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*How do supply companies perceive  
customer company's Ethical Trading practice?  
: A study on the case of IKEA's code of conduct in Vietnam*

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## ***Abstract***

This study explores ethical trading practices in Vietnam. Ethical trading is considered to be a major part of corporate social responsibility (CSR) and emerged partly as a response to anti globalization and anti corporate sentiment especially for multinational companies. Ethical trading means that a company at one part of the supply chain (normally a brand, retailer or other companies with a public profile) takes responsibility for the social and environmental performance at the other stages of the chain, often located in developing countries. This study specifically explores how different actors perceive purposes and implementation of ethical trading practices in supply companies in Vietnam. The case study was conducted on IKEA's Code of Conduct implementation in its Vietnamese supply companies. One study result was that within IKEA's Vietnamese supply companies, people made sense of ethical trading(IWAY Code of Conduct) in terms of both normative values(worker's right and benefit) and strategic and instrumental values.(long term benefit for the company, customers demand) Different variables influenced individual perceptions on what it meant to implement IWAY. Normative values were learnt mainly through IWAY trainings and having contact with IKEA staff. Strategic and instrumental values were gained mostly through benefits they observed and experienced as well as trainings. In everyday conduct of IWAY, especially, managers were striving to achieve high compliance by translating each code to a language that is more socially rooted and agreeable to workers. One notable result in the present study was how people talk about IWAY governing practice (Trainings, Auditing). Trainings and auditing were considered as useful in practical terms. Especially, managers in supply companies were legitimizing having trainings and auditing using only economic reasoning. Moral reasons for improvement of social and environmental conditions were notably absent, known as 'moral muteness'.

### **Key words**

CSR, Ethical trading, IKEA, IWAY code of conduct, sensemaking, normative and strategic CSR.

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## *Preface*

It was one of the development discourses in Korean society that dragged me into the topic of ethical trading as corporate social responsibility. Having been raised in Korea, I was familiar with the idea that long term economic growth comes at the cost of short term individual happiness or comfort. This notion had a historical root in the country that has developed from one of the poorest countries in the world in the aftermath of the Korean War in 1950 to the country now ranking 14th in global GDP. Rapid economic growth started in the 1960s and 70s under the dictatorship of General Park and my parents' generation was used to the rhetoric of work for the country. Overwork was cherished as a patriotic duty to improve the national economy and people endured the hard labor hoping to give a better future for their children. And it certainly paid out with economic prosperity and increased social mobility for the middle class.

Having been through dynamic economic development, Korean society somehow familiarized itself with the notion that economic development always requires harsh restructuring, individual sacrifice for the common good and accepting poor or non-existent workers' rights. In shaping this discourse, corporations, especially large conglomerates, were playing a significant role. Nowadays, this discourse is being repeated in some of the developing countries as well as my own. When thinking about industrialization for economic development, I could not help but question if individuals' happiness and dignity should be negotiated with collective success and also whether it should always be the question of one or the other. This thesis' topic was chosen based on this problem orientation; in the most simplistic sense, whether industrialization in developing countries should always come at the cost of poor working conditions and authoritarian practices in workers' right. This question is also one corner stone for the beginning of ethical trading in global supply chain.

Ethical trading is a product of deliberation between various social actors such as NGOs, consumers and corporate, to make better economic globalization and development based on common ethic that goes beyond political boundaries. I hope by exploring the ethical trading practice, I can be a part of this discussion and contribute to making development with human face.

## •*Abbreviations*

BWI : Building and Wood Workers' International

CMG: Compliance Monitoring Group

CoC: Code of Conduct

CSR : Corporate Social responsibility

ET: Ethical trading

ETI: Ethical Trading Initiative

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

GUFs: Global Union Federations

IFAs : International Framework Agreements

ILO: International Labour Organization

MNC: Multi National Company

MOLISA: Ministry of Labour and Social Affairs

SMCs: Small and Medium Sized Firms

VCCI: Vietnam Chamber of Commercial and Industries

VGGL: Vietnam General Federation of Labour

WTO: World Trade Organization

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# CHAPTER 1: Research Question, Theory and Methods

## *1. Introduction*

"Corporate Social Responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

–The European Commission's definition of CSR-<sup>1</sup>

Corporate social responsibility (CSR) has been attracting significant attention not only from business leaders but also from governments, NGOs and academia. As the definition from the European Commission shows, CSR is a concept that refers to a voluntary approach to ensure ethical business operations in interactions with stakeholders. In this definition, stakeholders mean groups or people who affect or are affected by a company's operations (Freeman 1984). Moving from the narrow shareholder value maximization tactic to interactions with stakeholders in business decision-making is considered to be a crucial part of CSR. Also, CSR is pursued on a voluntary basis since binding legal measures on the international level to govern corporate actions are absent.

Without international compulsory legal requirements in place to define and promote CSR, there have been many studies on what counts as ethical operations of corporations and how they should be pursued (Table 1). This has created multiple interpretations and confusion. This ambiguity was partly a result of information generated by various actors such as NGOs, companies and international institutions. Depending on the priority of the concern and the way of interpretation, CSR has been termed and translated as a manifestation of corporate accountability, stakeholder engagement, green marketing, etc. These multiple interpretations of CSR, as a management tool for corporations, as a development tool for development agencies, and as a workers' rights manifestation for trade unions, made the concept hard to be highly relevant to any organization: "Social responsibility means something, but not always the same thing to everybody" (van Marrewijk, 2003). As a result of this vagueness, the current definition of CSR has been criticized for being unclear and self-serving.

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<sup>1</sup> [http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)

Despite this ambiguity, CSR has been the most widely used concept to encompass all these definitions in which various interpretations of CSR activities are nested; sometimes these definitions compete with each other because of the confusion about the inherent characteristics of CSR. The voluntary and ‘learning by doing’ approach makes CSR a process to find out the best framework for corporate governance and at the same time, a discursive battlefield for different actors when it comes to shaping agendas.

As discussed above, this voluntary and ‘learning by doing’ approach has been adopted in recognition of making practical change in the absence of global regulations as well as in absence of the possibility of enforcement of such regulations on the international level.

“You do not wait for government to pass new laws. You can and should act now, in your own self-interest. The sustainability of globalization is at stake” (Ruggie, 2002). These are the words of the former secretary general of UN, Kofi Annan, when telling business leaders to act. His speech clearly shows his hope that economically, socially, and environmentally sustainable corporate operations can tackle urgent and diverse issues from global warming to human rights protections and that this can be achieved by immediate action based on the learning by doing approach. His speech also shows that practicality overrides ideology in CSR discourse. This study was designed based on the same notion and approach.

This study inquires into what practices work best to create a better CSR standard for the future instead of what is the right way of defining CSR universally. Exploring CSR in practice on a micro level will be a stepping stone to learn what CSR is and how CSR should be. This study is thus aimed at exploring the way the CSR principles are interpreted, implemented and sometimes negotiated in practice with different actors involved in the process in practice.

This study specifically highlights ethical trading (responsible buying and supply management ) as a CSR practice. The main research question to be explored is how different actors (CEOs, managers and workers) make sense of ethical trading practice in supply companies. The case study of IKEA’s Code of Conduct practices (IWAY: The IKEA Way on Purchasing Home Furnishing Products) in its supply chain was conducted to explore this question. The focal point of the analysis is perspectives from different actors in supply companies. This thesis begins with a chapter discussing what is ethical trading and why it is necessary to conduct the contextual study on perception of people in order to investigate the effectiveness of CSR practices.

How IKEA's ethical trading practice was selected for the study will be elaborated together with the research aim and question. A theoretical discussion chapter will introduce two main views on the emergence of CSR. Because of different ways of interpretation, it was necessary to track down the emergence of CSR and clarify each related term in the thesis. How the idea of ethical trading evolved is also inseparable from the emergence of the concept of CSR as a whole. Next, the methods section presents the researcher's ontology and epistemology in writing the thesis. The field study part accounts for data collection, case representation and empirical findings. The final section contains conclusions drawn from the data analysis.

<b>Table1: Multiple interpretation of corporate social responsibility(Amaeshi and Adi, 2007)</b>	
<b>Interpretations</b>	<b>Authors</b>
Business ethics and morality	Stark(1993), Freeman(1994), Bowie(1998), Phillips(1997,2003), Phillips & Mardolis (1999), Fülöp et al.(2000)
Corporate accountability	Owen et al.(2000), O'Dwyer(2005)
Corporate citizenship	Carroll(2004), Matten&Crane(2005), Andriof&Waddock(2002)
Corporate giving and philanthropy	Carroll(1991,2004)
Corporate greening and green marketing	Hussain(1999), Crane(2000), Saha&Darnton(2005)
Diversity Management	Kamp&Hagedorn-Rasmussen(2004)
Environmental responsibility	DesJardins(1998), Rugman&Verbeke(1998)
Human rights	Cassel(2001), Welford(2002)
Responsible buying and supply chain management	Drumwright(1994), Emmelhainz&Adams(1999), Graafland(2002), Amaeshi(2004), Spekman et al.(2005)
Socially responsible investment	Warhurst(2001),Jayne&Skerratt(2003), Synnestvedt&Aslakesen(2003), McLaren(2004)
Stakeholder engagement	Freeman(1984,1994), Donaldson&Preston(1995), Andriof et al.(2002)
Sustainability	Korhonen(2002), Amaeshi&Crane(2006), Bansal(2005)

## ***2.Focus Area: Ethical Trading as Corporate Social Responsibility***

While there are various CSR programs in practice, ethical trading is a focus area for analysis in this thesis. Fabig and Boele (1999) claimed that the CSR debate is a manifestation of a global ethic that is being demanded in a globalized world. The principles of ethical trading are in line with the same notion that there are certain values that should not be compromised.

“Ethical trading (or sourcing) means that a company at one part of the supply chain (typically a brand, retailer or other Western company with a public profile) takes responsibility for the social and/or environmental performance at other stages of the chain, especially for that of primary producers.”<sup>2</sup>

The idea of ethical trading emerged as a response to the anti-corporate globalization and anti-sweatshop movements. In the wake of globalization, corporate outsourcing and purchasing in developing countries became a common cost reduction strategy. Firms seeking cheap labour moved production from one place to the other. As profit maximization through cost cutting became a mantra for business operations, social and environmental issues in its supply chain were often neglected. Many ‘sweatshops’, characterized by poor and dangerous working environments were found in MNCs supply chains. These sweatshops fuelled public debates on what should be done to prevent human rights abuses in global supply chains. There has been deliberation between different actors such as MNCs with high brand value, NGOs and trade unions. (Blowfield, M.2002) This discussion is what leads to the beginning of ethical trading.

Ethical trading covers fair trade and ethical sourcing practices, and can be categorized into several different programs. Fair trade emphasizes fair pricing in agricultural products in sourcing practices between big corporations and small farm owners in developing countries, together with reasonable working condition for workers.<sup>3</sup> Ethical sourcing normally focuses on the social and environmental performance in MNCs’ supply chains in developing countries. In spite of the slightly different focus areas, ethical trading is being used as the umbrella term to refer to these activities.

Ethical trading practices normally revolve around the Code of Conduct. A Code of Conduct is a set of voluntary regulations that works as a guideline for action not only for MNCs’

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<sup>2</sup> BLOWFIELD, M. (2003) *Ethical Supply Chains in the Cocoa, Coffee and Tea Industries*. Greener Management International. Greenleaf Publishing.

<sup>3</sup> "fair trade" *A Dictionary of Economics*. John Black, Nigar Hashimzade, and Gareth Myles. Oxford University Press, 2009. *Oxford Reference Online*. Oxford University Press. Goteborg University Library. 23 August 2010 <<http://www.oxfordreference.com.ezproxy.ub.gu.se/views/ENTRY.html?subview=Main&entry=t19.e1154>>

operations but also for their suppliers. The principles that guide the Code of Conduct are normally a result of negotiations between companies, trade unions, and NGOs. The negotiations between actors normally happen in the multi-stakeholder organizations which facilitate the generation of the Code of Conduct and of its implementation guideline The Ethical Trading Initiatives (ETI) and the United Nations Global Compact are two main exemplary organizations. Both of these organizations consist of various stakeholders and companies who promote the idea and principles of ethical trading. How these organizations formulate and enforce the code of conduct has an important implication for understanding how ethical trading guidelines are formulated and governed.

### **1. Ethical Trading Initiative (ETI) and United Nations Global Compact**

The Ethical Trading Initiative (ETI) is a coalition of NGOs, companies, and trade union organizations which can be termed a multi-stakeholder initiative. Participants of this coalition are committed to working together to improve business operations by identifying and promoting good practices in the implementation of codes of labour practices. (Blowfield, 2002) ETI was established in 1998, in recognition of the poor working conditions in developing countries and the possibility for change on the MNCs' side. ETI identifies good practices as: 1) an acceptance of internationally agreed standards, 2) a Code of Conduct based on these standards and its use in practice, and 3) monitoring and verifying compliance of these codes in a meaningful and credible way. (Blowfield, 2002) Like any other multi-stakeholder initiatives operate, ETI offers a space for its members to share their experiences and expertise to ensure responsible corporate actions in its global supply chain.

Even though this coalition of different bodies shares the same goal of improving business practices, the separate organizations have different reasons for joining ETI. For companies, it is an opportunity to improve their reputations and brand value after observing active consumerism that resists products produced under harsh labor conditions. Trade unions' main concern is the improvement of the global labor standard, freedom of association and collective bargaining. NGOs and international development agencies want to promote the value of a fairer form of economic development around the world.

The UN Global Compact is a coalition of stakeholders that includes international development organizations as well. These days, there are many international organizations trying to more closely align CSR on the international level with common developmental goals such as

poverty reduction and workers' rights protections. This CSR as a development tool approach can be seen in the recent programs of various development organizations. For example, Market for the Poor (M4P) from the United Nations Development Program (UNDP) and Swedish International Development Agency (SIDA) confirms the current assumption that functional markets and responsible private sector activities can become an effective development tool (PRIETO-CARRÓN et al., 2006). The United Nations Global Compact is the biggest initiative that incorporates both private actors and public entities to promote CSR principles, which include ethical trading. The Global Compact was established in 2000 in a cooperative effort between the UN and business community. It was enforced as a way to address the challenges of globalization.

The Global Compact works as a learning forum. UN agencies, labor organizations, business leaders, and civil society groups are involved to identify and promote sustainable and responsible business practices based on universal practices. Their guidelines for action are centered on the internationally agreed-upon<sup>4</sup> ten principles in human rights, labor, the environment and anti-corruption.

<b>Table 2: The Ten Principles</b>	
Human Rights	
<i>Principle 1</i>	Businesses should support and respect the protection of internationally proclaimed human rights.
<i>Principle 2</i>	Businesses should ensure that they are not complicit in human rights abuses.
Labour	
<i>Principle 3</i>	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
<i>Principle 4</i>	Eliminate all forms of forced and compulsory labour.
<i>Principle 5</i>	Effectively abolish child labour.
<i>Principle 6</i>	Eliminate discrimination in respect of employment and occupation
Environment	

<sup>4</sup> The universal Declaration of Human rights, The International Labour Organization's Declaration on Fundamental Principles and Rights at Work, The Rio Declaration on Environmental and Development, The United Nations Convention Against Corruption.

<i>Principle 7</i>	Businesses should support a precautionary approach to environmental challenges
<i>Principle 8</i>	Undertake initiatives to promote greater environmental responsibility
<i>Principle 9</i>	Encourage the development and diffusion of environmentally friendly technologies
Anti-corruption	
<i>Principle 10</i>	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations Global Compact Official Web site<sup>5</sup>

Once a company becomes a member of the Global Compact, they have to submit case studies on what they have done to apply the Global Compact principles to their corporate practices. This process involves a dialogue among the Global Compact participants from all sectors to reach broader, consensus-based definitions of what constitutes good practices. Those definitions, together with case studies, are published in an online information bank, which will be referred as a standard CSR source. The learning approach was taken in the hopes that “good practices will help to drive out bad ones through the power of dialogue, transparency, advocacy, and competition.” (Ruggie, 2002) However, there are concerns that companies can ‘blue wash’ their image under the UN flag while not making any significant changes to contributions to the common goals. Also, many argue that a voluntary approach does not necessarily ensure the strict compliance of code.<sup>6</sup> Despite the critics, this learning by doing and voluntary approach persists as the UN does not have the capacity to monitor global companies and their supply chains to ensure ethical operations. An international organization cannot be a substitute for national states to regulate corporate activity. Also, it is extremely difficult to design the criteria and desired practices in detail that a code should include. To summarize, in order to make corporates act, it is important to let companies have room to shape and reshape corporate practices rather than imposing rigid standards when external business conditions change in dramatic speed.

<sup>5</sup> <http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html>

<sup>6</sup> Christian Aid, Behind the mask: the real face of corporate social responsibility (London: Christian Aid, 2004); also see STANDING, G. (2007) ‘Decent Workplaces, Self-Regulation and CSR: From Puff to Stuff?’, DESA Working Paper 62, DESA: New York.

The U.N. and ETI initiatives both share a similar approach in designing and enforcing a Code of Conduct. They generate their Code of Conduct based on stakeholder agreement as well as internationally agreed standards. Within the ETI, it is suggested that the implementation of a Code of Conduct be regularly monitored primarily by firms with help of other organizations; the U.N. Global Compact leaves this responsibility solely to the each firm. They also both identify best practices and share them with other members. This process demonstrates the primary role of implementation and refinement of a universal Code of Conduct in ethical trading practices.

## **2. Challenges and Call for a Contextual Study**

As discussed above, the practice of ethical trading as part of CSR is still developing. Over the last two decades, various types of ethical trading initiatives and Code of Conducts have been established to ensure ethical ways of producing and sourcing products in the developing world. Specific initiatives came out to address the recognized controversial business practices in developing countries, yet some questions still remain such as to what extent a Code of Conduct and its governance can measure and satisfy workers' needs in developing countries in practice. As discussed above, the beginning of ethical trading was an ideational claim in universal human rights. When this idea was implemented, it required a quantifiable standard, a Code of Conduct, for a good or bad practice to be recognized, evaluated, and managed. Blowfield (2003) once argued that there are two assumptions one has to look at when thinking about a Code of Conduct created as a result of multi-stakeholder partnership: one, whether the interests of various stakeholders in multiple locations can be represented in equal manner and secondly, how those interests can be codified and the fulfillment of the interests can be measured by monitoring. Blowfield also points out while norms, values, and priorities can play a role in shaping people's interests in a supply chain, how workers' needs are reflected in the standard is also an important issue since they are the aimed beneficiaries of ethical trading.

These concepts are foundation of my study. It is problematic that even though workers in a supply chain are the aimed beneficiaries of ethical trading, their perceptions and how they make sense of overall practices are understudied. There have been studies on how people in corporations make sense of their CSR activities on an organizational level (Fassin and Van Rosem, 2009). However, these studies mainly focus on leaders and managers in MNCs. Studies on how medium and small sized firms, especially studies on supply companies of MNCs, have not been well substantiated. Views and inner dynamics in the organizations in supply companies

are not easily represented in many academic studies because of a lack of resources and the little marketing benefit for supply companies. While different types of CSR reporting from large corporations provides a general picture of their operations in various settings, suppliers located in many developing countries often have neither the resources for reporting nor have the economic incentives to do it. Also, as many ethical trading initiatives and implementations of Code of Conduct are driven by international customers, supply companies often become passive participants in the process.

Exploring the perceptions of ethical trading practice in supply companies is important because of its implication on participation from supply companies and sustainability of the Code of Conduct governance. Weick(2001) once argued that “In organizations, social order is created continuously as people make commitments and develop valid, socially acceptable justifications for these commitments.” He suggests that there is a close relationship between behavioral commitment and valid and socially acceptable explanation for that action. Established explanation and justification also works as a mental model that guides one’s actions and more future commitment. Thus, one’s active participation in certain codes only occurs when there is a perceived legitimacy and justification. Knowing how different actors from supply companies make sense of ethical trading is a major step needed before coming up with the solution for active participation from these actors.

Knowing people’s perception is also important in regard to sustainability of the Code of Conduct governance. Adoption of a Code of Conduct is normally initiated by MNCs. MNCs want to ensure that their suppliers also comply with the parent organization’s Code of Conduct. Having MNCs as a major customer, supply companies adopt the Code of Conduct. However, when MNCs and supply companies do not share the same attitude toward the importance of the activity, without the presence of MNCs, it becomes questionable about to what extent supply companies will stick to the principles in Code of Conduct. Implementation of ethical trading requires active participation from different actors in supply companies and self-governance in the long run. Thus, exploring different actors’ perceptions, how they make sense of the implementation, and the overall context will offer constructive inquires on current practices. These inquires will give a sound departure of investigation into making more participatory and sustainable practice in the future.

## **1. Case Selection: IKEA in Vietnam**

To study how different actors make sense of ethical trading and the implementation of a Code of Conduct, a specific case was selected. IKEA's ethical trading practice in Vietnam was selected based on IKEA's reputation as a leading CSR promoter and a member of UN Global Compact. In addition, the researcher had an opportunity to visit IKEA's supply companies in Vietnam.

IKEA has been implementing IKEA's Code of Conduct (IWAY) since 1999 to guarantee that IKEA's products are made in socially and environmentally acceptable manner. IKEA has 41 trading service offices in 30 countries and 1380 suppliers in 54 countries (2008).<sup>7</sup> All IKEA supply companies all around the world are required to comply with IWAY and are subject to regular auditing from IKEA to ensure the compliance. Supply companies are responsible for the constant improvement in the areas IWAY requires such as prevention of child labour, compliance with legal working time and safety regulations etc. Any cost incurred by implementing IWAY in each supply company is the supply companies' own responsibility. However, upon request IKEA provides supply companies with trainings regarding IWAY requirements ranging from worker's right to how to abide by safety regulation in work-places.

In Vietnam, three IKEA suppliers were chosen based on convenience sampling; criteria included practical reasons such as distance to the companies and traveling costs. The supply companies were introduced by the IKEA trading service office in Hanoi.

### ***1. Aim of the Study and Delimitation***

The study was designed to explore different actors' sense-making of ethical trading and implementation of Code of Conduct in supply companies in Vietnam. This research will only address this question in the limited scope of selected cases. Study participants are mainly from three suppliers of IKEA, which implement IKEA's Code of Conduct (IWAY). The study results only reflect how people perceive and practice ethical trading under one particular Code of Conduct. Also, the theory will be developed out of data gained in these three cases; therefore, the analysis will not be able to generate a general theory on ethical trading practices in developing countries or Vietnam.

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<sup>7</sup> IKEA Sustainability report (2008) Available at [http://www.ikea.com/ms/en\\_US/about\\_ikea/pdf/Sustainability\\_report\\_2008.pdf](http://www.ikea.com/ms/en_US/about_ikea/pdf/Sustainability_report_2008.pdf). IKEA.

However, my wish is that by looking at the case of IKEA in Vietnam, further studies on ethical trading in Vietnam will have more grounded information to employ while developing a more concrete ethical trading theory. On the micro level, the study clarifies the various aspects of the ethical sourcing practice and reveals the perceptions and sense-making of different actors.

## ***2. Research Question***

The guiding theme of this research is the overall context of CSR in Vietnam and the perception and sense-making of different actors involved in its implementation. The main research question is

“How do different actors (CEOs, Managers and workers) make sense of ethical trading practices in IKEA’s supply companies in Vietnam?”

In this question, different actors mean different groups of people with various managerial positions. In industrial settings, division of work is common and the division is normally based on the nature of work. Each group in different positions shares a common working environment which includes the type of work done, and mode of formal and informal interaction with other actors. Because implementing ethical trading also involves a range of responsibilities and actions in practice, depending on one’s responsibility, it can shape different perceptions. Groups of actors were categorized based on this notion that each group has different common environments when they make sense of activities associated with IWAY.

The research question is also shaped by the theoretical foundation of Weick’s concept of sensemaking. His work mainly focuses on how people within organizations shape ideas and justifies certain events and actions. The question of “How do different actors (CEOs, managers and workers) make sense of ethical trading practices in IKEA’s supply companies in Vietnam?” is built on several assumptions. First, ethical trading is a relatively new concept for people in supply companies in Vietnam as the idea has been developed mostly in Western countries. Ethical trading developed as a response to active consumerism in Western countries as well as NGOs’ campaigns against sweatshop made products. Most of the Code of Conduct was also created based on consultation between Western based trade unions, NGOs and corporate. Also, the Code of Conduct was adopted in the supply companies in Vietnam based on their international customers’ (IKEA) request in the first place. Therefore, if one takes these circumstances into account, implementing a Code of Conduct for people in supply companies

can be considered as a change or new activity that requires understanding the logic behind it and acting on it. The concept of 'sensemaking' in an organization becomes useful in this regard.

Sensemaking in an organization is considered to be an ongoing process that involves scanning, interpreting/giving meaning, and taking action (Cramer et al., 2006). According to Weick, scanning is identifying important issues that might affect an organization by observing and monitoring the environment. Interpretations can be seen as giving data gained from scanning meaning. After this, a model for understanding is developed, and the subject acts as if his or her mental model and interpretations are true. This process also can be termed as "enactment" (Daft and Weick, 1984). What is important in sensemaking theory is that individuals and groups form a mental model that can help them process information, give different meaning to the information, and make decisions and act. Mental models emerge from social construction processes such as informal and formal communication processes (Porac et al., 1989), and exposure to common environments such as associations, consultants, and the press (Cramer et al., 2006). Sub questions were formulated to investigate the process above. In order to explore how actors give different meaning to ethical trading and make mental models, the sub questions will be asking how different actors define the Code of Conduct in general when they are asked to freely talk about it and talk about associated activity such as trainings and auditing. The sub question will also ask perceived benefits and difficulties from various actors to explore how they define variables that influence their actions. Therefore, sub-questions include:

- 1) How do different actors define a Code of Conduct in general?
- 2) What is the perceived benefit and difficulties of the Code of Conduct for different actors in diverse managerial levels?
- 3) How do different actors (CEOs, managers and workers) perceive training and auditing that are a crucial parts of implementing the Code of Conduct?
- 4) What are the suggestions for better implementation and participation from people involved in implementing the Code of Conduct?

### ***3.Theoretical Discussion***

#### **1.Globalization and Emergence of Corporate Social Responsibility (CSR)**

This section presents different views on the emergence of corporate social responsibility. Two major viewpoints are introduced; these explain what influences companies' willingness to engage in CSR. (Gjolberg, 2009). One is the globalist view that sees the major force of CSR as firms' reaction to anti-globalization and anti-corporatism movement. The other one is an institutionalist view that focuses on the role of strong institutional settings of the corporations' home countries. It concludes with how CSR emerged as a responding mechanism from firms to address social demand. Examining the emergence of CSR will clarify what promoted the corporate social responsibility movement and how the idea of CSR, its principles and practices, has been developed.

#### **1.Emergence of CSR: Globalist View**

According to Vogel (1991), the concept of corporate responsibility is not new (Fabig and Boele, 1999). He claims that it is as old as corporations themselves. Since the beginning of industrial capitalism, many questions on business ethics were pondered. Values and norms change as society transforms. So-called common ethics are based on these values and norms. As these common ethics are constantly challenged, people ask ethical questions to adjust themselves to these changes or refuse them.

The globalist view argues that today's CSR debate is based on globalized corporate capitalism and its discontents. In the wake of economic globalization, cross border movement of goods, services, and money rapidly increased. This change enabled multinational corporations (MNCs) to enjoy ever increasing markets and mobility. MNCs could employ various strategies such as outsourcing and off-shoring in developing countries to reduce costs and expand their markets. While some of the MNCs' revenues exceed the GDP of most developing countries (Stiglitz, 2007) , some of the large international brands started facing rising criticism because of their involvement in unethical business scandals such as bribery and child labor practices within their supply chain. This contrast between enormous markets and mobility that MNCs enjoy and the observed unethical business practices began to symbolize what is wrong with globalization. Joseph E. Stiglitz (2007) claimed in his book 'Making Globalization Work' that "many observers increasingly found that MNCs were not contributing their share to the common good as a global

citizen.” Under this notion, MNCs became the major target of the anti-globalization movement and they were criticized for taking advantage of developing countries’ systemic problems as Shell’s operation in the Niger Delta<sup>8</sup> shows.

The anti-sweatshop movement was one of the major events that were associated with MNCs operation in developing countries in the middle of the 1990s. The movement was in opposition to corporate globalization, which favors overseas production outsourcing and purchasing in order to lower costs and increase profits. Critics mainly pointed out the nature of the work and employment conditions in plants in developing countries, which produce goods for Western multinational companies. The situation in those ‘sweatshops’ factories was characterized by intense physical labor and poor and dangerous working environments. These conditions were first revealed by media reports and human right activists. Afterwards, increased public awareness and active anti-sweatshop movements led to efforts to improve working conditions and guarantee reasonable incomes for workers in developing countries. Leading US brands such as Nike and Gap used these sweatshops and their practices became the main targets for the activists’ campaigns. This anti-sweatshop movement became known in the year 1995 through 1996 which became ‘The year of the sweatshop’ in the United States and led many international firms to create guidelines for their overseas operations such as codes of conduct in developing countries. (Jenkins, 2005)

A tragic fire accident that happened in 1993 at the Kader Industrial toy factory, on the outskirts of Bangkok also fuelled international debate on CSR. The accident took the lives of 188 workers and left 469 injured. Most of the victims were young women from rural areas.<sup>9</sup> Kader was owned by foreign investors, and the companies were supplying products to major toy brands in the United States and other industrialized countries. The factory had four buildings and the fire destroyed three of them. Three buildings were a single E-shaped structure and they did not have any fire extinguishers, functioning fire alarms, or sprinkler systems. Also, the elevated walkways

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<sup>8</sup> The case known as the Ogoni crisis is closely related to Shell’s crude oil production in the Niger delta. The Ogoni, Ijaw and other ethnic minorities in the Niger delta, those who have been affected by oil production, protested to claim their environmental and economic rights in 1992 and formed ‘The movement for the survival for the Ogoni people’ (MOSOP). The Nigerian government responded by banning the public protests and prosecuted 9 activists, including Ken Saro-wiwa, charging them with the incitement of murder four Ogoni elders. Shell, in this event, has been criticized for being complicit in abuses and even trying to divide communities by bribing some members to disrupt the protests. Source available at Human right watch: <http://www.hrw.org/reports/1999/nigeria/>

<sup>9</sup> World of work: The magazine of the ILO – Bringing Decent Work Into Focus No.57, September 2006

between the buildings were either locked or blocked with stored stuff. The fire began in building one and the fire alarm did not work. When the fire became uncontrollable, approximately 1,100 workers in building one all ran to the same stair well. Many of them did not manage to escape when the buildings started collapsing. Many more were injured as they tried to leap from the second, third and fourth floors to escape from the buildings.

Many critics argued that this catastrophe was a striking picture of profit maximization in the wake of economic globalization. None of the international companies that purchased products from Kader cared about working condition in the factory. As Symonds (1997) put it; “Companies such as Kader Holdings need to move their operations rapidly to take advantage of the newest areas of low-cost labour. That is why the Kader factory outside Bangkok was never intended to be a permanent structure. Cheap shoddy buildings, which failed to meet even the minimal Thai construction requirements, were simply packed and overflowing with workers and machines. Elementary safety precautions were deemed to be unnecessary overheads. Thailand’s limited building and safety codes, minimal wage levels and factory regulations are not enforced. Indeed, the government in Thailand attracts foreign capital to its shores by openly advertising the lack of restrictions on the exploitation of workers. The Kader factory was no aberration. All the horrors of nineteenth century European capitalism—child labour, dirty and unsafe working conditions, shanty housing—are on display everywhere in Bangkok.” The discussion among Thailand’s government, trade unions, companies and NGOs have started to address the safety and environment standards, as well as minimum factory safeguards, yet no satisfactory legal measure has been produced.

As illustrated above, the idea of corporate social responsibility developed in recognition of a lack of governance capacity especially, in developing countries to level the playing field for international firms’ business operations. Since then, a substantial amount of attention has been given to the concept of CSR, as demands for corporate self regulatory mechanisms have grown. In other words, the current CSR debate has its origin in the role of corporations in a globalized world. The core question of CSR is how to secure a balance between the benefit of open markets versus the social costs associated with economic openness.(Vogel, 1991) Therefore, sustainable development and human rights protections are the major issues to be concerned with in the CSR debate.

## **2. Emergence of CSR: Institutional View**

Globalist arguments postulate that the concept of CSR is adopted as a response to anti-globalization and anti-corporate sentiment since it is becoming crucial for MNCs to obtain a positive reputation that guarantees a 'social license to operate' (Sklair, 2001). As a contrast, the institutionalist arguments postulate that CSR emerged as a function of institutional factors in the national political-economic system. (Gjolberg, 2009) This institutionalist argument proposes that there is a causal link between strong welfare states and strong CSR performance. The logic of the institutionalist argument is based on the notion that there are different mandatory actions between national and international markets. The existence of strong institutions for cooperation between social partners and public participation in welfare states makes firms from these states do better according to CSR principles.

Gjølberg (2009) claimed that "while in a national context, improved performance due to mandatory action would not be classified as CSR, it might be recognized as CSR in the global market place where these actions are not mandatory." She argues that strong welfare states have more strict policies and rigorous enforcement in a range of policy areas that coincide with CSR. The policy areas normally include environmental protection, labour right protection, discrimination and corruption etc. There have been studies that identify institutional determinants enforcing corporate activities that can be termed CSR. (Matten & Moon, 2008. Campbell, 2007) Matten and Moon (2008) compared various policies relevant to CSR between America and some European countries. They argue that European governments are generally more engaged in social protection such as insurance. Some European countries have nationalized insurance systems for health and pensions and corporations are often mandated to take responsibility in these areas. Therefore, while U.S. corporations' initiatives to insure the uninsured are considered to be CSR in the U.S., similar initiatives would not be reasonable in Germany or England which have national health services into which corporations have compulsory contribution. Similarly, there were observed differences in corporate responses when addressing the issue of global warming and climate change. While European countries lean more towards negotiated agreements setting specific targets, the U.S. government has left responsibility for the Kyoto Protocol and its targets to the private sector's own initiatives.

The examples above show how institutional settings in welfare states have more mandatory legal framework to enforce corporate doings relevant to CSR. The study of Gjølberg (2009) also

statistically shows the relationship between welfare states and CSR performance. In her research, she uses an index of national CSR performance against political-economic indicators that shows the welfare status of the country to test her hypothesis. While the test results in rather causal heterogeneity between good CSR performance and welfare status of the country, Scandinavian countries (Denmark, Sweden, Finland and Norway) are the cases that give partial support for the insitutionalist argument.

### **3.CSR as Corporate Responsiveness and Implementation of CSR**

Today's CSR debate has diverse factors driving its emergence. Among these various factors, one common element is that corporations are acting based on social demands and expectations. The interplay between the monitoring and response of corporate actions happens on both the national and international levels. What is particular in the current CSR debate is the expansion of these monitoring and response processes to the international arena. Notably, the active involvement of NGOs and development agencies within the making of CSR debate did not exist before. This suggests that the major issues of CSR have transformed over time based on a set of global agendas such as human rights and environmental protection, as well as agendas more rooted in national and local contexts.

Because of the very nature of CSR, implementation of CSR normally requires deliberations between various stakeholders and reference to international conventions. While various measures are implemented, stakeholder theory and the triple bottom line approach have been the major theoretical underpinnings that translate the idea of CSR into practice.

#### ***1.Stakeholder and Triple Bottom Line Approach***

Stakeholder theory stresses that companies need to be responsive to the concerns of a wide range of 'stakeholders' who affect or are affected by a company's operation (Freeman 1984, Mitchell et al. 1997). Stakeholders normally refer to companies' employees, suppliers, and community where the company operates. The stakeholder approach became a cornerstone for many CSR multi-stakeholder initiatives such as AA1000, the Ethical Trading Initiative, the Fair Labor Association, the Global Compact, and the Forest Stewardship Council (Utting, 2002). Multi-stakeholder initiatives normally provide a place for 'social learning' for organizations such as NGOs, companies, and trade unions to sit down together and have a dialogue and set social

and environmental standards. They also discuss monitoring, reporting, and auditing measures to ensure the compliance of the standards as well as sharing good practices.

Social and environmental standards or ‘Code of Conduct’ are produced as a result of these kinds of initiatives. Codes of Conduct can also be created without multi-stakeholder dialogue. However, having dialogue with stakeholders is considered to be a crucial part of designing codes of conduct as some code of conduct are unilaterally created based on cherry picking of the internationally agreed upon standards without making a real effort to meet the needs and the interests of their stakeholders (Blowfield and Frynas, 2005). In a way, multi-stakeholder initiatives can be viewed as a process for collective bargaining between actors on an international level to make mutually agreed-upon standard for action.

Together with the stakeholder approach, one of the most widely referred to guidelines for action is the triple bottom line approach. It is based on the assumption that companies should not only care about a “bottom line” of profitability and market share, but a “triple bottom line” that includes social and environmental goals (Jeurissen, 2000). The term “Triple Bottom Line” was first used in 1994 by John Elkington who was the head of the SustainAbility consulting firm. This triple bottom line approach is also referred as Sustainability Reporting Initiative since it offers guidelines to measure and evaluate the organizations’ CSR activities. In the past decade, this kind of initiative has become wide spread and various competing standards and standard setting bodies have appeared (Norman and MacDonald, 2004). To list a few, there are the Global Reporting Initiative (GRI), the SA 8000 from Social Accountability International, and various ISO standards.

To summarize, stakeholder theory and the triple bottom line have been main principle guidelines when it comes to codifying CSR into a measurable action plan ‘Code of conduct’.

#### ***4. Methods***

The use of methodology shows the researcher’s perspective on ‘truth’ and ‘knowledge’. This section will justify the selection of the methodological tools used in the study.

##### **1. Researcher’s Perspective and Self-Reflection**

The Constructivist and Hermeneutic paradigm guided the design and analysis of this study. On the contrary to the positivist approach, the constructivist view assumes multiple social realities. It means there can be other ‘truths’ established and experienced by other researchers

and their participants as a reality is a construct created by groups of people (Guba & Lincoln, 1994). In this paradigm, the world is a product of social construction and researchers need to understand the contexts and settings they are in to understand how the world works. This paradigm was consistently applied when formulating research questions, as well as the data collection methodology used in the study. The research was aimed at gathering a holistic understanding of ethical trading practices in a supply chain in Vietnam, and it was postulated that people's perspectives and sensemaking in the supply chain would be a product of interactions between different meanings created in the context they live in. Therefore, thorough observation of overall settings, context analysis, and interpretation were an important part of the field work.

Strauss and Corbin (1998) claimed that in the hermeneutic social inquiries, the researcher's role is both being a data collection instrument and data analyst. In order to ensure accurate, valid and reliable data collection and analysis, constant self-reflection is required in the field, as well as the triangulation of data. As a Korean, I was familiar with the overall cultural setting in Vietnam, which can be termed a 'Confucian society'. Confucian society refers to the society influenced by a philosophy of Confucianism. Confucianism was founded by Confucius in the sixth to fifth centuries BCE and its influence has been significant in China, Korea, Japan, Vietnam and Hongkong etc as a source of learning and an ethical code. The teachings of Confucianism emphasis on harmony, respect for authority, loyalty, literacy, and scholarship etc and the teachings are still heavily embedded on the ethical, legal, political, and educational systems of the countries mentioned above.<sup>10</sup> Therefore, even though, I could not completely understand the mode of thinking and acting in Vietnam, I could rely on my own intuitions, understanding, and interpretation of the overall context with the help of a Vietnamese interpreter in the data collection and analysis process. Most of my respondents were also acquainted to Korean culture because Korean movies and singers are common on TV in Vietnam. Many of the interviewees were curious about me, opened up quickly, and shared their valuable experience and thoughts in a candid manner. However, sometimes I was viewed and treated as a guest or someone who has a formal association with IKEA. This happened more often when I was interviewing workers compared to managers. Some of them were somewhat nervous and did not elaborate much on my questions. Every time I interviewed an individual, I made sure that the

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<sup>10</sup> "Confucianism" *A Dictionary of Sociology*. John Scott and Gordon Marshall. Oxford University Press 2009. *Oxford Reference Online*. Oxford University Press. Goteborg University Library. 4 August 2010  
<<http://www.oxfordreference.com.ezproxy.ub.gu.se/views/ENTRY.html?subview=Main&entry=t88.e372>>

interview was confidential and introduced myself as a student. After acknowledging that formal interviews can be uncomfortable for workers, interviews with workers were conducted more casually, sometimes in working areas without the presence of other people. Working with an interpreter also helped to ease the environment as the interpreter was good at initiating small talk and make the overall environment more comfortable and harmonious.

## **2. Qualitative Strategy – Interpretive Case Study**

A qualitative strategy for data collection and analysis was employed in this study. Qualitative studies normally focus on depth and contexts and data is usually collected in the form of interviews, literature reviews, or close observations. The aim of the study was to understand phenomena and explain why things are the way they are; therefore, it was interpretative in its nature. Qualitative studies are often coupled with an inductive approach to theory, focusing on the emergence of theory as a result of ongoing research, instead of verifying already established theory.

In this study, following the qualitative approach, an inductive approach has been employed in order to generate a grounded theory on people's views and sensemaking on ethical trading practices in a Vietnamese supply chain. The research was conducted as an interpretive case study. Somekh (2005) claimed that the strength of a case study is that it can achieve a 'rich description' of a phenomenon from the participants' point of view by using multiple methods and data sources. Since the research question was centered on different views from actors involved in one ethical trading program, a case study seemed to be the right method. It was three supply companies included in the study at the same time, and they all had the same ethical trading program 'IWAY Code of Conduct' running; thus, it was a 'nested case study' in which three cases are embedded in one case of IKEA's Vietnamese supply companies.

## **3. Analysis of Data (Grounded theory)**

The interpretive case study is normally used to develop conceptual categories that are drawn from thorough examination and analysis of particular social events, programs, or social groups. (Marriam,1998) Researchers can collect data from the case and interpret it. The interpretation of data from the case study can be guided by either already existing theory or a

researcher can develop her own theory (Grounded theory). In this study, the analysis of data was done inductively without prior hypotheses based on any theory following the grounded theory tradition. Grounded theory guides researchers to study social processes by conceptualizing qualitative data, identifying relations between conceptual categories and specifying the conditions where theoretical relationships emerge, transform, or are maintained. (Charmaz, 2003) This particular approach of inquiry of Grounded theory is useful when researchers want to explore issues in non-traditional areas where little technical literature is available. Since there has been little studies on different actors' sensemaking of ethical trading in supply companies in Vietnam, Grounded theory approach seemed to be the most suitable choice for data analysis.

The pioneers of Grounded Theory, Glaser and Strauss (1967) argued that "scientific truth results from both the act of observation and the emerging consensus within a community of observers as they make sense of what they observed". Thus in social science research, empirical "reality" should be seen as an ongoing process of producing meaning and interpreting, which involves individuals and their interactions. In Grounded theory methods, when it comes to defining reality and facts emerging in the qualitative data, it has two different forms; constructivist and objectivist. (Charmaz, 2003) This study takes the constructivist approach. Objectivist approach presumes that the data contains objective facts about a knowable world and a theory is inherently embedded in the data. Therefore, researcher's job is to discover what it is and careful and rigorous application of the Grounded theory methods are advised by objectivist Grounded theorist than constructivist. For example Glaser(1967) argue that as long as researchers follow rigorous procedures in conceptualizing categories of meaning in place and generating the properties that link the category with the evidence, they can generate a theory that can capture a meaningful picture of reality. Constructivist Grounded theorists also follow the procedures of Grounded theory methods, yet assumes that both data and analysis are created from the shared experiences of researcher and participants as well as the relationship between researcher and participants. (Charmaz, 2000) In this perspective, methods do not guarantee knowing however, the researcher incompletely shares the participants' world and offers an interpretive picture of the studied area. Qualitative interviews are normally used when producing grounded theory. As the researcher proceeds with interviewing participants, she or he codes data to develop "sensitizing concept" that can inform further interviews and lead to more precise concepts such as " feeling of loss", " identity" and " definition of situation" etc. (Charmaz, 2003)

In this study, there were a set of questions to explore how actors make sense of ethical trading and concept emerged and validated as the interviews proceeded. When selecting interview participants and analyze interview data, the process called theoretical sampling and comparative analysis are normally used in Grounded theory methods. In this study, these processes were followed but, in limited scope.

### **1.Theoretical Sampling**

Theoretical Sampling is the data collection process used to produce grounded theory (Glaser and Strauss, 1967). This process involves collecting, coding, and analyzing the data the researcher gained and deciding what data to collect next so as to develop his or her theory as it emerges. The initial decision for theoretical collection of data is guided only by a general sociological perspective and on a general subject or problem area according to Glaser and Strauss. This decision is based on the idea that more grounded theory only emerges from data without the interference of preconceived theoretical assumptions. Once the sample group is selected, a researcher is free to choose any groups to compare the data set he or she collected from the first one as long as there is theoretical relevance among them. Comparing each group to verify the emerged categories and hypothesis is an important part of generating grounded theory.

In this study, three supply companies for IKEA were selected as a sample group. The convenience sampling approach was employed because of practical issues such as cost and distance between each company. These companies were under the same Code of Conduct managed by IKEA in a uniform manner, which made comparison relatively unproblematic with a certain set of controlled variables. Data was collected in the form of documents and interviews. The main interview groups were CEOs, managers, and workers in supply companies. However, interviews with other actors such as IKEA's social and environmental auditors and CSR consultants were conducted as well. It was necessary to take various perspectives into account because of the complex nature of CSR decision-making and communication.

Garsten (2010) argues that researchers studying 'corporate social responsibility' normally face trans-local organizations, which tend to be dispersed across national boundaries implying diverse cultural distributions. The issues and meanings travel from one place to another and the actors involved in the process are highly mobile and diverse. The field of corporate social responsibility seems to be 'here, there and everywhere' (Hannerz 2003). Garsten suggests that to capture meaning making in the field, the researcher has to post his or herself at the crossroads or

interface of organizations where he or she can get a sense of the different versions that are played out and the temporary consensus that may emerge, following negotiations tracking down meaning making. The way in which CSR is understood and put into practice eventually has implications for how corporate activities impinge on individual and collective life and for relations between the state and market. Taking the points raised by Garsten into consideration, theoretical sample groups included diverse actors involved in implementing ethical sourcing, as well as organizations working on the issues shaping agendas and policies.

## **2.Comparative Analysis for Theory Generation**

Constant comparative analysis of qualitative data is a crucial process for theory generation. It starts with coding each incident in the researcher's data into as many categories of meaning as possible, as categories emerge or as data emerges fitting an existing category. As theory develops, different categories and evidence tend to become integrated through constant comparisons that force the analyst to make some related theoretical sense. One thing to keep in mind is that grounded theory should be regarded as a process. An underlying assumption when examining theory is to consider theory as an ever developing entity and momentary product. While collecting data in the field, each interview was carefully coded and analyzed. Different interview data on how people conceptualize the ethical trading practice was constantly compared as well.

## **4.Validity and Reliability**

According to Creswell (2008), validity in a qualitative study refers to the researcher employing certain procedures to ensure the accuracy of the findings. Accuracy of the findings should be examined from the view of the researcher, the participants, or the readers. Multiple strategies can be employed for checking validity. In this study, in order to achieve high validity, triangulation was employed when needed. Various sources such as documents, interviews, and policy papers were reviewed to build a sound explanation for each theme addressed in the study. Partial member checking was also used. IKEA will be examining the study and give their opinion. The present member checking was based on the mutual recognition that IKEA's brand value and reputation are one of the most important assets for the company as a major international retail brand. Also, IKEA's current brand value has been established as the company has been engaging with different stakeholders for a considerable amount of time and making

constant efforts to make their production more socially and environmentally responsible. Therefore, it was reasonable to have IKEA to review the thesis and give their opinion. In addition to the member checking, a rich description of interviewees' responses was provided in the study using quotations. Lastly, the researcher's possible biases were elaborated in this paper in order to provide readers with the researcher's background and narratives.

Reliability in a qualitative study can be ensured when the researcher shows a consistent approach to the work (Creswell, 2009). There are several procedures recommended by Gibs (2007) in order to guarantee reliability in a qualitative study. These include 1) Checking the transcript to remove obvious mistakes made during transcription and 2) Make sure that the definition of the code is consistent throughout the whole process. In order to ensure the reliability of the study throughout the data collection, the interview script was carefully transcribed and examined. Interview questions were examined by a Vietnamese interpreter before the interviews to clarify the meaning. During the interviews, sometimes the same questions were formulated in different ways for better interpretation of the answers from the interviewees. After the data collection and coding, emerging concepts and categories were examined and also systemically analyzed under the predefined or emerging themes.

## **CHAPTER 2 : The field study**

In this chapter, data collection methods in the field and empirical findings are discussed. Data collection was mainly done by semi-structured interviews as well as literature reviews. A total of 31 interviews with IKEA's social and environmental auditor, CEOs, managers and workers in three supply companies, CSR practitioners, were made during the field study. Before conducting the interviews, the overall context of Vietnam and IKEA's CSR operation was analyzed based on the relevant research literatures, IKEA's annual report together with preliminary interview with IKEA's social and environmental auditor.

### ***5.Data Collection***

The data collection was conducted on two levels. First, CSR literature was reviewed. Previous studies on CSR that includes ethical trading as a concept and its practice in Vietnam were examined. Especially a literature review on ethical trading practice enabled in-depth understanding of the overall context of the study area. This context analysis is built on the knowledge of Vietnamese labor conditions, institutions working on the issue of CSR and frequently observed challenges in practice as well as IKEA's ethical trading (IWAY Code of Conduct) operation in Vietnam. Second part of data collection was implemented in the field. Interviews were conducted with CEOs, managers and workers in IKEA's suppliers and CSR consultants in Vietnam to explore the views on IWAY, IKEA's Code of Conduct as a part of ethical trading efforts. Finally, data analysis was done following the established Grounded Theory approach.

### **1.Semi structured Interviews**

To collect empirical data, Semi-structured interviews and text analysis were used. Interviews were conducted with IKEA's social and environmental developer, workers and managers, CEOs in each supply companies and two CSR consultants. The time frame for the interviews was over a period of two months. Each interview took thirty minutes to one hour. Interview questions were started with open questions such as general feeling about the IKEA's CSR program and formulated in various ways as the interview proceeded. However, the interview always included questions guided by four themes, namely the general perception of CSR and IWAY, trainings

and auditing, perceived benefits and difficulties for implementing IWAY and suggestions for better implementation together with questions formulated on the interview spot. A total of 31 interviews were conducted with 1 IKEA social and environmental developer, 2 CEOs, 8 managers and 16 workers and 2 CSR practitioner (consultants). (Table3)

In supply companies, interviewees were categorized in three groups based on their managerial positions. It was based on the notion that division of work is common in the industrial zone and depending on the nature of work and that common environments are shared by each group in the work place. Common environment accounts for types of responsibilities, and mode of formal and informal interaction with other actors. This common environment for each group is an important aspect when they make sense of activities associated with IWAY. All managers interviewed had some responsibilities in implementing IKEA’s Code of Conduct even though their positions varied from plant manager to Human resources managers. When interviewing workers, sometimes the selection was based on managers’ recommendation and sometimes I could walk around the factory and talk to the workers casually.

<b>Table3: Interview Groups</b>			
<b>Name of the organization</b>	<b>Job Title</b>	<b>No. of interviews</b>	<b>Main interview questions</b>
IKEA Hanoi Office	Social and Environmental developer(Auditor)	1	1. How do you define CSR/IWAY Code of Conduct? 2. How do you implement IWAY? 3. What are the challenges and benefits of implementing IWAY? etc
Supplier 1	CEO	0	1. How do you define CSR/IWAY Code of Conduct? 2. What are the challenges and benefits of implementing IWAY? 3. What do you think about auditing and training which is a part of IWAY practice?
	Managers	4	
	Workers	4	
Supplier 2	CEO	1	1. How do you define CSR/IWAY Code of Conduct? 2. What are the challenges and benefits of implementing IWAY? 3. What do you think about auditing and training which is a part of IWAY practice?
	Managers	2	
	Workers	7	

Supplier 3	CEOs	1	4. Do you have any suggestions to improve the practice? Etc
	Managers	2	
	Workers	5	
CSR Vietnam	Director	1	1. How is the current CSR practice in Vietnam?
One Step Vietnam	Consultant	1	2. What are the challenges and benefits implementing Code of Conduct?
			3. What is necessary to improve the practice? Etc

**2. Case Representation**

**1. IKEA**

IKEA group was founded in 1943 in Sweden and became a major furniture retailer that has 253 stores in 24 countries in August 2008.<sup>11</sup>The company is famous for its flat packaged furniture and various home furnishing goods. IKEA’s corporate culture is known to be cooperative and dialogue oriented.<sup>12</sup> The company’s Swedish background together with its vision ‘to create better every day for the many people’ explains its open and dialogue oriented culture to a certain degree.

The company has been achieving fast growing turnover over the last decade expanding its market. However, growth is expected to be hindered by insufficient supply. ‘We cannot increase by more than 20 stores a year because supply is the bottle neck.’<sup>13</sup> Purchasing is, thus, one of the most important parts of IKEA’s business. IKEA has 41 trading service offices in 30 countries and 1380 suppliers in 54 countries.(2008) China is the biggest supplier accounting for 21% of the total purchasing from IKEA followed by Poland(17%) and Italy(8%). Cost and quality as well as uniqueness of raw materials matter for IKEA in choosing their suppliers since providing quality

<sup>11</sup> IKEA Sustainability report (2008) Available at [http://www.ikea.com/ms/en\\_US/about\\_ikea/pdf/Sustainability\\_report\\_2008.pdf](http://www.ikea.com/ms/en_US/about_ikea/pdf/Sustainability_report_2008.pdf). IKEA.

<sup>12</sup> Ibid

<sup>13</sup> Lennart Dahlgren, country manager Russia, in Business Week, No. 14, 2005 in Schömann, Isabelle ; Sobczak, André ; Voss, Eckhard ; Wilke, Peter (2008) Codes of conduct and international framework agreements: new forms of governance at company level. Luxembourg : EUR-OP, 2008 , 93 p.

products at affordable prices is the company's motto. However, IKEA recognizes that low prices must not be at the expense of people or the environment and tries to ensure these principles to be applied in its suppliers by adopting the IWAY Code of Conduct.

### ***1. IKEA and IWAY Code of Conduct***

IKEA is a member of the United Nation's Global Compact recognizing the Corporations' social responsibility principles in the area of human rights, labor, environment and anti-corruption, in the course of its operation since 2005. These principles are reflected in IKEA's Code of Conduct; The IKEA Way on Purchasing Home Furnishing Products (IWAY). The IWAY Code of Conduct is directed towards IKEA suppliers and addresses social, labor issues together with environmental concern.

IKEA had been working on IWAY showing its dedication to the issue of CSR in its supply chain since 1999. IKEA signed one of the first international framework agreements(IFAs) which is an international instrument to ensure the global labor standards in target locations with the Building and wood workers' international (BWI) in May 1998.<sup>14</sup> IFAs are normally negotiated between MNCs and global union federations (GUFs) and it was between IKEA and BWI that the IWAY was formulated. In negotiating IFAs, the fundamental labor right defined in the 1998 ILO tripartite declaration was the major reference. Codes of Conduct created by this type of IFAs can be seen as the start of collective bargaining at the transnational level which differentiates them from unilateral Codes of Conduct.

As a result, IKEA's Code of Conduct (IWAY) became a set of guidelines to guarantee that IKEA's products, materials and services are manufactured and carried out under acceptable working conditions at suppliers and service providers.<sup>15</sup> IWAY is based on national and international law concerning the protection of environment, working conditions and child labor. According to the IWAY standard official documents issued by IKEA in 2008, IWAY is based on not only ILO declaration June 1998 but also, the eight core conventions defined in the Fundamental Principles of Rights at Work, the Rio Declaration on Sustainable Development 1992, the UN Johannesburg Summit on Sustainable Development and the Ten Principles of the

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<sup>14</sup> Schömann, I., Sobczak, A., Voss, E. and Wilke, P.(2008) Codes of conduct and international framework agreements: new forms of governance at company level. Luxembourg : EUR-OP, 2008 , 93 p. Available at <http://www.eurofound.europa.eu/areas/industrialrelations/dictionary/definitions/internationalframeworkagreement.htm>

<sup>15</sup> Ibid

UN Global Compact 2000.<sup>16</sup> The IWAY includes about fourteen general sections of the rules which cover prevention of child labor, worker's health and safety issues, right use of chemicals etc. (Table4)

**Table 4: The IKEA's Code of Conduct – IWAY**

Legal compliance

IKEA requires its suppliers to comply with national laws and regulations and with international conventions concerning the protection of the environment, working conditions and child labour.

start-up requirements(IMUST)

- no child labour,
- no forced or bonded labour,
- no severe environmental pollution,
- no severe safety hazards,
- obligatory records of working hours and wages,
- obligatory accident insurances for workers.

Regarding social and working conditions

Suppliers must agree to:

- provide healthy and safe working environment,
- ensure safe buildings, reasonable privacy, quietness and personal hygiene, in those instances where housing facilities are provided,
- pay at least the minimum legal wage and compensate for overtime.

Suppliers may not:

- discriminate,
- use illegal overtime,
- prevent workers from associating freely with any worker's association or group of their choosing or collective bargaining,
- accept any form of mental or physical disciplinary action, including harassment.

Regarding environmental standards

Suppliers must agree to:

- work to reduce energy consumption,
- work to reduce waste and emissions to air, ground and water,
- handle, store and dispose of hazardous waste in an environmentally safe manner,

<sup>16</sup> IKEA Sustainability report (2008) Available at [http://www.ikea.com/ms/en\\_US/about\\_ikea/pdf/Sustainability\\_report\\_2008.pdf](http://www.ikea.com/ms/en_US/about_ikea/pdf/Sustainability_report_2008.pdf). IKEA.

- contribute to the recycling and reuse of materials and used products.

Suppliers can expect IKEA to:

- be reliable,
- adapt our products to production demands,
- contribute to efficient production,
- care for the environment,
- support material and energy-saving techniques,
- take a clear standpoint on working conditions,
- respect different cultures,
- have clear and mutually agreed commercial terms.

This new revision has been updated during 2008 and the implementation starts in January 2009.

As IWAY Code of Conduct clarifies, to become IKEA's supplier, one has to fulfill the start-up requirements. They are called IWAY MUST and potential suppliers have to ensure that they satisfy the start-up requirements. Once the supplier initiates the business relationship with IKEA, the latter provides training and guidance for the former to achieve high compliance.<sup>17</sup> IKEA also monitors them by having annual auditing. Audit is done by both IKEA's auditors and third party auditors such as KPMG and PricewaterhouseCoopers. IKEA's auditors are normally located near the suppliers companies and help to establish action plans when non-compliance occurs and perform follow-up visit to review progress. IKEA's auditors are trained and supported by the compliance and monitoring group(CMG) and CMG works to ensure that the same audit criteria are met worldwide.

Every year, IKEA publishes sustainability report with suppliers' compliance rate in each region. Among IKEA's other suppliers in Asia, the South East Asia region has been showing constantly high compliance rate (average 87.73 from 2006 to 2008) compared with other Asia regions such as China(72.2) and South Asia(83).<sup>18</sup> The figure does not necessarily reflect the whole picture of social compliance situation in Asia, since China is the biggest suppliers for IKEA where 21% of their purchasing takes place which means more suppliers to manage.

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<sup>17</sup> Accounts from a social and environmental auditor in IKEA's Trading Service office in Hanoi

<sup>18</sup> IKEA Sustainability report (2008) Available at [http://www.ikea.com/ms/en\\_US/about\\_ikea/pdf/Sustainability\\_report\\_2008.pdf](http://www.ikea.com/ms/en_US/about_ikea/pdf/Sustainability_report_2008.pdf). IKEA.

However, this figure shows that IWAY implementation in the South East Asia region that includes Vietnam has been continuously achieved.

## **2. Vietnam**

Vietnam has been achieving rapid economic growth since the mid 1980s when its leaders began to integrate Vietnam into the world economy known as Doi-Moi. This movement aimed to transform Vietnam into a market-oriented economy while maintaining its socialist political system. In 2007, Vietnam joined the World Trade Organization(WTO). It was a sign for international communities that the Vietnamese government was serious about economic reforms towards a more open market system and foreign direct investment (FDI). International trade continuously increased ever since. According to the World bank development report of 2009, since Vietnam started its economic reform, capital inflows were four times higher relative to GDP.<sup>19</sup> International trade also showed significant development with growth rate of about 20% during from 2001 to 2007.<sup>20</sup> Vietnam has been successfully transforming itself to a middle income country becoming a major exporter of agricultural goods and state-driven industrialization.

### ***1. CSR context***

“Vietnam is characterized by more decent working conditions than other developing countries, and corporate social responsibility (CSR) principles are gradually being accepted in key export sectors.”<sup>21</sup>

Compared to other neighboring countries, Vietnam has been achieving substantial improvement in working condition issues. This change started in the private sector in the name of CSR first, and the government institutions started paying attention to the issue.<sup>22</sup>

Many international companies started settling in Vietnam for its cheap labor since the mid 1980s. During this time, Vietnam quickly became a home for many production plants and suppliers for leading companies especially in the garment sector. In the middle of 1990s, the anti-globalization movement and anti-sweatshop movement targeted poor working condition in

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<sup>19</sup> Vietnam development report 2009, World bank

<sup>20</sup> Labor market and employment condition in Vietnam.2007. Dr. Dao Quang Vinh. Institute of Labour Science and Social affairs Vietnam

<sup>21</sup> Vietnam development Report 2006 ‘Business’, world Bank

<sup>22</sup> Ibid

MNCs supply chain in many developing countries. Companies operating in Vietnam were also influenced by this international movement organized by consumers and NGOs. Industry leaders and MNCs in the country started recognizing the importance of the issue and started making active efforts to improve the labor practice. The efforts were manifested in the form of Corporate social responsibility initiatives by MNCs such as Code of Conduct and various philanthropic activities at first.

Recently, Vietnamese government agencies started promoting CSR in domestic firms from 2005 in recognition of CSR for international economic integration of the country. (Dao Quang, 2007) Concerned institutions are Vietnam Chamber of Commercial and Industries(VCCI) together with the Ministry of Labour and the Ministry of Social Affairs (Molisa), Vietnam general Federation of Labour(VGGL), Vietnam association of leather production, Vietnam association of Garment and Textile Production etc. The institutions encourage enterprises to participate in the CSR movement by raising awareness of possible benefits and tackling possible barriers to implementation in practice. In the business bulletin published by business information center at VCCI in 2004, it was promoted that by complying with CSR, companies could achieve benefits such as cost savings, higher revenue, a better image and lower turnover rate from workers, increased productivity and access to new international markets.<sup>23</sup> The paper also identified CSR implementation barriers quoting World Bank reports. The barriers were 1) lack of awareness of the concept of CSR 2) inefficiencies caused by implementing multiple Code of Conducts 3) lack of financial and technical resources to implement CSR (especially for Small and medium sized enterprises; SMEs) 4) confusion caused by differences between national labor code and Code of Conducts. Among these challenges, especially, lack of participation from domestic SMEs is a priority concern for institutions since majority (about 95%) of enterprises in Vietnam is SMEs.<sup>24</sup> In addressing some of the barrier to implementation, VCCI is rewarding companies showing good CSR practice and also supports small and medium sized companies (SMCs) with CSR funding. Regular labour inspections are carried out by Molisa in order to ensure firms to meet labour standard as well.

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<sup>23</sup> Corporate Social Responsibility: The business Case for Sustainable Development,(2004).*Business issues bulletin, Vietnam*. Dao Tuan Dung - director of Vietnam Chamber of Commerce and Industry(VCCI) and Business Information Center(BIZIC).

<sup>24</sup> SME Growth and Survival in Vietnam:Did Direct Government Support Matter?By Henrik Hansen, John Rand and Finn Tarp

Some NGOs and international agencies are also involved in promoting the principles of CSR. In Vietnam, the global compact Vietnam network was launched on 26th of September in 2007. It was organized by the United Nations (UN) Vietnam and Vietnam Chamber of Commerce and Industry (VCCI). The global compact Vietnam network is currently having 61 members which include both international and Vietnamese companies, universities and civil society. The main role of the organization in improving CSR practice in Vietnam is claimed to be; “a) providing guidance to members on how to do responsible business b) offering trainings on CSR for Vietnam c) a place for different stakeholders to have a dialogue for better future strategies. D) Identifying and publishing Vietnamese best practices instead of importing international standard. “<sup>25</sup> Among Vietnamese NGOs, ActionAid Vietnam(AAV) is active in promoting CSR. AAV has been involved in developing awareness raising program as well as promoting good CSR practice among employers. The organization also works closely with VCCI, the ministry of labor, invalids and social affairs (MOLISA) and other government ministries to promote the best practice by awarding social responsibility award in footwear and garment industries.<sup>26</sup>

In Vietnam, Overall, CSR principles are gradually promoted and practiced with participation from both private, government sectors and NGOs while some of the challenges in implementation such as lack of participation from SMEs and domestic firms still remain.

## ***2. Labor Condition***

Labor conditions are an important issue since it triggered the formulation and implementation of many Codes of Conducts. To understand the Vietnamese labor market, it is important to look at what kind of jobs are being produced as the economy develops as well as labor conditions such as income level, social protection and labor right. Low labor cost makes Vietnam an attractive country for international market to invest. Since its economic reform, increased business activities resulted in a rapid increase in the demand for labor. This change in labor demand is shifting the main source of employment from agricultural jobs to non-farm-employment and also geographically, from rural to urban areas.<sup>27</sup> There is also huge

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<sup>25</sup> [http://www.un.org.vn/index.php?option=com\\_content&task=view&id=295](http://www.un.org.vn/index.php?option=com_content&task=view&id=295)

<sup>26</sup> <http://www.un.org/esa/sustdev/publications/innovationbriefs/no1.pdf> February 2007 Sustainable Development Innovation Briefs

<sup>27</sup> Vietnam development Report 2006 ‘Business’, world Bank

geographical dispersion of wage jobs which account for the fast growing migrants from rural to urban area, most notably Hanoi and HCMC.

According to the World Bank report, the average wage in Vietnam is about 824,400 dong per month which is roughly 55 dollars. Wages in FDI companies are normally higher than domestic firms. The report also shows that one of the common determinants in deciding wage is education level. Before, women earned less than men but it is slowly improving. When it comes to labor rights, the Trade Union is the only organization there to represent workers. Workers are not allowed to organize or join any other unions. The law regarding the Trade Union clarifies that trade union should run 'under the leadership of the Communist Party of Vietnam'(CPV). Even though most factories have trade union, many do not work in practice. State Owned Enterprises have relatively more active trade union and only one third of foreign companies and 15 percent of domestic private firms have a collective agreement in place.<sup>28</sup> Trade union normally provide services such as organizing social events, sports activities doing little job in collective bargaining. Labor inspections done by government are known to be ineffective in terms of protecting labor standard and workers' rights. According to MOLISA, there have been only 1,635 inspections carried out since 1995.<sup>29</sup> Social protection for wage workers has been a major concern for balanced labor market development for Vietnam as well. After the adoption of the Labor Code, in 1994, all workers with a labor contract longer than three months were allowed to be covered by a compulsory social insurance program. In 2005, mandatory coverage was extended to all workers in registered enterprises, regardless of their type of contract.

## ***6. Empirical Findings***

The part mainly contains data collected in the field in the form of interviews. A brief introduction of three supply companies, the functioning of IKEA's office in Hanoi, the formal process of implementation of Code of Conduct in IKEA and supply companies as well as the governance structure will be introduced. And most importantly interviews will be presented.

### **1. CSR practice in IKEA Hanoi office**

IKEA's Code of Conduct implementation is one of the main functions of IKEA's trading service office. Trading service offices are mainly responsible for contact between the suppliers

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<sup>28</sup> Vietnam development Report 2006 'Business', world Bank

<sup>29</sup> Ibid

and IKEA. Its main duty is to ensure reliable production, efficiency and minimal waste in manufacturing processes as well as supporting and monitoring the compliance of IWAY requirements in supply companies.<sup>30</sup> The offices are often located in the site of suppliers' factories. IKEA's co-workers in the trading offices play a role to support and motivate suppliers to stick to IWAY requirements. The main support and motivating function consists of constant dialogue, trainings upon suppliers request and auditing.

### **1. Being an auditor of IKEA**

In Vietnam, there are two IKEA trading offices, one in Ho Chi Minh City and one in Hanoi. After initiating the business relationship with a supplier, IKEA Hanoi office provides them with trainings upon request and other technical advice. In supporting supply companies in implementing the IWAY, social and environmental developers play an important role.

IKEA's social and environmental developers mainly work between IKEA and supply companies. They communicate with suppliers on how CSR principles should be reflected in business practice by organizing and giving trainings on the IWAY. Trainings are related to various issues the IWAY covers, from child labor to proper use of chemical substances. They also monitor the actual practice of IWAY in supply companies by conducting audits. Implementing issue based projects in sub-suppliers level such as child labor prevention is part of their work, too. They directly work with local NGOs. In Hanoi, there was a program being developed in cooperation with Save the Child to prevent child labor. The social and environmental developers work as a facilitator between suppliers and NGOS in implementing projects.

I interviewed a social and environmental developer based in IKEA Hanoi office. As a main facilitator in implementing the Code of Conduct in the supply chain, his definition and understanding of CSR (ethical trading) and Code of Conduct, perceived benefits and challenges were thought to be a valuable source for people's sensemaking in the supply chain. His interview also gave more a grounded description of CSR governance in IKEA's supply chain.

I first asked how he defines CSR and IWAY.

"CSR and IWAY (IKEA's Code of Conduct), as a part of it, are very serious work for us. Our purchasing business is like a chair with four legs. There should be four major components

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<sup>30</sup> <http://www.ikeafans.com/ikea/ikea-corporate/ikea-corporate-structure.html>

working together. It is price, social and environmental development, delivery on time and quality. We also work with save the children to prevent child labor in our supply chain ”

He also showed me before and after pictures of some factories that clearly shows the improvement in overall working environment. (Appendix1) Workers were happy to have such improvement he said. Regarding challenges and benefits in implementing IWAY, he answered by listing various anecdotes.

“Most difficult issue for us regarding implementing IWAY in Vietnam is related to working condition issues. It is the special area of concern in Vietnam as well. It includes safety conditions and working time etc. In here, some workers want to work more beyond legal working hours to make more money. Supply companies try to persuade workers saying that it is not healthy for them to overwork. IKEA allows over time maximum two hours per day. One more difficulty is concerning the management of sub-contractors. IKEA has a lot of sub-contractors and it is not easy to audit them. They normally do not have official agreements with IKEA. However, IKEA still visits their factories to see the situation. ”

According to him, two main difficulties to implement IWAY in supply chain were first, conflict between workers wish to work more and legal working hour IWAY enforces and second, managerial burden to oversee numerous sub-contractors. When I asked if there are any other challenges, he added that maintaining good conduct of IWAY to ensure commitment from suppliers’ side is a difficult task for them. Constantly checking good conduct of suppliers by doing auditing was another challenging work for social and environmental developers in IKEA. When IKEA and suppliers do not share the same needs towards the Code of Conduct, it makes the job of auditors more challenging. He said that in the beginning, it is not easy to make suppliers see the benefits of complying with IWAY. Because the supply companies have to pay the cost to improve working environment in their workshops by themselves, some companies do not like the adoption of IWAY. However, he has observed that people’s attitude slowly changes as they experience benefits themselves.

“ In the beginning, it was not easy for them to adopt IWAY. Some people in the supply companies did not like it because implementing IWAY can cost money. For example, there was one product manager in one of our suppliers who hated me and did not even want to talk to me. However, after a while, he saw the advantage of complying with safety regulations and other

measures because there was better production flow. Also, these companies did not need to worry about government inspection since it is already well equipped with good working conditions.”

In sum, what he mentioned as challenges included the issues arising because workers themselves do not want to comply with certain regulations in Code of Conduct, overseeing a number of sub suppliers and maintaining the good compliance in supply companies. It was observed that what he perceived as a challenge partly coincided with previous studies on barriers to CSR implementation<sup>31</sup>. His accounts partly showed the concerns as an auditor whose job is to ensure good compliance from suppliers and sub-suppliers. IWAY audit is based on the IWAY standard that consists of a 90 item check list to fulfill. CEOs and managers’ understanding of the importance of IWAY matters when it comes to requirements that need financial resources and managerial capacity such as buying new machines or addressing overtime payment. Workers also need to comply with IWAY by wearing safety gear and cleaning the working area to prevent accident and keeping legal working time etc. Therefore, in order to achieve good compliance, it was necessary to draw active participation from all the actors in supply chain.

The question regarding workers and implementation of IWAY was followed, because workers were the aimed beneficiary of the Code of Conduct and also the actors who have to participate in implementation. I asked the IKEA’s social and environmental developer if he knows how workers perceive IWAY implementation. The question of how workers report satisfaction or complaints without proper labor union was followed. Regarding listening to benefits and problems from workers side, he claimed that there are comment boxes for workers in each factory. He also added that doing Code of Conduct can benefit all the people involved in production and even home-workers working at the very end of supply chain.

“ Trade Union does not work properly in Vietnam. Therefore, we ask suppliers to have channel for complaints from workers. The best way is the comment box. Suppliers deal with issues rose through comment box. In some cases, the complaints do not reach IKEA. However, if it reaches us we decide who is right and who is wrong based on each case. “

According to him, IWAY is one of the activity which a part of building IKEA-suppliers business relationship. Therefore, Code of Conduct governance also takes place outside of this

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<sup>31</sup> 1) lack of awareness of the concept of CSR 2) inefficiencies cause by implementing multiple CoCs 3) lack of financial and technical resources to implement CSR (especially for SMEs) 4) confusion caused by differences between national labor code and CoCs

training auditing framework as various IKEA staff visit the suppliers factories and see the progress.

Overall, his interview gave a sense of how the company promotes, conducts and governs IWAY Code of Conduct as a part of ethical trading efforts and perceived challenges from IKEA's side. Also, it was a good stepping point to understand the context before conducting interviews with suppliers companies.

## **2.Accounts from CSR organizations**

During the data collection in the field, interviews with two CSR consultants were conducted. In Vietnam, there are two types of organizations that address the issue of CSR. Civil society organizations such as Action Aid were doing a job to raise the awareness of CSR in Vietnam by selecting good practice. Another type of organization is there to provide consulting service on how CSR or Code of Conduct should be implemented. To gain overall understanding of how CSR is perceived and practiced in Vietnam from an expert's perspective, I had interviews with two CSR consultants Mr. Ai in CSDNR(The Centre for Sustainable Development of Natural Resources) located in Hanoi and Mr. Quach in one-step Vietnam in HCMC.

Mr.Ai is a director for CSDNR. CSDNR is a development organization having a partnership with natural resource companies, communities, international agencies and government for socio economic development. He used to work as a national consultant for Anti corruption action plan funded by UNDP 2006-2010 and currently is leading his own organization. His organization was mainly offering the expertise in mediating different stakeholders' needs and requests in community where natural resource extraction industry operates. During the interview, he suggested contacting one-step Vietnam to gain more insight on the CSR issue in Vietnam. One-step Vietnam is a labor condition monitoring company in HCMC. The company has been offering Code of Conduct training and monitoring services mostly for major apparel brand such as Nike and Adidas, government and international organization.<sup>32</sup> In HCMC, interview with one of the consultants in one step Vietnam was carried out. These two consultants both shared their knowledge of how CSR is perceived and practiced in Vietnam and how it should be in the future.

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<sup>32</sup> <http://www.onestepvietnam.com/GL/en/home/#>

When asked about the CSR practice in Vietnam, they both pointed out the demand-driven nature of CSR together with its shortcomings.

Mr. Ai said

“ CSR has been based on the attention from private sector and government recently. It mostly comes from foreign companies and it is not spreading to domestic companies. It is driven by demand from foreign companies. Vietnam is a big exporter in South-East Asia and companies working in Vietnam were interested in how their products are made. However, many companies do not have long-term strategies on CSR and most of the companies do not have CSR teams. I think CSR has not been clearly educated to people. Many people do not have ideas about CSR. When I was working for the mining company, there was a study about how many company staffs are aware of the responsibility of the company for the community and only 10% of them were aware of the issue.”

Mr. Quach said

“ CSR has been demand-driven in Vietnam. Especially in apparel industry, multinational companies have been a main driver for CSR activities. It is sometimes problematic because it does not have so much spill-over effect to other Vietnamese companies. When I was doing auditing, I have seen one company with two different working areas in the factory, one was for producing products for international brand and the other one was for domestic market. These two areas had very different working environment and conditions. The work place for domestic market did not abide by Code of Conduct at all but that international brand could not claim the improvement of that working place.”

They both pointed out that current CSR practice is driven mainly by international companies and have little spill-over effect in Vietnamese companies. According to Mr. Ai, the principles of CSR have to be educated to people. Mr. Quach’s account on how some companies have two working places showed how extreme pragmatism in adopting CSR can be.

To improve the current practice, they listed various steps to take.

Mr. Ai mentioned strengthening the government sector, collaboration with mass organization.

“To strengthen current corporate social responsibility activities, government sector in charge of CSR should be strengthened by having proper registration and providing education for people. Also, implementing CSR requires collaboration with mass organizations such as trade unions

and Women's unions because CSR addresses many issues including working condition and benefit schemes. I think it is possible that workers ask for their right by themselves. Everything is difficult in the beginning as you can see from the fact that there was resistance against adopting for example, Code of Conduct in many firms at first. One thing also important is to change the system of hierarchy. Vietnam is one party centralized system. Globalization and integration including outside pressure rapidly changed people's perception. One of the most important parts to make change is to train people to have more awareness."

The representative of One Step Vietnam also mentioned the importance of workers' right education and training.

"To improve better practice in CSR, there should be more training in workers' right in detail. For example, workers do not know what counts as harassment and what is not. Once I was doing an auditing and I asked workers if there had been any bad practice. They said no. But by end of that audit, I found out that company always locked the main door during lunch time and did not let them go out so that there is no workers going out or missing. Workers did not seem to recognize it as a problem. Management system should support these kinds of trainings in detail. Common traits in good performer in CSR are good financial resources and awareness of top-management. Bad performers are normally associated with poor planning in getting orders and overtime problem. CSR issue is closely connected to the issue of labor cost. International companies come to Vietnam mainly because of cheap labor cost. Since it is the selling point in the first place, it is difficult to expect CSR practice which requires certain financial investment, will naturally get better."

To improve current practice, they mentioned government regulations, the importance of in-depth training and education as well as active efforts from multiple actors to make change. They both pointed out that adoption of CSR programs such as Code of Conduct by demand inevitably involves active intervention to make fundamental change from inside together with supporting legal measures for that change. They believed that in-depth training on worker's right and education in CSR principles will raise awareness and make better practice in the future.

### **3. Interviews with three supply companies**

Interviews were conducted in three supply companies. The first company I visited had two main business lines, (1) carton packaging and (2) kitchenware. The production of each business line is located in two separate sites nearby Hanoi. The research was done only in the kitchenware

business line of the company. According to the plant manager, the company mainly targets the domestic market with 20% of its revenue from exporting. The second company produces chairs made of bamboos and lamps etc. The company used to be a sub-contractor of IKEA and became a supplier three years ago. 100% of their products are for the international market. The last one is a candle company that produces scented and non scented candles. This company has Chinese origins. It was moved from China to Vietnam looking for favorable tax cuts in Vietnam after Anti-dumping law between the US and China initiated. Its main customers are American companies such as Kohls and Target.

### **1.Perception of IWAY: What is IWAY for us, people in suppliers?**

This part delivers various people's accounts working in supply companies in Hanoi. Interview groups were categorized into three groups, CEO, managers and workers, according to their managerial position and main duties. CEOs are regarded as a main decision maker regarding adoption of IWAY and implementation. Managers play a role in organizing trainings, complying with IWAY regulations themselves and enforce compliance to workers in working area. Workers also play a major role in implementing IWAY in everyday business operation by wearing safety gears and putting things in order to prevent accidents etc.

#### ***1. CEOs***

Interviews with CEOs were conducted in two supplier's companies. They were asked questions based on sub questions formulated before with the presence of an interpreter. They were asked to freely talk about IWAY and its implementation. Benefits and challenges of implementing IWAY came naturally while they were answering the first question. They also shared their opinions on auditing.

- What is CSR and IWAY Code of Conduct?

“IWAY is a part of corporate social responsibility activity that covers labor condition issue. It is about how to guarantee worker's benefit and right in accordance with Vietnamese law. We see the differences after adopting IWAY. Workers did not have good engagement in the company before. Now as working condition improves, I see better spirit and better efficiency

among workers. Workers' health has been improved as well. It is measured through productivity. It is good for environment and development as well. ”

The other CEO also shared the same opinions on what conducting IWAY brought them. He also told me how they consider it as an important issue in the international market.

“I think the most important issue of IWAY is working condition, safety and health issues. Complying with labor requirements for the workers is important. From the beginning, the company was an export oriented firm to international market. Strict requirements for social compliance followed but in the beginning we did not take it too strictly. As time goes by, we learn from our partners.”

- Difficulties in implementation

When I asked if they can share any difficulties doing Code of Conduct, one of the CEO listed several difficulties they experienced and are experiencing. It was related to difficulties when training workers and the beginning phase of IWAY adoption. He said

“Some of the workers have low level of education such as secondary school education. It is difficult to let them know the benefit of abiding by IWAY regulations. For example, wearing mask and ear plug was bothersome for them in the beginning. However, they eventually realize the benefit. “

The other CEO claimed that there are no difficulties for him. He was the CEO of the company that has been conducting multiple Codes of Conduct from different international customers.

“I do not feel any difficulties in complying with regulations. It is all based on government compliance. So for me, there is no difference.”

- How do you think about auditing?

Two CEOs both gave me similar accounts when they are asked about auditing. One CEO said

“IKEA does auditing annually and strictly. It is really good. It prevents from supply companies doing badly as opposed to what they promise. We also do self auditing. We have weekly and monthly meeting to deal with issues immediately. We even have IWAY board. After

auditing, supply companies and IKEA have to discuss about the result and make a report together.”

During the interview, they both showed similarly positive attitude towards Codes of Conduct and claimed benefits from implementing them. Their perception of implementation of CSR was that it is an important activity that should be done both for workers’ benefit and better business operation.

## ***2. Managers***

In communicating and conducting IWAY, managers play the most diverse roles between IKEA and workers. During the interviews, it was discovered that their main responsibilities concerning IWAY implementation encompassed from organizing in-factory trainings to workers to carrying out self auditing together with their everyday administration as managers in different areas such as human resources and quality control. Their interviews were especially rich in terms of description with various examples. The interviews started by letting them talk about IWAY freely. Managers talked about various benefits of IWAY and defined IWAY as both discipline for better business operation as well as human right protection measure.

“IWAY means more disciplines for the quality of products and managing working condition issue. After adopting IWAY, we see more opportunities to improve quality and system. “  
(Manager 1)

“We think human right is the most important part in social compliance like IWAY. IWAY means good working conditions that ensure healthy and safe working environment.” (Manager 2)

“Before IWAY, there were issues with salary, insurance and working environment for workers. It was not assessed systemically before. But now, there is a lot of improvement in this regard. To list up the consequences of IWAY, for salary, specific regulation was adopted for overwork. Also, four different types of insurance (medical, social, unemployment, and hazard) were adopted. There is a dangerous place in the factory and if you work there, these days you get protective gear and allowance that is 5% of their income. The facility has been improved also. Before 2008, polishing was done by hands and in 2009, we adopted machines.” (Manager 3)

- Benefit of implementing IWAY

When they were asked how they perceive the benefit of IWAY implementation, various answers came up. One manager said that adopting IWAY guarantees a long term benefit by saying what they had to do to fulfill the requirements.

“In order to fulfill the IWAY requirements, we had to set up the long term plan and ask for funding. We knew that it is for attracting more customers as well. It was very dusty in the polishing area before, now ventilation is installed and it was 1 billion VND. It costs 30 million VND for maintenance. It was done because we recognized the long term benefit.”(Manager 1)

Similar opinion came up while having an interview with another manager.

“Implementing IWAY is good to attract more customers. Also, it helps us keep skilled workers. It helps us to prepare for government auditing as well. The government auditing to check labor safety is very frequent. It is quite stressful even though they normally inform you before they come for an inspection. If they find out something, financial penalty is put into effect. Implementing IWAY was very hard in the beginning. But government inspection team was satisfied after auditing since we have been doing IWAY, we were prepared. “ (Manager 3)

- Difficulties in implementing IWAY

When it comes to difficulties, training workers was mentioned most frequently. It was said from one manager that

“We have high turn-over rate. Volume of work is up and down so when we hire workers, we need to train them to be aware of IWAY. They often do not strictly follow the requirements. We make them more committed to the rule. If we ask them why they do not comply with the rules, they normally said that they did not pay attention. But we normally do not ask reasons for not following rules. We want to find out root reasons why they do not take action and make preventive action plan.” (Manager 1)

Another manager said that

“ Some workers are not aware of IWAY requirements well and do not want to wear protective gear. When they ask for a reason, they do not feel uncomfortable with wearing them. They do not normally understand the importance. Sometimes we have different types of gloves for them.” (Manager 4)

They also mentioned an issue regarding keeping legal working which IKEA auditor talked about and other difficulties. One manager said:

“Keeping legal working time is the most difficult part. It is given by the law and we do not allow people work more than 12 hours per day. We experienced that too much work load can influence the output/productivity.” (Manager5)

“There are three main challenges. One is to raise the awareness. Office workers are well aware of the importance of IWAY. However, factory workers sometimes do not want to keep the protective gear. Secondly, financial issue is important. Lastly, Some IWAY code is different from Vietnamese law. They are sometimes better than Vietnamese law. We have to register our operational regulation to the state authority why it is different. For example, 3 types of insurances are guaranteed according to the Vietnamese law but we have one more which is hazard insurance. We have to inform social insurance authority and it takes time.”(Manager 3)

In sum, they listed 1) training workers 2) keeping legal working time 3) difference between IWAY code and Vietnamese law as difficulties.

- Perception of Training and Auditing

Opinions on two main activities which are training and auditing in order to govern IWAY practice were also collected during the interviews.

“IKEA supports the company with some technical issue giving advices. We can learn a lot what IKEA focus on by attending training.” (Manager 5)

“I attended 3 training sessions since I began to be in charge of IWAY. Training (hazard insurance/ benefit etc) was very effective and practical. We organize trainings ourselves for workers as well. But it is not easy. Workload is heavy and schedule is tight. And the way I explain to workers should be more casual and friendly using lively example. Village people’s way of speech should be used. “ (Manager2)

Regarding auditing, they said

“Auditing is an activity we have to follow. I think it is a good way to improve the production. It is not only IKEA but also government audit. We also have our own internal audit. Sometimes government audit is different from how we do with IKEA. Then we have to explain why we are doing in a certain way. There audits are necessary part of improving quality.” (Manager 2)

“We have had IWAY audit two times. I think it is good because they find something we normally cannot find out ourselves.”(Manager 5)

“When there is an audit, normally IKEA comes with notice and when they come here they work with quality control team and see the factory. They talk about what to improve. Personally I think it is good to have such an audit. I think auditing is mutual benefit not even in terms of getting more orders but also management advantages. It gives warnings about the risk and it is an opportunities to share the experience from other suppliers company through IKEA.” (Manager 1)

Managers defined training and auditing mainly as a necessary business activity to improve the production and management.

### ***3. Workers***

Workers participated in interview all showed positive response to IWAY when asked to freely talk about how they think of IWAY. Below are the thoughts they shared with me. They mostly defined IWAY as workers’ benefit and better working conditions mentioning various benefits they are enjoying.

“ IWAY is regulations that assure benefits for the workers in the factory. IWAY gives you the information of benefit you can ask for from the company.”(Worker1)

“ I think IWAY is a standard set up by one customer company so that we can operate well. IWAY is helping to improve the working conditions, efficiency and productivity.” (Worker 2)

“I think that IWAY helps workers have the best working conditions. Thanks to IKEA, we also have more work on regular basis and working condition is getting better. I had trainings about IWAY before and it was good. “(Worker3)

“ I have been working here for more than two years and I have 8 years of experience as a supervisor. Working condition in this company is better than the old company and also salary is higher. I used to work for a shoe company. In here, I feel more free to make my own decision and have more self-authority. I got a lot of support from company and I am able to get higher position. Before, I had to work overtime at the lower salary. Customers at the time only cared about quality of the product and production. But now, our customers care about workers’ conditions. For example, the meal is free in this company. The difference between two factories was because business profit in former company was not good. They did not want to spend money. We tried to talk with leaders but it was no use. Leaders normally explain why they cannot provide meals that there are 1000 workers and company cannot do business like that. In this company, if we have problems, we have an open meeting. If we cannot solve it by ourselves, we talk with higher positions.”(Worker 4)

“ I appreciate health insurance and sick leaves in which IWAY ensures. When I got married, I could get three days leaves and it was really good.”(Worker5)

When it comes to training and auditing, they claim that training gives them an opportunity to learn their right as a worker as well as how to do their work better.

“We came to know the human right issue mostly from the factory trainings. IKEA trains IWAY staff and they train supervisors and factory workers. The most important part of the training was that we could understand our own right. “ (Worker6)

“As a worker, IWAY meets all the needs of workers. Training clarified my employee expectation, benefit and hazard. If I had not been informed, I would have been complaining about doing hazardous work. Now, I know the risk and know how to protect it. For new workers, it can be frightening to work but once you are skilled enough, it is okay. IWAY also allows them to have certain percentage of impaired product so that people do not need to work on too demanding jointing which can be dangerous.” (Worker2)

“ Auditing is good because it checks things are going as it is supposed to be.” (Worker 4)

When I asked them if there are any difficulties or challenges in doing Code of Conduct, they did not claim any but saying they are happy with how it is implemented. They also said that they do not have any further request at the moment. When I asked if they need further support to implement IWAY better, workers constantly mentioned support form co-workers and supervisor.

“To implement IWAY well, I need support from every workers to participate.”

“I need support from directors/supervisors to help me more concentrated when I lose focus”

“When I do not understand IWAY well, I normally ask my colleague and supervisor. I want to continue to have that kind of support.”

“I want support from colleagues. In case I do not know something, I want to ask something to them.”

“We normally work as a team and we need to finish work together. So It will be good to have team members help each other.”

Many workers I interviewed showed high satisfaction with the Code of Conduct and appreciated what it delivers. I asked them if there are workers who do not follow what IWAY requires such as wearing safety gear as some of the managers mentioned. Some of the workers said that in many cases, it is because they are new workers. Overall, their perception was in line with CEOs and managers as they conceptualize IWAY as both a measure for worker’s benefit

and customers' demands. However, how they describe IWAY implementation, training and auditing was deeply grounded in benefits they experience. They also seek support from their colleagues and supervisors for better practice.

#### **4. Emergent Case: We do not agree with you**

While three supply companies saw the auditing as an opportunity to learn, not all the supply companies seem to share the same opinions on having IKEA audit. During the field research, there was an incident that gives a hint of struggle between suppliers and IKEA over surprise audit. It happened when accompanying three IKEA auditors for an unannounced audit for a company in HCMC. According to one of the auditors, the company was known as “a problematic performer” in terms of complying with IWAY. The unannounced-audit was performed one day before the audit day they agreed on. In the end, it turned out to be impossible for IKEA auditors to perform the audit because of the disagreement between IKEA and the supply company. During the process, conflict between a manager from the company and IKEA auditors was observed. They did not agree each other on whether an unannounced audit should be performed on that day. This incident left the impression of resistance and struggle over the unannounced audit.

The impression was concretized during the interview with a CSR consultant in HCMC. He was an experienced CSR auditor himself working mostly in apparel industry. He said that unannounced audit can cause a serious disagreement between auditors and companies. In his experience, some companies refused to accept the result when audit was 50% done. This contrasting attitude among supply companies was worth observing to have a more realistic picture of how Codes of Conduct are governed.

## **CHAPTER 3: Discussion and Conclusion**

This chapter has discussion and conclusions. It contains the discussion on the perception of ethical trading practice (IWAY implementation) in the supply companies of IKEA in Vietnam. Conclusion and suggestion for future study will follow.

### ***7. Analysis***

#### **1. Two different conceptualization of IWAY Code of Conduct**

During the interviews, it was discovered that there were different ways of conceptualizing IWAY for people. Two major categories emerging were IWAY as a discipline and as a set of regulations promoted by IKEA and IWAY as a tool for protecting workers right. There was no major difference between CEOs, managers and workers in defining IWAY in their own term. However, workers' accounts were deeply grounded in their own experiences and benefits they have gained.

#### **1. IWAY is a discipline and customers' demand**

Some of the workers and managers described IWAY as a set of orders and customers' demand while having an interview. They also associated adopting Code of Conduct with long term benefit they are achieving by implementing Code of Conduct. In one regard, IWAY was a management tool to access and manage different variables related to the social and environmental issue in working places. Also, many of interviewees said that IWAY is customer's (IKEA's) demand to ensure the product is being produced in a good working environment. Many believed that complying with IWAY leads to better productivity, high employees' engagement and better product quality. Managers and CEOs frequently mentioned the long term benefits of implementing IWAY are 1) Keeping skilled labor (low turn-over rate) 2) increased loyalty from workers 3) increased productivity 4) learning about social compliance to enter international market 5) improved working condition 6) No need to worry about government audits

#### **2. IWAY is protecting workers' right and benefit which is good in itself**

There were also many accounts on the IWAY as a way to ensure worker's right protection. Workers draw most of their understanding on their own right from IWAY requirements and claimed the importance of it. When it comes to benefit of activities related to IWAY for workers,

the responses between workers and managers, CEOs varied slightly. Workers gave examples deeply grounded in their own everyday experience while managers and CEOs listed benefits related to organizational success such as productivity. Workers claimed the most important benefit they experienced was 1) Gaining more information on what kind of risk one's job involves and how to protect it 2) Having regular work given by IKEA 3) Having adequate equipment for their work 4) Having health insurance and sick and holiday leaves 5) Having overtime compensation 6) Having salary on time.

## **2.Perceptions on governing activity**

Training and monitoring by auditing were the two major instruments to ensure that companies are not violating principles in IWAY. Trainings works as a preventive measure to raise awareness of each IWAY regulation and the idea behind and auditing works as a monitoring mechanism.

### **1.Trainings and auditing**

Knowledge related to IWAY requirements such as the concept of worker's rights and the use of appropriate safety gears in the working place by training was transferred throughout several managerial levels. Sometimes the training was organized by IKEA to workers directly and sometimes managers who had trainings from IKEA gave trainings to workers. Managers in Suppliers Company all claimed that training workers in order for them to understand the importance of IWAY is the biggest challenge in implanting IWAY. The two major obstacles mentioned most were first training workers during busy season and lack of workers understanding on the IWAY requirements such as wearing safety gear for prevention of possible accident etc. Lack of managerial capacity to constantly train seasonal or temporary workers was also mentioned.

Workers normally learn about their right by having trainings. Many interviews with people showed that IWAY training is the main channel for Workers to gain information about worker's right such as wages on time, over time benefit and proper working environment etc. While managers claim that it is challenging to train workers, most violation happened when it required worker's active participation such as wearing safety gears, cleaning up the working place and working overtime.

The evaluation of progress was officially measured in terms of compliance rate produced by annual auditing in each supplier company. In suppliers companies, managers, workers and CEOs shared the similar notion of the role of auditing. It was perceived as A) A necessary part of improving product quality B) Identifying possible risk C) Prevention of breaking the commitment between IKEA and supply companies. Most importantly, all actors claim all these activities as an opportunity to learn. The general response on trainings and auditing organized by IKEA from workers, managers and CEOs in supply companies was centered on the notion of “learning”. It was consistently appeared during the interview with owners of the companies. When I asked about the poor working condition situation in other companies, one CEO said “ They do not have opportunity to learn from their customers.” It was claimed that by having opportunity to learn how to implement Code of Conduct and having monitoring mechanism, one finds out what to improve for better business operation.

## **2. Difficulties and support needed**

Perceived difficulties varied among different actors. For IKEA’s auditor, it was maintenance of good compliance and for managers, training workers together with other managerial burden. Workers themselves did not claim many difficulties but when it comes to necessary supports, many of them talked about help from colleagues or direct supervisors to have better understanding of IWAY.

## **3. Representation of workers and freedom of association**

The Trade Union does not work as a proper workers’ representation channel in Vietnam. In supply companies, there were no union activities or workers’ representation units. When I asked a question regarding disputes with the boss or problems in the working place, most of the workers answered that they normally talk with their direct boss. IKEA was also acknowledging this situation and placed a comment box in each factory so that workers with issues can appeal without having to deal with their boss. Even though IWAY regulation guarantees the freedom of association, not many workers prioritized the criteria when asked to prioritize the importance of each regulation. None of them chose freedom of association. The result is not to suggest that it is not necessary to guarantee the freedom of association but, to clarify that suppression of freedom of association was not observed in the cases studied.

#### **4. Empirical implication of the findings - Replication of making instrumental and normative CSR in supply chain in practice, concerning issues and suggestions.**

It is an old dilemma in CSR study that strategic CSR activity can go together with normative CSR activity. It seems to be an oxymoron to pursue material profit which is inherently instrumental itself while preserving normative morality which is being good for goodness sake. (Amaeshi and Adi, 2007) Even though they are dialectically opposed to each other, these two approaches were perceived as two main pillars for conceptualizing CSR in practice without any alternatives.

In Vietnam, It was discovered that IKEA suppliers also made sense of ethical trading (IWAY Code of Conduct) in terms of normative values (worker's right, human right protection) and strategic and strategic values (long term benefit for the company, customers demand) at the same time. When different actors shape their own perceptions, different variables were influencing them. Normative values were learnt mainly through IWAY trainings and having contact with IKEA staffs. Strategic and instrumental values were gained mostly through benefits they observed and experienced as well as trainings and conversations. Managers and CEOs claimed better productivity and quality of the products. Workers showed their understanding by saying how IWAY is a standard to make company to operate well ensuring regular production volume for the company.

Collision between normative values versus strategic values such as not complying with IWAY because of lack of financial benefit was not observed in IKEA's suppliers companies. However, interviews with CSR consultants revealed how problems with an extreme instrumental approach in CSR can cause window dressing from some companies without making fundamental changes for better working conditions.

In IKEA's suppliers, however, translation of certain terms in IWAY regulation was needed because of the confusion these two definitions cause. Different actors were defining IWAY in both normative and instrumental values and translated each regulation in IWAY using different reasoning in practice. In everyday experience, they were negotiating with the normative approach and the economical approach in translating the code and making actions to comply. CEOs, manager and workers were all involved in this sensemaking and transferring it to each other; IWAY as worker's benefit and IWAY as customers' demand and long term benefit. There

were many examples that show how managers try to translate IWAY regulation into the language that is agreeable to workers.

For example, the working overtime issue was the most frequently mentioned problem. If one interprets IWAY as ensuring workers' benefit demanded by workers, workers benefit can be different for different people on the individual level. What has been observed is that working overtime for workers does not have negative connotation in itself in Vietnamese society as long as it is properly compensated. Hard working is cherished as well as putting collective success before the individuals. However, if it is translated into the rational language in business, productivity can go low and it can be considered as violation of Vietnamese law. When there is discrepancy between these two approaches, rational language normally overrode the normative and emotional one.

In a recent study by Cramer(2004), he also mentioned when CSR is being integrated into organizational practices, organizations are constantly struggling with the 'translation' of each term trying to develop a more encompassing understanding of the concept as a whole while implementing 'bits and pieces' they deem relevant.

One notable result in the present study was that making sense of IWAY in two different terms did not appear when looking at the perceptions of auditing. When it comes to perceiving auditing, it was considered as learning for better practice in practical terms. Not so much normative values were attached to the actors who give auditing. Especially, managers in supply companies were legitimizing having auditing using economic reasoning rather than normative reasoning. (e.g. Auditing is an activity we have to follow and it is a good way to improve the production.) This phenomenon in which normally managers show reluctance to describe and communicate their actions in moral terms even when their action is based on moral reasoning was studied before in business ethics and termed as 'moral muteness'. (Bird and Waters, 1989) The study revealed that managers showed the tendency to talk in terms of organizational interests when describing their actions even when morally defined standards codified in professional conventions and social norms are there in practice. In case of people in supply companies, they all referred to IWAY Code of Conduct as a standard for their action claiming its value in protecting worker's benefit and right as well as practical value of organizational success. However, when communicating its governance such as auditing, moral reasoning did not come across.

The research did not investigate the reasons of this phenomenon in IKEA's supply companies further. However, Bird.F and Waters.J(1989)'s study suggests several causes of moral muteness. Moral muteness is likely to occur when moral talk is considered to threaten organizational harmony, efficiency and reputation for power and effectiveness. Especially, when it comes to effectiveness, moral talk was not considered to contribute to problem solving thus, lacks organizational robustness by managers in the study.

This sensemaking of IWAY in the supply chain raises two major questions. The first question is what is the necessary step for effective interpretation and translation of IWAY Code of Conduct that can lead to active participation from various actors? Translation of principles of IWAY and acting on it are not always straightforward. It involves moral reasoning rooted in social context and reasoning based on organizational interests. To achieve high social compliance, the process of interpreting principles, communication of this interpretation as well as monitoring activity have to include all the actors involved in implementing IWAY because this whole process can give shared guideline for action and active engagement.

“Moral arguments possess compelling authority only if the discourse in which these arguments are stated is socially rooted. It is an idealistic misconception to suppose that moral reasons by virtue of their logic alone inspire the feeling of obligation and desire that make people willingly adhere to moral standards. The articulation of moral ideas gains compelling authority to the degree that these expressions call to mind existing feeling of social attachments and obligation, build upon tacit as well as explicit agreements and promises, seem to be related to realistic rewards and punishments, and connect feeling of self-worth to moral compliance.”<sup>33</sup>

There can be various ways to include people in translating IWAY the Code of Conduct and act on it. The result of the study suggests that there is a possibility to take workers into training and evaluation process within the organization. The success of IWAY Code of Conduct is measured in terms of compliance rate. To achieve a high compliance rate, auditors and managers play a role in this process navigating different possibilities in reconciling workers' understanding and actions with the need of complying with IWAY strictly. Workers are the beneficiaries of most of Code of Conduct requirements and also main participants who claim the normative value of the activity. Knowing how they translate each term and acting on it would

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<sup>33</sup> The Moral Muteness Of Managers, Bird, Frederick B.; Waters, James A. California Management Review; Fall 1989; 32 (1).(82P)

be an important step to improve its practice. Having several representatives from workers with more trainings and letting them communicate with other workers can be a beginning of this step. Many workers claimed that they want support from their colleagues and supervisors when implementing IWAY. Active involvement of workers throughout the process until the end can make workers aware of what is important in their own sense and exchange their views and most importantly become change agents themselves.

The second question is why moral muteness occurs on the part of supply companies when communicating governing and monitoring activity. One could argue that if auditing is associated with normative values rather than economic benefit such as increased productivity, it becomes a sensitive issue for suppliers to talk about. It may be easier to let others criticize one's efficiency compared to one's moral behavior. If one accepts that auditing can serve as a tool for worker's rights protection, and if one defines worker's rights protection in moral terms, the one who is monitored by the other potentially has to define himself or herself as problematic in a normative sense. Thus, moral muteness may occur in communicating governing and monitoring activity because issues are phrased in terms of morality. Together with resistance against unannounced audits, the way the governing activity was communicated in many of the cases observed implied that the issues discussed were sensitive for members of the supply companies. At the same time, it was not avoidable to have auditing because it was closely related to the overall improvement of the conduct and benefits of workers.

This study did not explore the question raised above further but confirmed that there are different discourses between IWAY implementation in general and the auditing activity of IWAY in particular. The researcher concluded that this result suggests the current top-down governing practice might have contributed to moral muteness in defining and communicating IWAY governing activity on the side of supply companies. Also, it suggests that if the moral muteness has a relation with supplier's participation, current practice needs to be investigated further in terms of its effectiveness and tailored in a way that is mutually beneficial for both IKEA and supply companies.

Investigating and tailoring the auditing procedure should involve several steps. First, it is important to explore the reasons for supply companies' reluctance to communicate in moral terms. If the reasons are related to the self-image of suppliers as actors who are subject to monitoring based on ethical grounds, one could ask what can be done to bring the moral and

normative discussion into the auditing procedure while not putting suppliers under moral scrutiny. Bringing normative and moral reasoning into auditing is important because it can have compelling authority in governing people's behavior together with perceived organizational benefit such as increased productivity and product quality. (Bird and Waters, 1989) For suppliers, if they define the auditing as a mere business activity, the arguments for rigorous monitoring might not have enough ground to influence people's action. However, this change can come when suppliers themselves are capable of self-monitoring instead of being monitored by others. Therefore, helping suppliers build capacities to perform evaluation more effectively should be the new aim of auditing. One suggestion to improve self-auditing is to make current auditing more participatory. Especially, when it comes to evaluating working conditions, workers can play a central role in analyzing and reporting the progress of compliance. Chamber(1997) argued that in many social auditing situations, the data collection and its evaluation are done by outsiders. Considering the fact that "Workers are always closest to problems in a factory", auditing without workers' active evaluation might lack organizational robustness as well as missing the opportunity to make auditing a learning place for suppliers to detect and mitigate problems.(O'Rourke,2000) As long as transparency and confidentiality are ensured, workers as a direct beneficiary of the evaluation procedure can turn auditing into a process for facilitating better conduct guided by both morally compelling reasons and organizational advantage. In this way, auditing involves actors inside of suppliers who directly benefit from doing rigorous auditing and build reasons to comply with the IWAY requirements within the organization. This bottom-up approach can eventually help suppliers build a capacity to detect non-compliance within the companies guided by their own initiatives and define what should be done to be more responsible. In designing the participatory auditing, workers' understanding of the Code of Conduct, transparency and confidentiality in delivering the result should also be guaranteed. For that, a long-term perspective in tailoring the auditing process is necessary together with cooperation with organizations that specialize in workers' rights and advocacy.

## ***8. Conclusion***

In conclusion, the study explored the issue of ethical trading implementation on the micro level. The emergence of ethical trading, development of its principles and practice in Vietnam was introduced and deliberated in this thesis.

Ethical trading emerged as a part of CSR that refers to the economic, social and environmental responsibility of corporate. Two major arguments (Globalist and Institutional) on the emergence of CSR were introduced in this study. Globalist argument postulates that CSR debate originated from the discussion on the role of corporations in a globalized world. It claims that rising criticism over the way MNCs operate in developing countries is the main driver for the companies to initiate CSR activities to obtain “Social license to operate”. (Sklair, 2001) On the other hand, Institutional views that CSR performance is related to the institutional setting of firms’ home country. It argues that for example, the existence of strong institutions for cooperation between social partners and public participation in welfare states makes firms from these states do better according to CSR principles. While, these different discourses on the root of CSR exist, these discourses both assume the same inner mechanism, corporations acting based on social demand and expectation. What is particular in the current CSR debate is that the monitoring for corporate act on the international level is becoming common because of the active involvement of NGOs and development agencies shaping agendas such as human right and environmental protection. Ethical trading also began as a response to anti-sweatshop movement initiated by media and NGOs. The critics pointed out poor working condition issue in suppliers producing for big western brands in developing countries. Various multi stakeholder initiatives were established as a place for corporate, NGOs and trade unions to come up with more sustainable business operation without abuse of workers’ right. Social and environmental standards or ‘Code of Conduct’ were produced as a result of these kinds of initiatives. Many Code of Conducts relied on internationally agreed standards in their design such as The International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.

IKEA’s Code of Conduct(IWAY) is a product of international framework agreements(IFAs) between IKEA and the Building and wood workers’ international (BWI). IWAY contains minimum requirements for environment and social and working conditions when purchasing products, materials and services. IKEA’s supply companies are obliged to comply with these requirements and have regular audits from IKEA. This study explored how

supply companies make sense of this activity in Vietnam studying three supply companies in Hanoi.

The study result suggests that in the absence of official worker's representation body and effective legal measures to ensure decent working conditions, implementation of a Code of Conduct was making positive contribution to overall improvement in working condition in IKEA's Vietnamese supply companies. People in three suppliers companies showed high satisfaction in general. However, how different actors made sense of and acted on IWAY the Code of Conduct were more complex. People defined IWAY the Code of Conduct in two main categories; human right protection and worker's benefit which has normative value and instrumental business strategies that ensures production efficiency and an opportunity to enter international markets. This way of conceptualizing Code of Conduct implied many interesting points as discussed above. It was interesting to see that the conceptualization of Code of Conduct practice in general was categorized into two while, perceptions on training and auditing were based on a more pragmatic approach. This result suggested that there was selective moral muteness in communicating governing activities involved in Code of Conduct implementation. These result left more questions to explore to promote better practice in the future.

In regard to theoretical aspects, this study was conducted based on limited cases and it is thus potentially inappropriate to generalize. However, I believe this study can be used for multiple case studies to build more concrete theory related to how CSR is accepted in different context and its practical implications. CSR has been attracting significant attention from many disciplines. However, it was always a question of how to translate the principles into practice in multiple contexts. Sharing experiences and know-how seems to be the right way to improve current CSR practice and I hope this study can fulfill that aim.

### ***9. Suggestions for future Study***

As briefly mentioned above, putting CSR into practice is a time consuming process with various trials and errors. After thorough observation of the case, I made a suggestion of more participatory training, auditing and exchanging experience among workers to reconcile workers' understanding and normative reasoning of Code of Conduct with other actors. Once it is put into practice it will be worth exploring how this method can be an effective way to raise workers' awareness together with managers and CEOs understanding of how workers make sense of each term and act on them Furthermore, as discussed above, more investigation on the question of

why moral muteness occurs in communicating governing activity and how the moral muteness is related to the overall participation will contribute to building more sound practice.

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## Appendix 1

Source: IKEA Hanoi TSO(2008)<sup>34</sup>



<sup>34</sup> Zhang, Y. and Joan Hed, C. 2009. Exploring the benefits of implementing CSR practice: from a supplier perspective - a case study of IKEA and its Vietnamese Suppliers. Master thesis. Gothenburg University

# Appendix



Appendix



# Appendix

	
<b>Before:</b> No chemical storage area. Chemicals stored outside, ground contamination.	<b>Now:</b> Chemicals in storage room. No more ground contamination.
	
<b>Before:</b> Very messy in the workshops	<b>Now:</b> Workshops more tidy & clean
	
<b>Before:</b> Not safe	<b>Now:</b> Safer.

Appendix

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