with a long list of requirements. They need encouragement and support from the buyer company to start investing time and money and as illustrated by the case companies they need guidance from the buyer. Therefore, the implementation methodology is as influential as the content of the requirement in developing suppliers' compliance to CSR requirements. During the supplier contacts it has been noticed that there are mainly two aspects of IKEA codes of conduct implementation methodology that are appreciated by suppliers. IKEA suppliers are subject to fulfilling a long list of requirements in order to become IWAY approved. During the interviews it has many times been communicated by suppliers that IKEA CSR requirements are the most detailed and demanding when compared to their other international buyers. Therefore, it is reasonable to expect that suppliers cannot immediately implement all the list of requirements. However, if the buyer has a naive approach it is also reasonable for suppliers not to commit to buyer CSR policy as much as they are required to. Therefore, suggested procedure for suppliers to implement CSR policies requires patience from the buyer but implementation has to be accompanied by efficient monitoring so that suppliers do not deliberately go beyond the scheduled time. Moreover, after reaching the IWAY approval level suppliers have to keep that level which is also closely monitored by follow up audits. As illustrated by IKEA supplier evaluation process IKEA follows a *gradual but firm* CSR implementation process which makes costly requirements such as 60hrs/w feasible in a reasonably short period of time.

i) Close Communication & Monitoring

Auditing is one of the strongest arguments in ensuring supplier compliance to CSR policies and it can either encourage or discourage suppliers. Done in an effective way it shows buyers seriousness about CSR requirements and problem areas can be addressed easily. Done in an inappropriate way it gives incentive to suppliers to cheat and hide the real conditions. However, as suggested by our observations, buyer representatives have to establish close communication and contact with the supplier company and have an idea about the supplier's issues regarding CSR standards. Employees in IKEA Thailand TSO make it very clear that they have a strong relationship with their suppliers and there is open two-way communication. When the supplier has a question regarding codes of conduct requirement, supplier is able to ask and get support from buyer promptly. As they are the same team, buyer always provides information and solves that solution for buyer. IKEA, works as the same team as well. IKEA does not give all code of conduct responsibility only to S&E specialist, but also the business team members work together with an S&E specialist and have responsibility to ensure that suppliers comply with codes of conduct. Audits carried out in such environment are seen to be efficient as the auditor has prior knowledge about the situation. Also audits by third party professionals are essential in ensuring the quality of buyers' auditing practices.

"We try to transfer the responsibility to suppliers but how to implement our requirements is up to them. We do not impose any methodology about any particular standard but we can give advice if required" (Sirisa-ard, IKEA S&E Specialist, pers. comm., 19 March 2009)

7.4.4. Resources & capabilities

There is no doubt that CSR implementation requires tremendous efforts and a strong resource base for any organization regardless of whether it is a MNC or a local small size company. From the buyer's perspective, which is IKEA in this study, effective CSR implementation procedures are being developed and communicated by internal and external experts; the company has its environment specialists to formulate the requirements and implementation procedures, employs local and global S&E specialists to calibrate implementation, and uses external advice by working with international organizations and consultancy companies such as KPMG and PricewaterhouseCoopers. IKEA also have a strong knowledge base accumulated via diverse experiences in various countries during the codes of conduct implementation which serves as a free consultancy for current and future IWAY implementation. The interview with the IKEA Manager in Thailand reveals the importance of a resource base to deal with CSR issues;

"In IKEA we have the flexibility to adapt our resource allocation to emergencies; if our standards require expertise our global team comes to support us, if supplier production capacity is below our needs we can rotate our resources to find a timely solution" (Ceraolo, IKEA Material Area Manager, pers. comm., 3 April 2009)

7.4.5. Effective & Long Term Business Planning

In CSR literature it is suggested that successful CSR implementation should be facilitated by including it in long-term business strategy. This way companies guarantee the effective implementation and long term benefits will follow along the way. (Jiang 2009; Krause 2007; Nordberg et al. 2003) In the buyer company business planning is executed by a product development flow which refers the different stages of product development, production and distribution. The contract checklist includes all the stages in the flow and CSR requirements are an essential part of it.

This document was later approved by a trading area manager, the supplier manager and buyer company product development centre. In short, CSR is incorporated in the entire production flow; from product development to distribution. This way, CSR requirements are not seen as time-consuming and costly standards but instead they are seen as a natural part of the purchasing process. With an effort to establish strong business relationships, MNC puts greater emphasis on long-term planning in purchasing. As a part of such efforts, MNC invests in supplier training and sees their suppliers as a part of their purchasing organizations. The President of Steella states that IKEA and his company do not see each other as just buyer and suppliers but they are business partners that they can rely on every time. Such efforts result in stronger supplier commitment to any kind of requests including CSR.

“We don’t see IKEA as a customer, but we are a team and IWAY ensures our team to go ahead safely” (Steella President, pers. comm., 30 April 2009)

7.4.6. Buyer Bargaining Power

In a buyer supplier relationship there is no doubt that initially the buyer has a stronger position since it is the one that starts the business contact and has potential to provide profit to the supplier at the end of orders. In the international business context, the power of the buyer is beyond the simple buyer-supplier relationship; there are many opportunities involved for the supplier such as reputation, international expansion, capacity and capability development which are discussed in the other parts of this study. Therefore, in international buyer-supplier relationships, buyer has a vitally strong position to assert its CSR requirements and suppliers have higher incentive to implement these requirements. In the cases of the companies the authors visited, two of their production capacities, Ceramika and Steella mainly devoted to the IKEA production (Approximately 70 percent); and Malm is increasing its capacity to meet the increasing IKEA orders. Therefore, buyer requirements including CSR are very influential and they are handled seriously by the suppliers.

7.4.7. Business Improvements

Despite the fact that in a buyer supplier relationship the buyer usually has a more proactive role, the long-term business gains should be addressed to understand the firm behaviour as both the buyer and supplier are primarily interested in business gains. From observations it is confirmed that hardships regarding the measurement of CSR gain are more applicable to an MNC structure since the organizational boundaries make it difficult to assess the improvements over a long-time period. However, like many MNCs, IKEA has been subject to harmful media publications in the past regarding the working conditions of its supplier and such situations are handled as first priority issues. Therefore, it is reasonable to say that investing in socially responsible behaviour development in its suppliers could be regarded as long term investments in a company’s public image which is an increasingly important contribution when the increased public CSR awareness is taken into consideration. Additionally it is clear that being a socially responsible MNC is a source of reputation for external stakeholders especially the customers who increasingly express their awareness and protests to the unethical practices anywhere in the world.

7.5. DRIVERS FACTORS FROM SUPPLIER PERSPECTIVES; Supplier

Drivers & Incentives

The second core element of this analysis lies in the suppliers’ actions and responses towards an SCC imposition from the buyer. This part is particularly important in answering the second research

question “*From a supplier perspective, what are the drivers and incentives that ensure their long term commitment to the MNC’s supplier codes of conduct?*”

7.5.1. Business Relationship & Trust

For the effective implementation of CSR it is essential that it is integrated in the mutual business understanding in buyer-supplier relationships. Therefore each party in the business relationship would see CSR as a driver for business success which in turn increases their commitment. The agency and network theories emphasize the importance of trust for the sustainability of business success (Johanson & Mattson, 1987; Petersen 1993; Pedersen & Andersen 2006). The observations led us to conclude that a business relationship with the buyer is the major driving force for suppliers’ initial positive response to SCC requirements. As confirmed by three suppliers, IKEA orders are stable, large in volume and progressively increasing which guarantees their long-term SCC commitment. The authors observed that buyer-supplier encompass a high level of trust with Ceramika and Steella due to the fact that they have initiated the business relationship for more than 10 years and moderate levels of trust with Malm since their relationship still immature. However, mutual trust has been built over time with increasing mutual commitments; supplier committed more resources in buyer CSR requirements and in turn a buyer has given more orders. IKEA Sustainability Manager also confirmed that “*Everything is about trust and transparency*”.

Another aspect of business relationship based incentives is the contract duration and future business prospects. As said by representatives of suppliers, in such an environment business IKEA order contracts are long term which ensures the future business activity. Therefore suppliers are inclined to commit their business relationship with IKEA and its’ CSR requirements since future business prospects are vital for their success and growth.

“We sign capacity commitments with suppliers so they feel secure when making investments regarding our CSR requirements.” (Ceraolo, IKEA Material Area Manager, pers. comm., 3 April 2009)

7.5.2. Supplier Organizational Alignment & Management View

Theoretically, it has been discussed by many scholars that opportunism plays as a main barrier in buyer-supplier relationships since it contains a lack of honesty, a tendency to distort and mislead, cheat and not deliver the promised action on a systematic basis incentive. (Pedersen & Andersen 2006; Utting 2000) The supplier wants to gain maximum profit in its business activities by resistance and making fake records. However, following the buyer alignment, suppliers in global supply chains have to exhibit their responsibility by their allocated resources towards CSR practices. This is possible by ethical approach by the supplier management to the everyday business. The supplier-management initiative starts from a responsible spirit which indicates ethical behaviour. Many ingredients combine in this characteristic. Orlitzky et al. (2003) state in their study that unethical behaviours damage both reputation and financial image of the suppliers as the codes of conduct non-compliance would bring business repercussions. During the empirical studies it has been observed that the buyer company requires suppliers to organize production and workflow in such a way that people and the environment have not been harmed during the process. The three studied suppliers have goodwill to take responsibility and commitments by the top/middle management at the outset. The suppliers do not perceive CSR as a cost at all. Suppliers’ ethical behaviour contain voluntary basis by which they want to go beyond law and legal obligations along with eagerness to improve overtime. By analysing ethical theories from Kakabadse et al. (2007), the authours discovered that

the suppliers explored consequentialist ethics by focusing on the consequences of an individual's action and evaluate the morality of that action according to its result. Utilitarianism is also used when a supplier assesses the ethical quality of a judgement by its consequences which is confirmed by both buyer's and suppliers' sides. This can be explained by the phenomenon that when suppliers see the benefit from complying with codes of conduct, they are willing to follow that requirement, such as water treatment and waste management. Thus, this demonstrates that suppliers have virtues ethics as Vardy and Grosh (1999), Solomon (2002) and Kakabadse et al. (2007) described.

7.5.3. Supplier Resources & Capabilities

To ensure the suppliers capacity to cope with business and CSR requirements; IKEA has a detailed supplier evaluation process where the past business, financial and factory performance are reviewed. In the empirical observations the authors have seen that all three case companies were strong local companies and they did not have severe issues in implementing IWAY. Particularly, the authors believe that suppliers, which are proactive and own high capabilities of machinery and human resource, shall experience more accelerated codes of conduct compliance. Skills and knowledge might be another set of critical resources. For example, the QA Manager at Malm had experience with responsible CSR policies with her previous employer in the automotive industry. Such experience eased her task since she had previous understanding in CSR areas. The authors also observed that all three suppliers utilize a satisfactory amount of technology resource and the internal infrastructure system is not a barrier to implementing codes of conduct. They have moderately good communication systems including the Internet and telephone.

7.5.4. Supplier Business and Work Environment Improvements

In the theories the authors studied it is generally argued that one major impediment for companies' motivation for CSR implementation is that the gains from CSR are difficult to measure as there is no practical measure. Also, the CSR standards make improvements in many areas that are usually tightly integrated and it is hard to distinguish the source of improvements in such an organizational structure. Moreover, the benefits from CSR are realized rather over a long time span which might cause confusion to the source of improvements when they are realized. However, in this study it has been a point of focus to marginalize the long term incentives from CSR as it is the most important and effective drive for CSR implementation in the long term. As the organizational boundaries and business cycles in suppliers are relatively shorter than MNC it has been practical to observe gains from CSR implementation in the suppliers the authors visited. As claimed by IKEA sustainability Manager Thomas Bergmark, most important improvement from CSR for the suppliers is;

“Increase in productivity and profitability because implementing IWAY seriously will make suppliers understand the benefit from it” (Bergmark, IKEA Sustainability Manager, pers. comm., 13 March 2009)

The first improvement area to be addressed is production flow quality and efficiency advancements. Such improvements are a result of suppliers' efforts to encompass cost aspects of CSR requirements by alternative solutions. For instance when case suppliers have been bound to work 60hrs/w all of the suppliers' managers confirmed that they reviewed their production flow to eliminate bottlenecks and waste areas so that they can produce the same amount as before. Such practices have led a leaner and more efficient production flow which benefited the companies during their current and future production activities. To mention the other direct benefits, the reject rate and quality have been improved.

“Suppliers can benefit from creating better production floor, production order, creating better conditions for the people, decrease quality problems”

It boils down to what it has to be about at the end of the day: business. It has to be about improving conditions in the factories, for people and the environment, and at the end of the day also improving the productivity and competitiveness of the suppliers.”²²- (Bergmark, IKEA Sustainability Manager, pers. comm., 13 March 2009)

Improvements in labor turnover, employee satisfaction and motivation are an indirect outcome of increasing labor standards due to SCC implementation. Usually, the supplier has been providing equal quality production environment as the other companies in the region. When IWAY was introduced the internal improvements have increased the overall quality in the work environment which resulted in higher employee productivity and increased loyalty to the employer. Also sometimes IWAY has gone beyond the local law in setting standards; according to Thai law employers are allowed to discriminate among different ethnicities and religions but such discrimination is abolished by the very first step of IWAY requirements.

“Even though I am an immigrant from a neighbour country, I receive a minimum wage and other welfare at the same amount as Thai employees... I do not feel any discrimination in this company. The supervisor treats me the same as everyone else. ” (Malm Employee, pers. comm., 3 April 2009)

The third improvement is strengthening of relationship with the buyer. As the suppliers go along with the CSR requirements their internal production and product quality is automatically known to the buyer. Then when the buyer has more demand, the orders are directed to those suppliers with high quality processes and products. It has been confirmed during the interviews that the buyer company has a great tendency to increase its orders as the supplier company achieves a good track of CSR implementation. In many suppliers' cases IKEA is the major buyer company with orders of over 50 percent of entire production capacity. Therefore, it is of utmost importance that the supplier company can build and maintain trust with IKEA since its orders are of vital importance. In cases where the production is a small portion of total capacity, suppliers are still prone to implement IKEA CSR requirements as being an IKEA supplier is a very good reference for other international buyers. The fourth improvement addressed in this study is work environment developments. This is the most direct form of gains from CSR implementation that are observed during the case studies and previous studies (Impactt Overtime Report, 2005) which occurred in the form of physical improvements in the production lines. The supplier employee interviews and surveys confirmed that there have been considerable improvements in their work environment such as their work safety, work environment cleanliness improvements which resulted in increased employee motivation and loyalty.

“Since IWAY was implemented in this company, I feel that the working safety and cleanliness has increased, it makes me more comfortable in working for this firm. Moreover, in the previous company, if I get injured, no one would take care of me, in this company, there is a nurse standing by at the factory every day to treat us and the company will take responsibility for such expenses. ” (Stella Employee, pers. comm., 31 April 2009)

“The company is very strict about our safety which differs from my previous company where they would never care on this point. ” (Ceramika Employee, pers. comm., 24 March 2009)

²² Roberts (2007)

7.6. CONCEPTUAL MODEL ANALYSIS

In this paper after reviewing the extensive literature which is followed by empirical observations, an understanding about the supplier commitment development has been developed. Causalities and relationships among different parties and concepts have been analyzed carefully to ensure the soundness of analysis. In this section, the authors develop and discuss significant factors that encourage suppliers' commitment to codes of conduct. As has been mentioned earlier, the purpose of this study is to investigate the factors that influence suppliers' codes of conduct compliance. However, the authors believe that suppliers' commitment to CSR and SCC is a result of a process of various actions by diverse factors involved in buyer-supplier relationships. Therefore the processual model (See Figure 6: Theoretical conceptual model) is developed in the theoretical framework the authors utilized as a guide to explanations but there will be additions to the model which are comprised by empirical observations. Figure 11 presents the modified conceptual model with the same pillars as the previous theoretical conceptual model. This is because that previous understanding of the responsible behaviour development is in line with empirical analysis. However, there are additions to the theoretical model which are previously explained in the analysis part in detail. This section explains the modified conceptual model in Figure 11 and summarizes the analysis. The section is built upon four sub-sections parallel to the each dimension in the Figure 11. The first subsection is base variables which describes the influence of existing preconditions in buyer and supplier environments. The second dimension which comprises the second sub-section is process variables which elaborate the influence of pre-existing enablers in internal organizations of buyer and suppliers. The third subsection is one of the core elements of the analysis explaining the buyer actions and incentives that stimulates suppliers' commitment to SCC. Finally, dimension and the last step in the process of responsibility development of suppliers are suppliers' drivers and incentives.

7.6.1. Base Variables

The first step in our attempt to explain the process of effective SCC implementation is defining the base variables in the buyer and supplier external environment. This step is composed of three elements, the first of which is a local business context and culture. This element explains how the buyer and supplier develop awareness of their responsibility to the environment and their social surroundings. Suppliers which are used to responsibility requirements from local governments are more welcoming towards supplier codes of conduct. Local business context matters as it sets the general market standards and it is an influential reference point in the suppliers' perception towards any CSR standard. The second element is ethical values of buyer and supplier which can be explained on two levels; individual and organizational. Individual level ethical values are individuals' acknowledgement of the ethical requirements while organizational ethics represents company procedures in defining ethical behaviours in business operations. Local culture is also closely related to ethical theory; supplier managers who by nature are caring and obedient are more receptive to CSR requirements than others. The last element is agent-principle conflicts that stem from suppliers' tendency to deviate from buyers' requirements and policies including CSR policies.

7.6.2. Process Variables

This dimension in the processual conceptual model entails the beginning of the CSR initiatives in the organizations; both buyers and suppliers. Both internal and external organizational drives for developing awareness to CSR are exhibited with the aim of defining a strong infrastructure of effective SCC formulation and implementation. Those variables mostly described from the buyer

perspective per the nature of the model are such that; process variables affect buyer CSR awareness and leads them to formulate and implement SCC which were later imposed on suppliers as the final step of the process. The first element is buyer organizational values formed organically within the organization with ethical motives or developed in response to the external impulses such as legal requirements. The second element is stakeholder pressures; stakeholders as individuals or organizations impose their ethical expectations on the buyers which lead buyers to increase their attention to CSR not only due to internal motives but also due to pressures from external actors. The third element is buyers' motives for sustainable business development which finds its roots in stakeholders' explanation as their demands are of vital importance to the business continuity. Hence, buyers who are in close interaction with their stakeholders automatically realize the relationship between stakeholder demands and business sustainability. The fourth element is proactive buyer strategies to incorporate CSR motives to its internal organization and develop a proactive approach to CSR impulses in its' internal and external; environment.

7.6.3. Buyer Initiatives

Buyer actions are basically the resources, tools and mechanisms that are employed in SCC implementation in an effort to effectively persuade suppliers to proceed with SCC standards. The third dimension in Figure 11 shows the list of elements included in this section. The first one; strategized SCC is a key point for success of the SCC implementation. Both formulation and implementation of the SCC should be in line with the overall organizational strategies and business goals so no conflict occurs between business and CSR considerations. The second step is to develop organizational guidelines and procedures which are represented as organizational alignment in the model. In the case company the authors have seen that the company had a long tradition of CSR policy development and business development employees were responsible from implementation of such policies. The approach by which SCC implemented is another key element the authors addressed solely based on the empirical studies. The buyer had a firm implementation approach which is demanding and time consuming but the company used a gradual approach while expecting its suppliers to implement its' requirements. This approach was supported with close communication and partnership between buyer and supplier parties. Based on theoretical explanations on resource base of buyer; the authors can conclude that this has been influential from two aspects; tangible resources allow buyer to overcome financial and workforce devotion to the CSR implementation while intangible resources such as technical expertise help the buyer to easily tackle suppliers' issues with technically demanding SCC requirements. Strong monitoring and safeguarding mechanisms are the final step in supporting and complementing buyer initiatives in implementing SCC effectively.

7.6.4. Supplier Drivers & Incentives

The final step in the process of purchasing from socially responsible suppliers is developing suppliers' commitment to the SCCs. The explanation in this regard is composed of five elements, the first of which is business contract. The empirical analysis led the authors to conclude that the strongest drive for suppliers to accept SCC requirements is to link those requirements to the business relationship and perceive SCC as a part of their business contract and a condition for business relationship continuity. The second step in suppliers' commitment is to align internal organizational structure and procedures in such a way that it accommodates SCC implementation. The authors have seen in three suppliers that SCC responsible employees were given authority and right to implement responsibility initiatives and participate in organizational decision making. The third element is suppliers' resources and capabilities which determine suppliers' ability to respond to SCC requirements, particularly to the ones which are financially demanding.

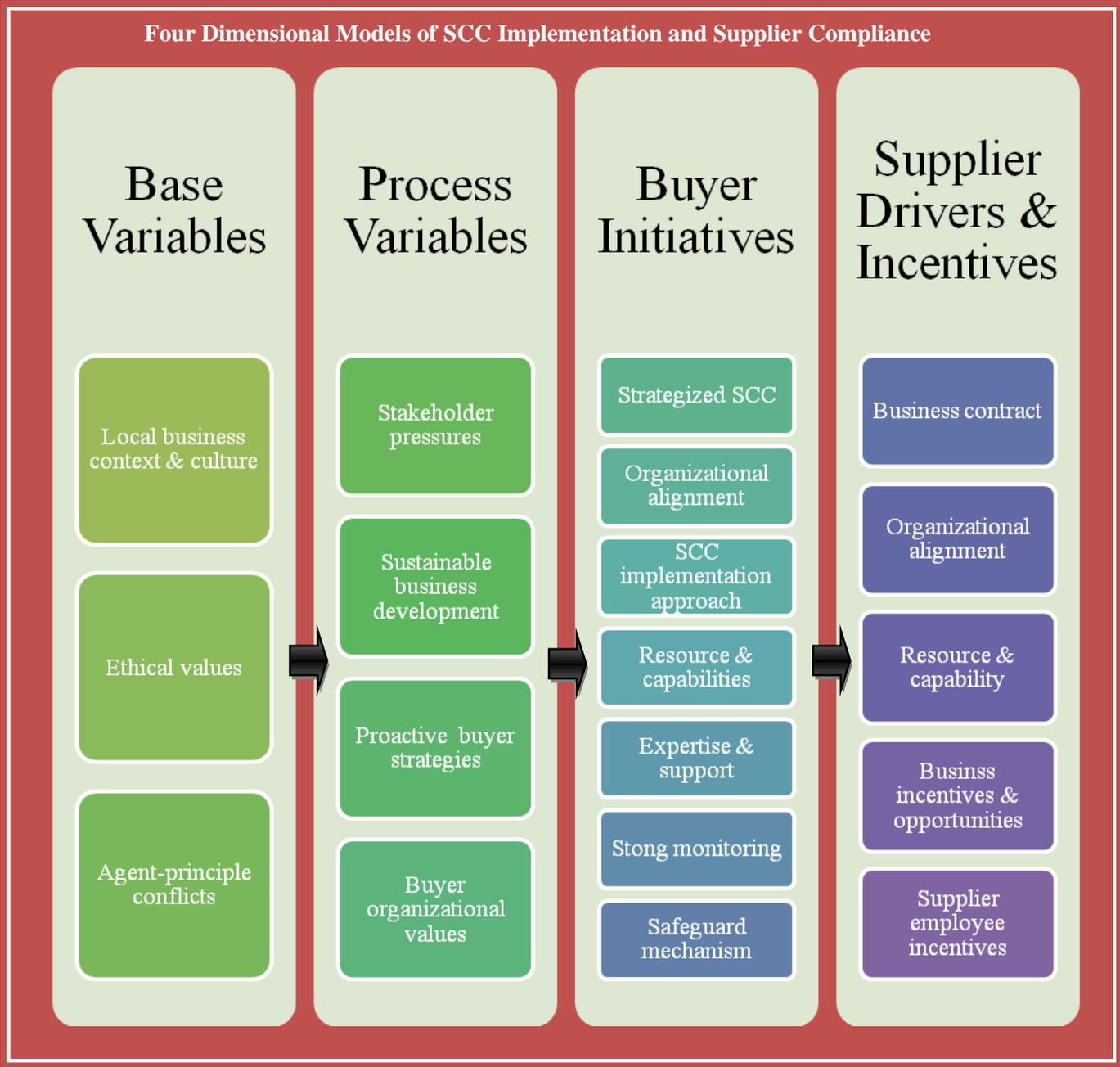


Figure 11: Revised Processual Conceptual Model
Source: Authors' own compilation

8. CONCLUSION

8.1. OVERALL RESEARCH OUTCOME

The instigation of this thesis study began by the authors' interest and MNC initiatives on CSR. The authors observed that CSR scholars focused on many industries mainly in Europe and US, but research in developing countries including the South East Asia region lagged behind. The initial research led the authors to realize that even though many MNCs have their own CSR policies, the implementation of their codes of conduct among suppliers is another issue that it has been overlooked by many scholars in the academic area. The analysis of influence factors that persuade suppliers to comply with MNC codes of conduct could help both MNCs and the supplier side to have better codes of conduct management. The intention of this study was not to audit or identify the incompliance supplier, but rather to identify the influence factors within buyer-supplier relationships in global purchasing activities. By studying academic theories, the authors believe that this would create good fundamental understanding and insights when conducting real company cases.

Utilizing the theoretical comprehension a processual explanation to SCC implementation and compliance has been developed exhibited by Figure 6. This model serves mainly two purposes; first, even though the authors found extensive literature concerning CSR and MNCs' codes of conducts it has been clear that SCC implementation and compliance issues have been perceived as a single event. On the contrary the literary research led the authors to conclude that SCC compliance is an outcome of a sequence of events, joint actions and existing conditions within which SCC stakeholders operate. Second, SCC management and implementation is a relatively new research area as that needs to be flourished by additional research. Thus, to develop a comprehensive SCC implementation and compliance process explanation, general CSR theories and various CSR interpretations are taken as base variables for initiation of the process. Then theories related to actors involved in CSR initiatives, mainly the buyers and suppliers, have been utilized to address their initial position before entering the SCC implementation and compliance process. This step has been followed by buyer initiatives and actions in implementing SCCs, mainly the soft (organizational value creation, goal congruence) and hard measures (monitoring and business repercussions for non-compliance). The final step was to explain the factors that drive suppliers to accept and comply with buyer SCC. Mainly two arguments have been followed, business relationship with buyer and business opportunities with CSR.

This model is followed by the empirical part of the study; IKEA and its foreign suppliers' case in Thailand. The information has been collected via in-depth interviews and surveys from three suppliers, IKEA local office and IKEA manager in Sweden. By focusing on the research questions area, the authors observed that the case MNC's code of conduct is developed in broad scope in an effort to create applicable requirements to every supplier worldwide. However, local staffs in Thailand have great understanding not only of codes of conduct, local law, current situation, but rather the nature of each supplier characteristics and demands which create good solutions and collaboration among MNC and local suppliers. Three suppliers perform their business in different industries, compose different resource and business history background, but when it comes to the codes of conduct management, they, all of three studied cases, reveal that they are performing quite satisfactorily although some issues still exist. However, their motives for SCC compliance is not uniform although some similarities exist; for Malm the business relationship with IKEA is the strongest and the precondition factor while the Steella manager welcomes SCC requirements for foreseen long-term benefits and Ceramika especially emphasizes the work environment and workflow improvements due to SCC implementation. The next step was to compare and contrast the

empirical findings with theoretical comprehension presented in Figure 6 (Theoretical conceptual model). In doing so, the authors have been able to address the influential factors in SCC compliance and modify the conceptual model so as to include empirically suggested factors which are presented in Figure 11 (Revised conceptual model)

The final model (Figure 11) follows the same logic as the theoretical model. However, it includes modification and additions. In the process variables the authors have seen that business organizations regardless of buyer or supplier organizational values and business sustainability motives lead companies to consider CSR initiatives more seriously. However, the major task in SCC implementation is upon buyers who in the first place formulate and implement SCC. Thus, the buyer has to have a more proactive and hands-on role in SCC implementation which can be made possible by strategizing SCC and CSR along with the business goals of the organizations. However, it is acknowledged that such a role requires extensive resource commitment by buyer both from financial and workforce devotion. To remedy this contradiction two suggestions have been developed; long-term internal planning including CSR activities and developing long term relationships with suppliers which will ensure their commitment to buyer requirements including CSR. Buyer expertise and support; gradual implementation approach; safeguard mechanisms and strong monitoring are suggested as additional measures to ensure easier and flawless implementation.

From a supplier perspective it should be noted that SCC compliance is not an outcome of a single variable but they have to consider many factors since SCC compliance is financially demanding and time consuming. Thus, the resource base of suppliers is critical in suppliers' decision of getting on board with SCC implementation. The strongest drive for suppliers is noted to be the business relationship with and business related incentives. As the implementation starts in the suppliers' organization, business processes and work procedures have to be aligned in such a way that they accommodate SCC standards and additional improvements. However, the controversial issue of cheating and deviations from SCC implementation has to be guaranteed by incentives, mainly the benefits from SCC implementation. Thus, direct business improvements with buyer (e.g. increasing orders, capacity and capability improvements) and indirect business improvements (e.g. potential new buyers due to in reputation effect) addition to work environment improvements are suggested as mechanisms to ensure their commitment to SCC. Not to forget employees, this research revealed that employees see both direct (safety, lower employer rotation) and indirect benefits (work-life balance) from SCC.

8.2. CONTRIBUTIONS AND FUTURE RESEARCH DIRECTIONS

As mentioned earlier in the beginning of this research, the purpose of this study is intention to generate knowledge and understanding to both academic and business areas. This section explains contributions for both the mentioned sides on how to exploit the findings to their filed. Furthermore, further research areas will be identified for continued studies in CSR and SCC implementation

8.2.1. Academic Area

This study provides scholars with multiple offerings to be combined with existing research, in order to further enhance the understanding regarding CSR and organizational responses to CSR. The purpose is to develop an inclusive and holistic explanation to CSR by identifying the critical factors that determine and shape business organizations' CSR initiatives based on literature and empirical observations. The initial stance was to develop a supplier side explanation of SCR implementation which led us to focus on MNC initiatives that would motivate suppliers towards their SCCs. The

authors believe that the presented analysis will serve as a roadmap in exploring organizational CSR practices especially in the international business area regardless of the size of the organization. Due to the fact that the gap of codes of conduct compliance research area is still open for future study, this study topic can be investigated in various business industries. The authors have chosen IKEA, the world's largest furniture retailer, as the business case, but this topic can be adapted to be explored in different industry and business contexts. Also this model can be utilized in any study concerning buyer-supplier relationship management as it clearly identifies the respective roles and responsibilities of two parties.

Regarding future research, the suggestions are twofold. First, it would be interesting and soon will be necessitated by increasing external pressures to look at sub-supplier responsibility in emerging issues. Although organizational boundaries of suppliers are covered by MNC SCC requirements, an inclusive supply chain approach will naturally contain sub-suppliers as another group of stakeholders to be controlled in CSR matter. Also, it would be interesting to look at CSR and SCC implementation from a behavioural perspective. During the empirical observations the authors have seen that the initial response of suppliers to the SCC is extremely critical in the following stages of SCC implementation or non-implementation. Therefore, investigation of such behaviours will provide fruitful explanations to the organizational responses to CSR impulses.

8.2.2. Managerial Area

Managers can acquire three main contributions from this study. First, regardless of the nature of the trade an insightful explanation to buyer supplier relationships in the context of international business has been presented in this study. Such discussions may be extremely well suited to any supplier management initiative by minor adaptations parallel to country and business context. Second, this study explains MNC's position in CSR implementation international business which can be regarded as a guideline to cross border initiatives for other MNC's. Third, suppliers' position and corresponding responses are presented so as to provide guidelines for understanding and adapting approaches to supplier preconditions and perceptions.

The most important managerial lesson from this study lies in the title of the paper. This study illustrates a clear picture of how CSR initiatives can be embraced and integrated into organizational practices. The case MNC IKEA showed the authors strong signs in identifying effective SCC implementation methods which can be exploited by other MNCs which are in the quest of adapting organizational policies for their and their stakeholders' responsibility. For the case company it is suggested that SCC implementation success is linked to local personnel's perception and awareness of the CSR among all other strategic and operational factors. So internal training, especially in developing countries, is a key to raise awareness of CSR. Furthermore, although it is a difficult task to measure gains from CSR the presented situation of a case company and its suppliers could be an inspiration to managers in different companies. For supplier managers the most important lesson from this study would be to increase their scope to long-term implications of CSR implementation rather than being blinded by initial costs of it. As proved by three suppliers' cases all the companies benefited from SCC implementation directly and indirectly in various forms. The general but critical lesson suggested by this study to any manager and person involved in any kind of business is to think thoroughly when taking any action and not to miss to seeing the implications of their actions on their surroundings, sustainability of their business, and most importantly the nature, and people around them. Authors would like to dedicate this research to every organization desiring to develop CSR understanding in an international context for the best future world.

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10. APPENDICES

Appendix 1: Responsible Competitiveness Index 2007

RCI Ranking 2007	Country	Responsible Competitiveness Index 2007
1	Sweden	81.5
2	Denmark	81.0
3	Finland	78.8
4	Iceland	76.7
5	United Kingdom	75.8
6	Norway	75.5
7	New Zealand	74.9
8	Ireland	74.6
9	Australia	73.0
10	Canada	73.0
11	Germany	72.7
12	Netherlands	72.6
13	Switzerland	72.5
14	Belgium	71.9
15	Singapore	71.3
16	Austria	70.9
17	France	70.1
18	United States	69.6
19	Japan	68.8
20	Hong Kong	68.3
25	Malaysia	63.7
37	Thailand	60.0
48	Indonesia	56.1
61	Philippines	54.0
108	Chad	35.1

Source: AccountAbility (2009)

Appendix 2: Interview Guide

1. How does IKEA view its obligation to the development of labour and working conditions in suppliers' factories?
2. What are the main factors from IKEA of Sweden to influence and motivate Asian suppliers to become more responsible suppliers?
3. How can the supplier company be responsible of IKEA's code of conduct?
4. Regarding the IWAY implementation, why do you think the resistance from suppliers?
5. What extra measures Does IKEA take to eliminate reluctance and resistance from suppliers exists?
6. When formulating the IWAY standards, does IKEA get input from
 - a. TSO offices and benefit from their local expertise?
 - b. Suppliers when specific standards are needed due to industry or location?
7. IKEA wants to improve suppliers, better compliance and so on. Can you explain to this point?

Appendix 3: Supplier Employee Survey

PERSONAL INFORMATION (Please check in the left column if applicable)

1. Gender

	Male
	Female

2. Age

	12-15 years old
	16-18 years old
	18-24 years old
	25-35 years old
	35-50 years old
	50 years old or more

3. What is your work? Please write below

--

4. What is your highest education?

	Primary School
	Secondary diploma
	High school diploma
	Bachelor level
	Others, please specify

5. How long have you been working in this company?

	Less than 1 year
	1-2 years
	2-5 years
	5-10 years
	More than 10 years

CODE OF CONDUCT PERCEPTIONS

6. Do you know IWAY?

	Yes, very well
	Yes, some
	Not really
	No, I have limited perceptions about IWAY
	No, not at all

7. How do you think IKEA standards in working conditions affected you?

	Very positively
	Positively
	Made small improvements
	Did not affect me
	Negatively

WORKING CONDITIONS

8. In your opinion, does the company provide you with a safe working environment?

	Yes, definitely
	I rarely feel unsafe
	I sometimes feel unsafe
	I usually feel unsafe
	No, I always feel unsafe

9. Do you have reasonable privacy and quietness in your working environment?

	Yes, definitely
	Yes, some
	Yes, little
	No

10. In your opinion, does the company provide you with a healthy and hygienic working environment?

	Yes, definitely
	Yes, some
	Yes, little
	No

11. Do you feel that you are discriminated by the employer?

	No, never
	I rarely feel discriminated
	I sometimes feel discriminated
	I usually feel discriminated
	Yes I feel discriminated

WORKING HOURS AND VACATION

12. How many working hours do you work in a week normally?

	Less than 48 hours
	48-60 hours
	61-68 hours
	69-77 hours
	78- 84 hours
	More than 84 hours

13. Do working hours differ between weekday and weekend?

	Yes
	Usually
	Sometimes
	No

14. How many working hours do you work in a week during the low season?

	Less than 48 hours
	48-60 hours
	61-68 hours

	69-77 hours
	78- 84 hours
	More than 84 hours

15. How many working hours do you work in a week during the high season?

	Less than 48 hours
	48-60 hours
	61-68 hours
	69-77 hours
	78- 84 hours
	More than 84 hours

16. How many holidays do you have a year?

	One week
	8-14 days
	15-20 days
	21days or more

WAGE SYSTEMS

17. Do you get at least minimum legal wage?

	Yes
	No
	Sometimes

18. Do you get compensated for overtime? If yes how much per hour?

	150 Percent of normal hourly wage
	Same as normal hourly salary
	More than 75 percent of hourly salary
	50 percent of normal hourly salary
	If yes, please specify the percentage
	No, I do not get compensated

19. Have you ever been forced to work overtime without payment?

	Yes
	No

20. If you refused to do overtime, did you get fined, punished or did you notice a warning from the employer?

	I have been warned
	I have been fined
	I have been punished
	No, none of the above happened
	Other, please specify

INSURANCE AND WELFARE

21. Does the company provide you with social insurance?

	Yes
	No

22. If yes, please specify

	Industrial injury insurance
	Medical insurance
	Elderly insurance
	Unemployment insurance
	Other, please specify

23. Are you deducted from your wages for each type of coverage?

	Yes
	No

SAFETY AND HEALTH CONDITIONS

24. Have you ever had an accident or injuries due to the production?

	Yes
	No

25. In what circumstances did the accident or injury happen?

--

26. Did the company compensate you for these injuries or occupational diseases related to work?

	Yes
	No
	Sometimes

27. Does the company provide a fire prevention training program to you

	Yes, twice a year
	Yes once a year
	Yes, please specify frequency
	No

28. Do you know where the emergency fire exit is located?

	Yes
	No

WORKING HERE

29. During the past year, have you ever discussed any of these with your supervisor?

	How you are getting on with your job
	Your chance of promotion
	Your training needs
	Your pay
	Other, please specify:
	None of these

30. How satisfied are you with the following aspects of your job?

(1: Very satisfied, 3: Neither Satisfied nor dissatisfied, 5: Very dissatisfied, 6: Do not know)

	1	2	3	4	5	6
The amount of influence you have over your job						
The amount of pay you receive						
The sense of achievement you get from your work						
The respect you get from supervisors						

31. What circumstances do you want the employer to improve?

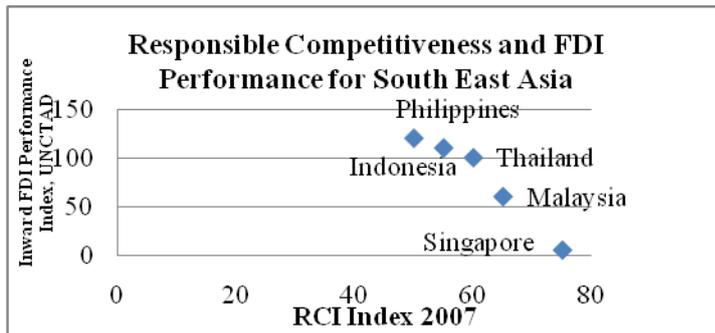
	Safety
	Cleanliness
	Payment
	Fire prevention
	Flexible Working hours
	Holiday and leave
	Providing housing facilities
	Workplace nursery or help with the cost of child care
	Other, please specify:
	None of these

32. Do you agree with the following statements about working here?

	I share many of the values of my organisation
	here are understanding about employees' needs and problems
	People working here are encouraged to develop their skills
	I feel loyal to my organisation
	I am proud to tell people who I work for
	Other, please specify:
	None of these

33. Do you have any final comments you would like to make about your workplace or about this questionnaire?

Appendix 4: Responsible Competitiveness and FDI Performance (2007)



Source: Ibrahim (2007)

Appendix 5: IWAY Standard: Minimum Requirements for Social & Working

Conditions

1. FIRE PREVENTION

a. General

The IKEA supplier shall comply with all relevant and applicable laws, legislation & regulations pertaining to Fire Safety and ensure compliance to specific requirements issued by local authorities, as well as ensure fulfilment of IKEA IWAY specific Requirements stipulated in (b) – (f) below.

b. Fire Fighting Equipment

The IKEA supplier shall have the appropriate and adequate number of fire extinguishers and/or hydrants situated with a maximum distance of 25 meters between fire extinguishers and/or fire hydrants. The fire extinguishers must be easily accessible for co-workers and maintained in good working order.

c. Evacuation Alarm

The IKEA supplier shall have an evacuation alarm in good working order, to notify all employees about smoke and/or fire and to ensure a safe evacuation of the suppliers facility(s).

d. Evacuation Plan

The IKEA supplier shall have an evacuation plan, showing emergency exits, appropriate meeting area(s), and a means to notify or contact fire authorities or fire brigade. In case of an evacuation, the supplier shall ensure that designated persons are responsible for performing a head count to ensure all co-workers have evacuated the building and are accounted for. Evacuation plans shall be placed at appropriate designated locations.

e. Emergency Exits

The IKEA supplier shall - as a minimum - have two independent emergency exits per working area. All emergency exits shall be marked with exit signs that are either luminous or illuminated. The IKEA supplier shall ensure all emergency exit(s), access routes, fire doors and fire fighting equipment are free from obstruction.

f. Training and Maintenance

The IKEA supplier shall have an adequate number of personnel trained to use the fire fighting equipment in each work area, covering all production shifts. The IKEA supplier shall perform fire drills at least once in every twelve-month period. These drills must involve all production shifts. All fire fighting equipment and the evacuation alarm must be checked at least once in every twelve-month period. Records of Evacuation Drills, Training and Maintenance must be maintained.

2. Worker Safety

a. General

The IKEA supplier shall comply with all relevant and applicable laws, legislation and regulations pertaining to internal air quality (fumes, particles and appropriate ventilation), noise levels, lighting levels and temperature levels in the workplace.

b. Personnel Protective Equipment

The IKEA supplier shall provide the appropriate personnel protective equipment, free of charge, to all employees working in any harmful or potentially risky work area(s). The IKEA Supplier must ensure the Personal protective Equipment is maintained. The IKEA supplier shall ensure all employees wear the personnel protective equipment when working in or in close proximity to any harmful or potentially risky work area(s).

c. Machine Safety

The IKEA supplier shall ensure that all machines and other equipment used in production are equipped with the necessary and required safety device in order to prevent personnel injuries.

d. Warning Signs

The IKEA supplier shall ensure that warning signs are posted at designated work area(s), in close proximity to machines and other equipment, and at entrances to such area(s) where such machine(s) or equipment are used. The IKEA supplier shall ensure that all its employees abide by the content of the posted warning signs.

e. Training and Records

The IKEA supplier shall ensure all employees are aware of the safety risks associated with the supplier's production facility. Safety instructions must be available and easily accessible. Employees shall be given the necessary and adequate safety training before operating machines and other equipment (e.g. as one part of an introduction programme). IKEA suppliers shall keep records of training.

f. Washing and Toilet Facilities

The IKEA supplier shall ensure an adequate number of washing and toilet facilities are available for both men and women, and ensure they are maintained.

g. Drinking Water

The IKEA supplier shall provide clean drinking water to all employees. Clean drinking water must be provided, free of charge and within a reasonable distance of the work area(s).

h. First Aid Equipment

The first aid equipment shall be available to co-workers. The extent of the first aid equipment shall be based upon the size of the facility, the extent of the activities performed as well as the potential risk of injury. As a general rule, each floor and each building should have at least one first-aid box.

i. First Aid training

The IKEA supplier shall have at least one first-aid trained personnel present during working hours covering all production shifts.

j. Other obvious occupational safety hazards

The IKEA supplier shall make sure that other occupational hazards of an immediate character e.g. severely damaged staircases, dangerous electrical wires close to workers, big holes in the floor etc are avoided.

3. PROVIDED HOUSING FACILITIES**a. General**

If there is legislation within this area, the IKEA supplier shall abide by legal requirements. The IKEA supplier shall also, when providing housing facilities to its employees, ensure reasonable cleanliness, privacy, quietness, personal hygiene and access to drinking water. No restrictions shall be applied infringing on the employee's right to leave the housing facility during his/her free time. Employees, for whom accommodation is provided, shall be provided with his/her own individual bed/mattress. The living space provided per individual shall be according to the legal requirements, and if there are no such requirements, the average area for each person should not be less than two square metres. Separate accommodations, toilets and showers shall be available for men and women respectively.

b. Fire Safety for Housing Facilities

Demands as per section (1).

4. WAGES AND WORKING HOURS

a. General

The employees at the IKEA supplier should be employed according to legislation and there should be a contract written accordingly. The IKEA supplier shall pay wages to its employees (applicable also to temporary workers, trainees and workers on trial), including compensation for overtime, and working hours in accordance to legal requirements.

b. Working Hours and Overtime

While suppliers to IKEA have to have flexibility in scheduling, weekly working time must not exceed the legal limit. Suppliers shall not require their personnel to work more than sixty hours per week on a regularly scheduled basis, including overtime. Working hours exceeding normal working hours per week must be on a voluntary basis. Employees shall have at least one day off in seven, as well as time off from their job according to existing legislation, local traditions and standards. IKEA can, during extraordinary business conditions, accept that the supplier obtains waivers from the local labour authority to temporarily exceed the maximum overtime hours. The waiver must always be in writing and presented to IKEA upon request. The IKEA supplier shall provide its employees with appropriate time off for meals and breaks. At least one break per day and shift should be 30 minutes or more.

c. Wages

The IKEA supplier shall compensate its employees at a rate at least corresponding to the legislated minimum wage. Wages shall be paid at regular intervals and on time with respect to work performed, according to local legislation. Wages shall be paid at least monthly.

d. Obligations

The IKEA supplier shall provide its employees with all legally mandated obligations to which they are entitled. These could be medical insurance, social insurance, pensions etc.

e. Records

The IKEA supplier shall maintain payroll records pertaining to the documented payment of wages and working hours for each employee, including piece-rate and temporary workers. The IKEA supplier shall make available – upon request - the above mentioned records during the course of an IWAY Audit to confirm adherence to sector (a). The IKEA supplier shall - prior to employment – provide written information to the employee (this also counts for temporary workers) regarding wages and the terms of employment. In conjunction with the payment of wages at regular intervals, the employee shall receive details of the wages, including overtime hours, and other legal or agreed upon deductions.

5. CHILD LABOUR

a. General

Child labour is defined as work performed by children, which interferes with a child's right to healthy growth and development and denies him or her the right to quality education. The IKEA supplier shall not make use of child labour. All measures to avoid child labour shall be implemented taking into account the best interests of the child. The supplier shall sign a document where it is stated that they recognise and abide by IKEA Child labour requirements. The IKEA supplier must abide by the United Nations Convention on the Rights of the Child (1989), and comply with all relevant national and international laws, regulations and provisions applicable in their country of production. The IKEA supplier shall take the appropriate measures to ensure that no child labour occurs at their own place of production or at sub-suppliers place(s) of production. The supplier shall maintain a Labour force register including date of birth for all the workers. The IKEA supplier shall effectively communicate to all its Suppliers, as well as to its employees, the content of the "IKEA Way on Preventing Child Labour".

b. Young Workers

The IKEA supplier shall protect young workers of legal working age, up until the age of 18, from any type of employment or work which, by its nature or circumstances in which it is carried out, is likely to jeopardise their health, safety or moral.

6. Forced & Bonded Labour

a. General

The IKEA supplier shall not make use of forced, prison, bonded, indentured or involuntary labour (20). The IKEA supplier shall allow its employees to freely leave the factory premises when his/her work shifts ends. The IKEA supplier shall sign agreement regarding IKEA's Forced and bonded labour requirements.

7. DISCRIMINATION

a. General

The IKEA supplier shall, as a general principle, base decisions pertaining to hiring, salary, fringe benefits, promotion, termination and retirement on workers individual skills and ability to do the job. The IKEA supplier shall not discriminate with regards to employees based on race, creed, sex, martial or maternal status, age, national origin, sexual orientation or any other basis prohibited by law. At the same time, respect for local culture and religions shall be taken into consideration when evaluating the prevailing situation.

8. FREEDOM OF ASSOCIATION

a. General

The IKEA supplier shall ensure that employees are not prevented from associating freely with any lawful organisation that represents the best interests of such. The IKEA supplier shall not prevent employees from exercising collective bargaining (21).

Note 21: Collective bargaining is defined as negotiations between the suppliers and employees representatives by the own choice of the personnel.

9. Harassment, Abuse and Disciplinary Practises

a. General

The IKEA supplier shall not engage in or support the use of; corporal punishments, threats of violence, other forms of mental or physical coercion, disciplinary actions or engage in sexual harassment.

b. Reprimands and Dismissals

The IKEA supplier shall not make use of public warning and punishment systems. Reprimands for breach of duty or misconduct shall be a private matter between the employer and the employee and/or its representative. The employee at the supplier should have the right to appeal reprimands/disciplinary actions/dismissal. These appeals should be recorded.