

Casestudy: ***IKEA FAMILY: OLD ENOUGH TO WORK?***

Socialist Party (SP) versus IKEA

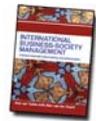
At the end of 1998, furniture giant Ikea became the target of protest campaigns throughout Europe. The campaign in the Netherlands was led by the political Socialist Party (SP) and a number of NGOs. The actions against and pressure on Ikea were prompted by a television documentary on working conditions at Indian factories that manufactured clothing, chairs and rugs for Ikea which made allegations of child labour and unsafe working conditions. The SP and other societal organisations demanded that Ikea adopt, comply with and monitor a code which addresses child labour and unacceptable working conditions at the factories of suppliers.

Societal Interface Management Challenges

PUBLIC ✨ PRIVATE	PROFIT ✨ NON-PROFIT	EFFICIENCY ✨ ETHICS/EQUITY	
<p>Is the eradication of child labour the responsibility of the Indian government?</p> <p>Observing international conventions (ILO) and cooperating with organisations?</p> <p>Quality mark/not? Inadequate regulations in host countries?</p>	<p>Unlisted company and business community involvement: consumers and/or suppliers?</p> <p>Family atmosphere in a family business?</p>	<p>Affordable furniture for consumers at lower end of market</p> <p>High margins on goods purchased from suppliers</p> <p>Owens most of the franchises</p>	<p>Working conditions (child labour and hazardous substances)</p> <p>Education and training policy of company?</p> <p>Low prices at all costs?</p> <p>The issue of cultural relativism/universalism . Would you find it acceptable if your child/member of your 'family' had to work - and under such conditions?</p>

This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), www.ib-sm.org. The Dutch newspaper articles in this case have mostly been translated into English.

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Ikea

Ikea is a multinational furniture manufacturer from Sweden. Ikea, the international retailer of furniture and household goods, has a reputation for low prices and fresh, innovative design.¹ It is the world's largest home furnishing and furniture retailer with 202 stores in 32 countries worldwide. Ikea was founded more than 50 years ago. At the end of the 1990s, founder and owner Ingvar Kamprad also acquired a hundred Habitat stores in England. Ikea is an unlisted family business. When family businesses in Sweden were subjected to higher taxes, Ikea left the country. Company headquarters are located in Amsterdam and Helsingborg (Sweden). The wealth of Kamprad, which is estimated at 52 billion euro, positions him at the top of the 2004 Fortune list of wealthiest people in the world. In 1984, the company was subsumed under a Dutch foundation: Ingka Foundation. The holding comprises several units: the Ikea Group (which manages the stores), IKEA Ikano-group (which owns the Habitat chain) and Inter-Ikea Systems BV (which oversees the trademark and copyright). The Ikea Group owns 180 (of 202) stores in 23 countries as per October 2004. IKEA has 43 Trading Service Offices in 33 countries. In 2004, Ikea generated a worldwide turnover of 12.8 billion euro. More than 365 million people worldwide visit Ikea stores every year (1 million per day!).² Ikea sells a range of more than 10.000 products of which textiles, rugs and chairs in particular, are manufactured in India, Vietnam and Bulgaria. Of all its products, 31 per cent is produced in Asia (among which China, Philippines, India, Vietnam and Indonesia), 66 per cent in Europe (mainly Poland, Sweden and Italy) and 3 per cent in North America. In the 1990s a strict buying policy has, in addition to internal cost-savings, made it possible for Ikea to increase its profit margins while lowering its prices (Björk, 1998: 225). IKEA has few factories of its own, but works with around 1600 suppliers around the world.³ The Ikea group employs about 84.000 people and it has eleven stores in The Netherlands.



Geographic Segmentation 2003			
	Sales	Purchasing	Co-Workers
Asia + Australia	3%	3%	4%
North America	16%	31%	15%
Europe	81%	66%	81%

Source: Company website accessed October 2003

²U4.

³ www.ikea-group.ikea.com/corporate/PDF/Brochure.pdf, consulted on October 2 2004.



Conflict

Earlier in 1998, Ikea was accused of tolerating reprehensible working conditions in Eastern Europe. As a result of the uproar, the Swedish home furnishing multinational pledged that it would do its utmost to put a stop to exploitation and unacceptably low wages at the factories of its suppliers, adding that it always abided by the laws of the countries in which it operates. To demonstrate this commitment Ikea signed an agreement with the ILO. At the International Federation of Building and Wood Workers' (IFBWW) meeting in Geneva an agreement was reached on matters concerning working conditions, the natural environment and health and safety for workers at enterprises throughout the world that manufacture and supply goods for IKEA. Under the terms of this agreement, IKEA suppliers are required to ensure that workers enjoy working conditions which at least comply with national legislation or national agreements. Suppliers are furthermore obliged to respect any relevant ILO Conventions and Recommendations relating to their operations. Child labour would not be tolerated. The final Agreement was preceded by an earlier round of negotiations between IKEA and Nordic Federation of Building and Wood Workers which culminated in a Joint Declaration signed on 13 March 1998.⁴

Socialist Party (SP)



The Socialist party is a political party with strong community relations. The SP established a separate committee to coordinate the Ikea campaign. In collaboration with several NGOs, among others, FNV Mondiaal, the India Committee of the Netherlands (LIW), Novib (Oxfam Netherlands) and the Clean Clothes Campaign, protest actions were undertaken between October 1998 and July 1999 against Ikea's alleged acceptance of the use of child labour in the factories of suppliers.

Later that year, Ikea once again became the target of campaigns in the wake of a documentary that was shown on Dutch television on 5 November 1998. The documentary, which was about the production of Ikea textiles, chairs and rugs in countries such as India, depicted images of unsafe working conditions and children working in factories. Whether the documentary actually filmed Ikea suppliers, was never ascertained. The public outcry reached such proportions that Swedish documentary maker, Andreas Franzen,⁵ even received death threats for betraying his country.

The then general manager of Ikea Netherlands, Karis, and the campaign coordinator, Kox of the Socialist Party (SP) were subsequently invited to debate the issue of child labour on Dutch television. The gentlemen agreed with each other that in this day and age, child labour could not be tolerated. Karis also expressed the view that it as an unacceptable aspect of contemporary global society. But, Karis argued, Ikea was unable to introduce quality labels or codes of conduct as guarantee that child labour would not be used. This, he acknowledged, made the company vulnerable, but child labour, Karis explained, is a very complex problem in which culture and religion play an important part. Moreover, the size and weak infrastructures of the countries in question make monitoring problematic. The practical realities therefore precluded solid guarantees. In response, the SP criticised Ikea for saying it

⁴ www.ilo.org/public/english/dialogue/actrav/genact/child/part4/codes/cod1_g.htm (FaxNews nr. 124 and 118), consulted on June 24 2003.

⁵ One of his documentaries is (1997) "IKEA: Santa's workshop-backyard", available at www.oneworld.cz/oneworld/2001/english/katalog.php



opposed child labour while refusing to let an independent institution to verify those words and audit the practices. And this, according to Kox, was precisely the issue: it's like the car dealer who recommends a car but would not subject it to a roadworthiness test.⁶ Karis pointed out that inspections were carried out not only by Ikea employees in the respective countries, but also by an independent Norwegian company. Following the television broadcast of the documentary and the confrontation between Kox and Karis, the SP and other organisations stepped up the pressure on Ikea to give consumers solid assurances that child labour would no longer be used. An appeal was also made to introduce the 'child labour-free' Rugmark Foundation label. Rugmark is a global non-profit organization dedicated to the eradication of child labour and creating educational opportunities for children in India, Nepal and Pakistan. Rugmark gives assurance that no child labour is used in the manufacturing of carpets or rugs bearing its label. Carpet retailers such as Roobol, Costco, Allied Carpets, Makro and Carpetland have already adopted the quality mark by that time.⁷

Yellow and Red cards in Europe

In November-December 1998, 22.000 Ikea customers, consciously or unconsciously, signed a yellow card - an official warning to Ikea's Board of Directors. Around Sinterklaas (Eng: Saint Nicholas) and Christmas, the intensity of the protest actions by activists dressed in Santa outfits increased. A few days after receiving the yellow cards, the Board of Ikea sent a letter to all members of the Ikea Family (consumers can become a Ikea Family-member to get discounts and mailings). In the letter, the deputy general manager, Martens, explained that the documentary was a year old, that everything had changed and that Ikea was doing everything in its power to combat child labour.



In a public reaction to the yellow cards, Ikea declared that it would enhance its monitoring efforts before the end of 1999. Again, the company held that it could not satisfy the demand for assurance that child labour was not used in the manufacturing of Ikea products. Monitoring would still be carried out by Ikea. As a result of this news, the SP intensified its campaign and took up position at all Ikea stores in the Netherlands for weeks on end. This time, visitors were bombarded with a red

card to sign. With this, they made known that they would not buy any Indian rugs or textiles from Ikea until the company had made substantive commitments. In the meantime, the protest action spread to other European countries like Austria and Belgium.

⁶ www.sp.nl, consulted on May 3 2003.

⁷ www.rugmark.net consulted on October 25 2004.



On 3 June 1999, then managing director of Ikea Netherlands, Karis received 53.200 red cards, personally delivered by Pippi Longstockings. This led to negotiations and consultations with the SP once again. On 7 July 1999, Ikea yielded. Not only did the company agree to take more stringent measures to combat child labour, it also undertook to hire an external consultancy firm to verify its performance and publish an annual report. To celebrate this decision by the Board of Ikea after campaigning for exactly nine months, the SP visited Ikea stores again, this time to distribute among Ikea customers Dutch rusks with aniseed comfits (Dutch custom to celebrate the birth of a child). A self-regulatory initiative had been born after nine months of campaigning. The party said it would keep a close watch on whether Ikea realised its commitments. It expressed the hope that Ikea's example would be followed by other companies who source products in the developing world. The SP gave two reasons for targeting Ikea. Firstly, because Ikea was 'the biggest', and could function as a symbol. Secondly, because Ikea could be a catalyst for other companies to also guarantee that children are not used in production processes. This issue is a problem for many other multinationals. The Ikea campaign was therefore only the beginning. If the SP could win this battle, other companies could also be targeted or follow the Ikea example.



In September 2000, Ikea adopted a code of conduct, *The Ikea Way of Purchasing Home Furnishing Products* (IWAY), which includes external verification of compliance with the code. In October 2000, the LIW, Novib, the FNV and Unicef received a copy of the code for their perusal. The code pertains to the purchasing of all products and applies to all suppliers. It refers to the rights of the child and protecting them against economic exploitation. Suppliers are, amongst other things, expected to refrain from using child labour or forced labour, to maintain a safe and healthy working environment and to pay employees (at least) the legal minimum wage, plus overtime. Reference is also made to protection against hazardous work or work which conflicts with receiving education. The physical, mental and psychological development of the child must also be protected, which is in accordance with article 32.1 of the UN Convention on the Rights of the Child. The UN convention is to be upheld in all activities of suppliers. Also, suppliers may not forbid trade union membership or put employees under physical or mental pressure in order to discourage them from exercising this right. Ikea suppliers also have to meet Ikea's environmental requirements. A few examples include: the safe storage of hazardous wastes, the prohibition on using certain toxic substances and a prohibition on logging in protected areas. Ikea made a commitment to introduce a management system to ensure that the code is implemented and complied with. PriceWaterHouseCoopers, KPMG and ITS (Intertech Testing Systems) audit compliance with the code.⁸ The new mottos of Ikea are 'Low prices, but not at all costs' and 'doing things right – right from the start'.⁹

Demonstrable indicators of reputational damage

⁸ www.ikea-group.ikea.com/corporate/responsible/conduct.html, consulted on September 14 2004.

⁹ www.ikea-group.ikea.com/corporate/PDF/Brochure.pdf, consulted on September 14 2004.



Consumer market

It is hard to determine whether the protest actions affected the sales of Ikea Netherlands, Belgium and Austria on the basis of the annual figures of the Ikea Group. The turnover from 2000 to 2004 has increased steadily from 9.5 billion to 12.8 billion euro.¹⁰ The increase in turnover in 2000, however, did lag behind that of the three previous years.

The Board of Ikea attributed the decline to a turbulent world economy.¹¹ Ikea Netherlands also stated that there were no indications that Ikea customers avoided specific products during 1998 and 1999. They did however make more enquiries as to the origin of products. Customers had grown more aware. Due to the large number of protest cards (22.000 yellow and 53.200 red) and 1350 signatures collected at the Parkpop music festival, it is plausible that Ikea sustained demonstrable damage on its consumer market.

Capital market

Ikea is not listed on the stock exchange. The founder of Ikea, Kamprad, fears that short-term thinking of investors would have a negative effect on long-term strategies, for example, with respect to the environment (Elkington, 1999: 262). Ikea is therefore also managed as a family business. No indications could be found to suggest a loss of confidence on capital markets.

Labour market

Reactions on the labour market were largely characterised by concern and confusion among employees. In the past, there had been conflicts over trade union attendance at wage negotiations and the institution of a works council. According to Ikea, no employees resigned as a result of the issue at the time of the conflict. The number of job applications did not decrease either.

All things considered, it is plausible that Ikea's 'child friendly' reputation suffered a blow. After all, the famous ball rooms for children at Ikea stores and carpet-knotting children are at odds with each other.

Demonstrable indicators of disciplining

The initial attitude of the Board of Ikea can be described as one of buffering. As the conflict unfurled, the company soon started looking for solutions (bridging). Ikea has undertaken several (disciplining) initiatives to manage the issue and restore its damaged reputation. The initiatives include the following:

- Ikea introduced a code of conduct along with independent verification. The code, *The Ikea Way of Purchasing Home Furnishing Products* (IWAY), also includes a reference to article 32.1 of the UN Convention on the Rights of the Child.¹² In addition to guidelines on child labour, it sets down clear requirements with regard to working conditions and the environment. All suppliers are required to sign the code of conduct. Those who do not meet the requirements are given a few months to introduce

¹⁰ www.ikea-group.ikea.com/corporate/PDF/FF04.pdf

¹¹ www.ikea.com/ms/nl_NL/about_ikea/splash.html , consulted on 13 September 2001.

¹² The IKEA Way on Preventing Child Labour is an integral part of the overall code of conduct of IKEA, this document can be found at: www.ikea-group.ikea.com/corporate/PDF/IWAY-C~1.PDF



structural changes by means of an action plan. If adequate changes are not implemented, Ikea will end its relationship with the supplier. On the issue of child labour, Ikea maintains regular contact with societal organisations such as the India Committee Netherlands (LIW), Novib and Unicef.

In August 2000 Ikea launched a community development project in collaboration with Unicef¹³ to establish learning centres for working youths in developing countries (e.g. India).¹⁴ The aim is to combat child labour by helping them to attend formal schooling.¹⁵ The project has been running almost three years and has cost Ikea approximately 500.000 dollars in total. More than 200 villages and 400.000 people are involved in the project. Ikea is also hoping to set a good example to other companies. Commenting on Ikea's endeavours, Ingvar Hjärtsö of Unicef stated that "We consider Ikea to be setting an excellent example for other corporations to follow. Ikea is prepared to go further than just saying 'no' to a supplier who exploits children. The company is showing a genuine interest in bringing about improvement for children by assuming a responsibility for child labour issues."¹⁶ Children in The Netherlands have rewarded Ikea for its initiatives to eradicate child labour. The award was a result of a conference held in Florence in June 2004, organized by, among others, Global March Against Child Labour, an international coalition.¹⁷

- IKEA consults with NGOs like Save the Children, Greenpeace and WWF to effectively combat environmental degradation and promote social welfare¹⁸ One other initiative with Unicef is the sale of the Brum Bear. For each bear sold, two euros go towards Unicef programmes in the war torn countries of Angola and Uganda in support of "Children's Right to Play".¹⁹
- Ikea has decided to publish a corporate brochure on social and environmental responsibility and also gives an annual account of their progress on global issues in the Ikea Social and Environmental Responsibility Report.²⁰
- Similar Ikea projects, especially forestry projects, have been launched in connection with environmental issues. Anders Dahlvig, President and CEO of the IKEA Group, has even been awarded the 2002 Swedish Award of Good Environmental Leadership.²¹
- Ikea has been supporting CREDA, an Indian NGO, since September 2000.²² Ikea funded a two-year CREDA project aimed at creating educational opportunities for

¹³ Some critics consider this to be a 'blue washing' initiative by hiding behind the blue flag of a UN-related institution, see also Black Book on Company Brands by Werner und Weiss (2001) *Schwarzbuch Markenfirmen, die Machenschaften der Weltkonzerne*, p. 21

¹⁴ www.unicef.org, consulted on 13 September 2004.

¹⁵ www.ikea.com, consulted on 13 September 2002.

¹⁶ www.bsdglobel.com/viewcasestudy.asp?id=119, consulted on 17 August 2004.

¹⁷ www.dederdekamer.org/4.1_persbericht.php?persid=20&jaar_virtueel=&maand_virtueel, consulted on 12 June 2004.

¹⁸ www.ikea-group.ikea.com/corporate/PDF/Brochure.pdf, consulted on 14 September 2004.

¹⁹ www.unicef.org.uk/corporatepartnerships/partner_detail.asp?partner=11&nodeid=partner11§ion=4

²⁰ Both the brochure and the 2003 report can be downloaded at: www.ikea-group.ikea.com/corporate/responsible/brochure.html

²¹ www.ikea-group.ikea.com/corporate/press/press_releases.html, consulted on 2 June 2004.

²² www.ikea.nl/about_ikea/Copy_of_social/responsibilities.asp, consulted on 12 November 2002.



young girls. The project was implemented by the UNDP (United Nations Development Programme).

- Finally, in April 2002, a vaccination project was launched in India in collaboration with the World Health Organisation (WHO) and Unicef. The people living in the 200 villages mentioned earlier are the beneficiaries of this project.

Outcome

Whose interests were met?

The interests of the SP and other NGOs (and, by implication, the children working in factories) were acceded to most. A code of conduct with external verification was adopted as well as annual reporting. Moreover, to the great satisfaction of the NGOs and the political party SP, the children were provided with additional facilities.

Issue resolved, case closed?

In a study conducted in 2003 by SOMO (Foundation for Research on Multinationals) for the Dutch FNV, no children were found working in the production facilities of Ikea (see below). For Ikea, the issue of child labour seems resolved, but the global issues surrounding child labour and working conditions persist.

The aftermath

Ikea was made aware of its vulnerability as a result of its international profile. Initially, the company was reluctant to adopt the Rugmark quality label for child labour-free rugs from India. After all, as CEO Anders Dahling pointed out, the use of child labour somewhere in the supply network can never be excluded entirely (Volkskrant, 3 March 2004). These days, IKEA seems keen to develop a reputation for environmental stewardship and sensitivity to social issues.²³ Or, as IKEA Group President Anders Dahlvig states in the 2003 *IKEA Social and Environmental Responsibility Report*: “We’re moving in the right direction, but we must remain humble”. In a study commissioned by the Dutch national trade union confederation (FNV), compliance with the code of conduct for suppliers (initiated due to the Child Labour affair) was monitored in 2003, three years after it was drafted. The researchers did not identify any children working in factories, but they did report instances of forced labour in factories in Bulgaria, India and Vietnam. Labour conditions did not always adhere to the principles specified in the code, nor were workers informed about their rights. Extreme working hours, below minimum wages at suppliers were also found. Ikea responded by saying that it was aware of the problems, but argued that some measures take time to yield the desired results, especially in the context of societies where fundamental social change is required (Trouw, 25 September 2003).



Translation of Dutch poster:
“Congratulations, YOU WIN, for the children of India and elsewhere”

²³ www.bsdglobel.com, consulted on October 24th 2004.