Corporate social responsibility in global supply chains

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Abstract

Purpose – The paper aims to present a conceptual framework for analysing CSR practices in global supply chains. It also seeks to demonstrate how a pioneering Swedish company, IKEA, implements and manages CSR practices at its suppliers.

Design/methodology/approach – A case analysis of IKEA illustrates the implementation and management of CSR practices in supply chains. The focus is on internal and external integration of CSR practices in the supply chain. IKEA holds a leading position in its supply chain and is a global brand-owner. Personal interviews are performed with employees from one of the company's trading areas.

Findings – Practising CSR in supply chains requires that CSR is embedded within the entire organisation, including subsidiaries abroad and offshore suppliers. It includes employee training and sharing of experience, training of key personnel at the supplier level, positive incentives for suppliers in the form of long-term contracts and enlarged purchasing orders, and regular auditing of suppliers' performance.

Research limitations/implications – The paper focuses on CSR practices in a specific company's supply chain. Therefore, the findings cannot be generalised to other companies. Also, the practices have been studied from the perspective of the focal company.

Practical implications – The CSR practices of IKEA can serve as inspiration for other companies that are considering adopting corporate codes of conduct.

Originality/value – The paper presents a company that has a long tradition for working with environmental and social issues. The paper demonstrates how the actual management of CSR practices is determined by context-dependent factors.

Keywords Corporate social responsibility, Supply chain management, Economic sustainability, Case studies

Paper type Case study

Introduction

Supply chain management is an area of increasing strategic importance due to global competition, outsourcing of non-core activities to developing countries, short product life cycle, and time compression in all aspects of the supply chain (Skjøtt-Larsen *et al.*, 2007). Management attention has moved from competition between firms to competition between supply chains (Christopher, 2005). The capability to establish close and long-term relationships with suppliers and other strategic partners has become a crucial factor in creating competitive advantage.

At the same time, various stakeholders, including consumers, shareholders, non-governmental organisations (NGOs), public authorities, trade unions, and international organisations, are showing an increasing interest in environmental and social issues related to international business. Concepts such as supply chain sustainability (Dyllick and Hockerts, 2002; Koplin *et al.*, 2007), triple bottom line (Elkington, 1997), environmental management (Handfield *et al.*, 2005), corporate greening (Preuss, 2005), green supply (Bowen *et al.*, 2001; Vachon and Klassen, 2006;

Sarkis, 2003) and corporate social responsibility (CSR) in supply chains (Pedersen and Andersen, 2006; Maloni and Brown, 2006) are receiving growing attention in the media, academia and the corporate world.

An increasing number of companies, especially large multinational corporations, have implemented environmental annual reports, sustainability strategies, and voluntary codes of conduct. However, despite many multinational corporations' efforts to implement social and environmental issues in their supply chains, a gap exists between the desirability of supply chain sustainability in theory and the implementation of sustainability in supply chains in practice (Bowen *et al.*, 2001). The problem seems to be that only a limited number of multinational corporations "walk the talk" of CSR.

Research objectives and methodology

This paper presents a conceptual framework for analysing CSR practices in global supply chains. The aim of the paper is to answer the following research questions:

- How is CSR related to global supply chains?
- What are the driving forces behind the development of CSR in global supply chains?
- How are CSR practices implemented and managed in a specific multinational corporation?
- What are the most important contingency factors in relation to CSR practices in global supply chains?

In order to understand how CSR practices are implemented in a specific firm, a case study approach has been adopted.

According to Eisenhardt and Graebner (2007), case research is a theory-building approach that is deeply embedded in rich empirical descriptions of particular instances of a phenomenon based on a variety of data sources. Case study approach typically answers research questions that address "how" and "why" in unexplored research areas. The results from case studies cannot be subject to statistical generalisation or theory-testing, but case studies can be used to generate theoretical constructs, propositions and/or midrange theories (Eisenhardt, 1989; Yin, 2003).

The specific case, the Swedish home furnishing retail chain IKEA has been chosen on the basis of the following criteria:

- it has several years of experience of working systematically with CSR in global supply chains;
- it holds a dominant position in its supply chains, enabling it to influence its suppliers;
- it specialises in the production of consumer goods; and
- it is a brand-owner.

With regard to the first criterion, IKEA is generally recognised as one of the most proactive companies in this specific field in Scandinavia. Regarding criterion two, empirical evidence shows that CSR practices in supply chains are most widespread among large companies. The rationale behind the two latter criteria is that consumer goods tend to be characterised by "value chains in which control of the chain resides with brand name producers such as Levi Strauss and Nike, or large retailers such as Wal-Mart and Tesco" (Jenkins, 2001, p. 7). As brand-owners of consumer goods, they are especially vulnerable to negative publicity about social or environmental conditions in their supply chain. IKEA may be seen as a front-runner company within the field of CSR in global supply chains in a Scandinavian context. At the same time, it is a family-owned company and as such not accountable to shareholders. Thus, it may be characterised as a "unique" or "extreme" case (Yin, 2003) that illustrates the complexity related to implementing CSR in a global supply chain. The findings of the IKEA case cannot be directly applied to other companies. However, it can be seen as an example of "best practice" of implementing CSR in supply chains, which may be used as inspiration for companies wishing to engage in this field.

Data collection

The case company has been approached by establishing contact with a person responsible for the supply chain CSR work. An informal interview was held with this person to get an overview of the company's CSR practices and procedures. This information was used as input to the formulation of questions for the subsequent interviews. The contact person established contact with employees in the organisation, who were directly or indirectly involved in CSR work. At IKEA, 16 regional trading areas have the day-to-day responsibility for the company's supply chain CSR practices. The CSR procedures adopted by the trading areas have been developed by, and are continuously monitored from, IKEA's headquarters. As such, the procedures are highly standardised across the world, and it was therefore decided to visit just one of the trading areas – Trading Area South East Asia (TASEA). TASEA covers Thailand, Indonesia, Malaysia and Vietnam. The decision to visit this particular trading area for data collection should be seen in the light of the many

challenges faced by the countries in South East Asia in relation to environmental and social issues. A total number of eight employees were interviewed at TASEA's headquarters in Bangkok, primarily in June 2004[1]. The CSR practices and the context in which the practices are embedded will be described according to these employees' observations. However, due to the high degree of standardisation among trading areas, the findings from TASEA can to a large extent be transferred to the practices of other trading areas.

A semi-structured interview guide was used for the in-person interviews (see Appendix 1). The guide contained a number of topics that each included a number of related questions. Each question in the interview guide had been formulated as broadly as possible to allow each interviewee to tell what they had observed, felt and done in relation to the research topic. In each interview, there was also room for discussing issues that were not covered by the interview guide, but which the interviewees found relevant.

In the next section, we provide a short introduction to sustainability in supply chains. Then the concept of CSR will be presented. The subsequent section will consider the driving forces behind the growing interest in CSR, especially among multinational corporations. Next, we discuss the process of implementing and managing IKEA's CSR practices. IKEA has worked systematically with CSR in its global supply chains and represents "best practice" in a Scandinavian context. The IKEA case will be followed by a short presentation of factors that are important in forming CSR practices in supply chains. Finally, we will suggest future research topics within the field of CSR in supply chains.

Sustainability in supply chains – literature review

Until recently, both theory and practice within SCM has focused on issues such as integration of processes across supply chain partners, cost-efficiency of supply chains, and customer service. However, with the increased outsourcing of activities to developing countries and low-cost countries in Central and Eastern Europe, growing concerns about social and environmental impacts of production and consumption have led to a renewed interest in issues related to reverse logistics, environmental management, green supply chain, and sustainable supply chains.

Reverse logistics has been discussed in a number of papers and research reports. Literature reviews can be found in, for example, Carter and Ellram (1998), and Rogers and Tibben-Lembke (2001). Reverse logistics is mainly concerned with "the role of logistics in product returns, source reduction, recycling, materials substitution, reuse of materials, waste disposal and refurbishing, repair, and remanufacturing" (Stock, 1998). Apart from source reduction, most of the activities listed are performed after the consumers have disposed of the products.

Reverse supply chain – or closed-loop supply chain – is a relatively new term which emphasises that the management of returns cannot be limited to a single entity in the supply chain, but has to encompass the entire supply chain from end-customers and back to the original suppliers of raw materials. Special issues of California Management Review (2004) and Interfaces (2003) are devoted to reverse supply chains.

Green supply chains and sustainable supply chains are concepts that take a more holistic systems perspective on the total environmental impacts of the supply chain on resources

and ecological footprints (Van Hoek, 1999; Sarkis, 2003; Bowen *et al.*, 2001; Preuss, 2005). Greening the supply chain can save resources, eliminate or reduce waste, and improve productivity and competitive advantage at the same time (Porter and Linde, 1995). Greening initiatives include proactive "design for disassembly", "design for remanufacturing", use of sustainable raw materials (e.g. recoverable wood and recycled materials), use of recoverable energy resources (solar energy, wind and wave energy), use of environmentally friendly transport modes (e.g. trains instead of trucks or airfreight), and focus on high capacity utilisation of transport modes and production facilities.

Corporate social responsibility – literature review

Corporate social responsibility (CSR) is a broader concept and not limited to supply chains, but to the companies' overall treatment of human beings and the environment. However, the focus in this paper is on CSR in global supply chains. Although CSR is a well-established concept, there is no general consensus on the meaning of CSR in practice (Carroll and Buchholtz, 2000; Joyner and Payne, 2002; Roberts, 2003; Ougaard, 2004). According to Hill *et al.* (2003), an exact definition of CSR is elusive because beliefs and attitudes about the nature of the relationship between business and society fluctuate with the relevant issues of the day. Moreover, Carroll and Buchholtz (2000) argue that the difficulties with arriving at a definition of CSR partly have to do with the problem of determining operationally the managerial implications of such a definition. This is a major problem considering companies' differences in size, products, profitability, resources, societal impacts, etc. Another factor contributing to the confusion about the nature of CSR is the large number of concepts used to describe largely the same phenomenon. Academics, consultants and corporate executives have provided various definitions to business's engagement in ethical issues. Among the concepts that have been used – apart from CSR – are sustainable development, corporate citizenship, sustainable entrepreneurship, the triple bottom line, and business ethics (Marrewijk, 2003).

Broadly speaking, the construct of CSR as we know it today has two main characteristics. Firstly, it describes the relationship between *business* and *the larger society*. Secondly, it refers to a company's *voluntary activities* in the area of environmental and social issues (Carroll and Buchholtz, 2000; McWilliams and Siegel, 2001; Commission of the European Communities, 2001; Hill *et al.*, 2003; Marrewijk and Werre, 2003).

CSR in global supply chains

As the nature of many business relations is changing from companies manufacturing goods within wholly owned facilities in national operations to companies engaging in supply chains and supplier-based manufacturing across national borders, the concept of CSR is likewise transforming. CSR is no longer the individual company's domain; increasingly, it encompasses the entire supply chain. In other words, multinational companies are not only expected to behave socially responsibly within their own juridical walls. They are also held responsible for environmental and labour practices of their global trading partners such as suppliers, third party logistics providers, and intermediaries over which they have no ownership (Jenkins, 2001; Maloni and Brown, 2006; Business for Social Responsibility, 2001; Pedersen and Neergaard, 2004; Jørgensen and Nielsen, 2001; Oxford Research, 2003; PricewaterhouseCoopers and DILF, 2004; Roberts, 2003).

The calls for CSR in global supply chains should particularly be seen in light of the fact that a large part of global trade is conducted through systems of governance, which link firms together in various sourcing and contracting arrangements (Gereffi, 1994; Sobczak, 2006; Nielsen *et al.*, 1997). The term "governance" implies that some key actors in the supply chain – often large multinational corporations – take responsibility for the inter-firm division of labour and specific participants' capacities to upgrade their activities (Gereffi, 2001). Thus, they are able to control production over large distances without exercising ownership (Jenkins, 2001). Gereffi (1994, 2001) argues that these key actors are typically located in developed countries and include not only multinational manufacturers, but also large retailers and brand-name firms. The power held by these corporations stems from their market power and control over key resources needed in the supply chains of which they are part. Given their power, these actors play a significant role in specifying what should be produced, how and by whom (Gereffi, 1994). The corporations might also provide technical support to their suppliers to enable them to achieve the required performance. Jenkins (2001, p. iii) argues that "the growth of 'global value chains', through which Northern buyers control a web of suppliers in the South, has led to calls for them to take responsibility not only for aspects such as quality and delivery dates, but also for working conditions and environmental impacts".

The pressure exerted on multinational companies comes from both internal and external stakeholders such as customers, employees, unions, shareholders, business partners, governments, NGOs and the media, who show an increasing concern for the environmental and social conditions at offshore production locations, particularly in developing countries (Welford, 2000; Maloni and Brown, 2006; Barrientos, 2002). This concern is largely a result of an escalation of multimedia communication technology, which makes it more difficult for companies to hide unethical practices at their suppliers. The escalating flow of information across national and cultural borders has given rise to stories about multinational companies' irresponsible practices, such as violation of union rights, use of child labour, dangerous working conditions, race and gender discrimination, etc. Well-known examples from the media are Nike, Gap, H&M, Wal-Mart, and Mattel (Frost and Burnett, 2007).

By now, many multinational companies have responded to the pressure and expectations by stakeholders by defining, developing and implementing systems and procedures to ensure that their suppliers comply with social and environmental standards. Although firms choose their own approach to systematising the CSR efforts in supply chains, many studies reveal that the most visible element in the approach of large multinational companies is the employment of corporate *codes of conduct*. The number of codes of conduct has grown spectacularly since the early 1990s (Hopkins, 1999; Welford, 2005; Welford and Frost, 2006; Jenkins *et al.*, 2002). Levi Strauss & Co.'s code of conduct labelled "Global Sourcing and Operating Guidelines" from 1991 was the first

of its kind in the international apparel industry (see www. levistrauss.com). Whereas companies in the USA introduced such codes in the early 1990s, the use of codes did not become widespread among European companies until the mid-1990s (Jenkins, 2001).

In short, a code of conduct is a document stating a number of social and environmental standards and principles that a firm's suppliers are expected to fulfil (Mamic, 2005; Jenkins, 2001). Codes of conduct are increasingly introduced in contracts between a buyer company and its suppliers (Welford, 2005). They are typically based on the values with which the individual firm wishes to be associated, and its principles are often derived from local legislation and international conventions, standards, and principles, such as UN's Global Compact, the Global Sullivan Principles, Social Accountability 8000, ISO 14001, Global Reporting Initiative, and the ILO Declaration on Fundamental Principles and Rights at Work. In many large multinational companies, the codes are accompanied by elaborate managerial systems for formulating, enforcing and revising the standards outlined in the codes (Organisation for Economic Co-operation and Development, 2001). However, empirical evidence has shown that many multinational corporations have struggled with the issue of how to implement their codes of conduct in their global supply chains (Leigh and Waddock, 2006). Recognising this, the ILO has performed an in-depth study of the management systems and processes used to implement codes of conduct in the sports footwear, apparel and retail sectors (Mamic, 2005).

Although corporate codes of conduct are now widely used by multinational corporations, not all observers have a positive attitude towards the codes. Klein (2000, p. 430) thus argues that "codes of conduct are awfully slippery". This statement is based on the argument that codes cannot be enforced in the same way as legal requirements, nor are they drafted in response to the needs of the employees of the companies they are directed towards. Sethi (2002) also criticises the codes of conduct for often being presented as public statements of lofty intent and purpose without a specific content. On the other hand, Sobczak (2006) argues that codes of conduct in global supply chains are not really voluntary, but can be considered as a useful complement to national labour and employment laws. Codes of conduct are often adopted to prevent pressure from different stakeholder groups, including the increasing influence of socially responsible investment.

Several empirical studies have been made to investigate how firms work with CSR-related issues in their supply chains (e.g. Carter and Jennings, 2002; Welford, 2005). Most of these studies are not only confined to large multinational corporations, but include also SMEs. Carter and Jennings (2002) have examined the drivers, barriers and effects of socially responsible purchasing of US companies, and ways of overcoming these barriers. The ILO has conducted an examination of codes of conduct implementation, which primarily focused on providing an understanding of the various management systems implemented by multinational corporations and their suppliers to establish, communicate and evaluate progress towards attaining the objectives of their codes of conduct (Mamic, 2005). Welford (2005) has examined the written CSR policies of companies in 15 countries in Europe, North America and Asia.

However, despite many companies' efforts to engage in CSR-related activities in their supply chains, there is often a gap between the ethical standards expressed and the actual conditions at the suppliers. In other words, we might argue that so far only a limited number of multinational corporations "walk the talk" of CSR in their global supply chains (Cramer, 1996; Roberts, 2003).

In the subsequent section, we will examine one company, IKEA, which is indeed "walking the talk" of CSR in supply chains. We will examine its supply-chain related CSR practices as well as the contingency factors, which influence the management of CSR in supply chains at this company.

CSR practices at IKEA

IKEA is a Swedish home furnishing retail chain selling low-priced products, including furniture, accessories, bathrooms and kitchens. IKEA was founded in 1943 by Ingvar Kamprad and the company is still controlled by the Kamprad family. It has 237 retail stores in 34 countries/territories and approximately 100,000 employees. The total retail turnover in 2006 was €17.7 billion. As IKEA has only a few factories of its own, the bulk of the product range is produced by suppliers. Today, IKEA has approximately 1,500 suppliers in 55 countries producing according to product specifications. Almost two thirds of the suppliers are located in Europe and one third in Asia. Only 3 per cent of the suppliers are from North America. The top five countries where purchases are made are China (19 per cent), Poland (12 per cent), Sweden (8 per cent), Italy (7 per cent) and Germany (6 per cent).

The size of the suppliers varies, as does the percentage of total production purchased by IKEA from the individual suppliers. On a global scale, IKEA has more than 1,000 employees involved in purchasing. Purchasing is divided into 16 regional "trading areas", encompassing 43 trading service offices in 33 countries. Each trading service office has a purchasing team for each material sourced. These purchasing teams monitor all aspects of the production by suppliers. Trading Area South East Asia (TASEA), which is examined in this paper, was established in 2002 and employs about 180 people and works with approximately 100 suppliers.

Within the last few years IKEA has adopted a strategy of going from "trading to purchasing". This strategy implies that instead of engaging in short-term relationships with many smaller suppliers, where the focus is on buying articles, IKEA is increasingly engaging in long-term relationships with fewer suppliers, where the focus is on buying capacities. Another main difference between the trading and purchasing strategy is the way of relating to suppliers. Whereas IKEA previously *demanded* a certain level of quality, service, price and environmental and social responsibility of its supplies, the company is now *developing* these issues together with the suppliers. In practice, this means that IKEA is working with suppliers to achieve cost savings and help them create optimal conditions to produce efficiently. Moreover, the company works with suppliers on quality as well as environmental and social issues. It is a continuous development process aiming to bring suppliers to still higher levels of performance in cooperation with IKEA.

Since IKEA puts so much effort in developing its suppliers, the selection criteria are rather tough. The suppliers are selected on the basis of a best buy policy involving a set of requirements that a company must fulfil to be a potential

supplier. The requirements include such aspects as management style and attitude, financial situation, possibility to source raw materials, nature of production equipment, ability to support IKEA in product development, quality performance, and entry-level requirements regarding social, working and environmental conditions. The selection is made through a competitive bidding between suppliers from different regions fulfilling the requirements.

Introducing a code of conduct
In recent years, IKEA has experienced an increasing external focus on the conditions under which its products are produced. Still more customers in the IKEA stores ask how a given product has been produced, who has produced it and where. Also, the media and NGOs are paying increased attention to issues such as labour conditions, particularly at factories in developing countries. While many of IKEA's suppliers are located in countries where environmental and social issues have had a high priority for business for many years, IKEA also works with many suppliers in countries where the environmental and social agenda is just developing. Recognising that negative publicity about the environmental or social conditions of its suppliers might damage the IKEA name considerably, IKEA management realised by the end of the 1990s that they needed to relate actively to the environmental and social conditions of its suppliers. Therefore, the company decided to develop a code of conduct in relation to its suppliers.

It took one and a half to two years to develop the code of conduct's set of requirements. It was a very important task for IKEA's management and resulted in an extensive internal process involving many employees, including the founder himself. In 2000, IKEA formally presented the requirements of the code of conduct to all its suppliers around the world. The code was labelled "The IKEA Way on Purchasing Home Furnishing Products" – in day-to-day operations referred to as "IWAY". When drawing up IWAY, IKEA also established an IWAY Council, which is a small group of people headed by the IKEA Group President. The IWAY Council handles all principal questions about IWAY.

IKEA has a fairly long tradition of incorporating environmental considerations into every part of its business, driven by a strong wish to be cost conscious and resource efficient. This tradition has made the entire organisation well-equipped to deal with environmental – as well as social – issues extending its own borders. The introduction of IWAY in 2000 did therefore not imply a totally new way of thinking within IKEA, but merely an extension of existing activities.

IWAY defines what suppliers can expect from IKEA, and what IKEA requires from its suppliers with regard to working conditions, child labour, environment and forestry management. IKEA requires from its suppliers to comply with national laws and regulations and with international conventions on the protection of the outside environment, working conditions and child labour. IWAY includes 19 different areas (see Appendix 2) divided into more than 90 specific issues. A tool in the form of a checklist for auditing suppliers has been developed as well. The IWAY standard is revised every second year.

IKEA's organisational set-up facilitates implementation of the IWAY requirements. As all products are produced at suppliers, IKEA's organisation is highly centred on production operated by suppliers. This focus is reflected in

the many corporate functions directed towards the operation of suppliers. In other words, the organisation is well adapted to work intensively with conditions at suppliers, of which environmental and social conditions are just one case in point.

IWAY makes up a central element in the Staircase Model developed by IKEA. The model defines a four-step approach to improve suppliers' overall performance in three areas:
1 outside environment;
2 social and working conditions; and
3 wooden merchandise (the last area is only relevant for suppliers of wooden products).

The Staircase Model is illustrated in Figure 1. As the figure indicates, IKEA has a set of start-up requirements relating to social and working conditions as well as wooden merchandise, which must be met by potential suppliers prior to entering a business relationship with IKEA (Level 1 in the model). These requirements include no forced or bonded labour, no child labour and no wood from intact natural forests or high conservation value forests. Also, suppliers delivering IKEA products containing solid wood, veneer, plywood and layer-glued wood must complete a "Forest Tracing System" document.

In order to reach Level 2, suppliers must fulfil the IWAY requirements relating to the outside environment, social and working conditions and – for suppliers of wooden products – forestry. Having fulfilled the IWAY requirements, the suppliers may proceed to the next level and obtain a certification defined by IKEA itself (Level 3). Such a certification requires that suppliers are able to maintain the

Figure 1 IKEA's Staircase Model
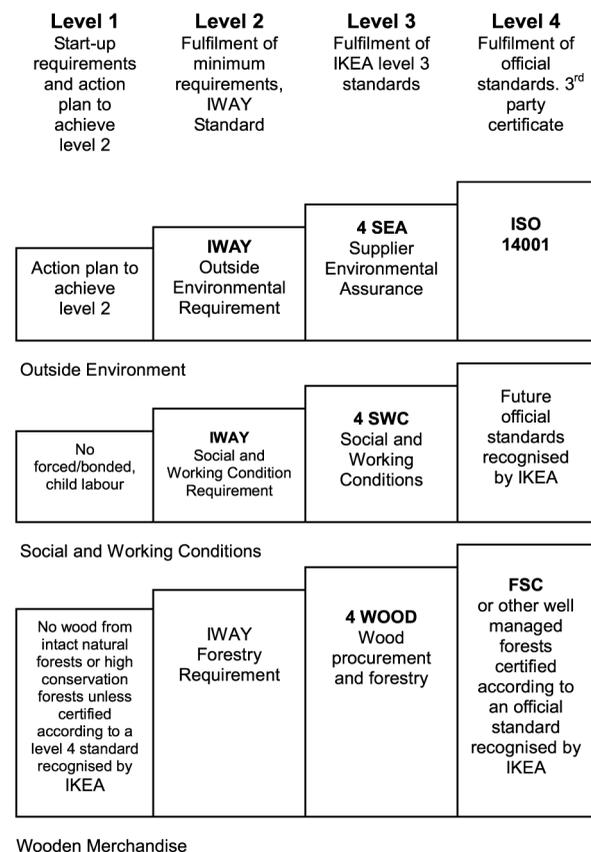
IWAY standards at their factories and set up goals and plans for how to improve their conditions further within the respective three areas. To reach Level 4 within each of the three areas, the suppliers' processes have to be certified according to an official standard recognised by IKEA within the respective area. IKEA might help the suppliers to obtain such a certification. Up until now, IKEA's work has concentrated on bringing as many suppliers as possible to Level 2, i.e. fulfilment of the IWAY requirements. IKEA believes that the process will be long, and it requires many of the company's resources at the moment "because it is not just a matter of being IWAY approved, it is also a matter of staying there. If we pull out, they will fall back again" (Regional Quality Manager). According to the Regional Quality Manager, the next task will deal with the environmental and social performance of the suppliers' sub-suppliers. The suppliers have to document to IKEA that the requirements have been communicated to their own suppliers, who must sign a document stating that they receive training. However, in the beginning IKEA intends to monitor all sub-suppliers who undertake a substantial part of the production of an IKEA product. Another future task is to bring a certain percentage of suppliers to Level 3 in the Staircase Model. Since IWAY currently constitutes the central element of IKEA's supply chain CSR work, the subsequent analysis relates solely to IWAY.

Implementing the code of conduct
IKEA has established a clearly defined set of procedures for implementing IWAY at suppliers, which are followed by all trading areas. By operating with a clearly defined set of routines that applies to the entire organisation and is based on a clearly defined division of labour, the day-to-day code of conduct work runs quite smoothly. IKEA employees, i.e. primarily auditors and purchasing teams, undertake all the tasks related to the day-to-day work, except for the occasional use of third-party auditors. This means that the company is in control of the entire process, which in turn allows for a high degree of coordination between the individual procedures. The procedures will be described in the following.

First of all, to facilitate implementation of IWAY at suppliers, IKEA tries to ensure that all potential suppliers are thoroughly informed about its CSR-related requirements and have a positive attitude towards environmental and social issues. But IKEA also puts great efforts into emphasising the benefits for suppliers of implementing IWAY. The company lets suppliers know that IWAY is a great opportunity for receiving assistance to build up some well-functioning environmental and social routines. If a supplier shows a negative attitude towards IWAY, the firm is not pursued in the supplier selection process.

Once a supplier has been chosen, an on-site audit of the supplier is conducted before the first delivery. IKEA has its own auditors. An audit typically takes one or two days and is conducted using a checklist covering the approximately 90 issues of the code. During the audit, a number of randomly selected employees and management representatives are interviewed. Apart from conducting interviews, the auditors go through relevant documents, such as employment contracts and pay slips, and make observations of the working conditions around the factory. Issues that need to be improved are noted in an audit report.

As IKEA has a strategy of engaging in long-term relationships with its suppliers, it does not break off relations due to non-compliance with IWAY issues as long as the suppliers show a willingness to improve their conditions. For all the issues on the checklist with which the suppliers fail to comply, IKEA requires that the suppliers – within one month following the audit – prepare a written action plan detailing how the non-compliance issues will be rectified. Some of the more simple issues, such as lack of documentation, take very little time to correct. Other issues, such as waste water treatment, might involve a change in the suppliers' attitude, a change in existing procedures and possibly even new investments. Such issues are likely to require many months of action before they are corrected. IKEA requires that the suppliers carry out the corrective actions within a period of 24 months.

The purchasing teams follow up on whether and to what extent the suppliers complete the necessary corrective actions according to the action plan as well as support the implementation of these activities. The suppliers are visited by members of the purchasing teams approximately once a week and the implementation process can therefore be followed on a continuous basis.

When the purchasing teams find that a supplier has corrected all the non-compliance issues, a final audit is conducted by the auditors. If the auditors can verify correction of all deviations, the supplier becomes IWAY approved (Level 2 in the Staircase Model). Once a supplier is IWAY approved, the purchasing teams follow up continuously on the IWAY maintenance to ensure that IWAY remains a high priority for the suppliers.

At a global level, IKEA wants the same IWAY monitoring standards to be followed throughout the organisation, i.e. in each trading area. To ensure such standardisation, IKEA has established a "Compliance and Monitoring Group". This group is responsible for internal auditing of IKEA's own auditors. It trains and supports the auditors and conducts compliance audits on its own to compare the ways of monitoring at the individual offices. To ensure objectivity and credibility, the Compliance and Monitoring Group also uses external auditing companies to conduct third-party verification audits of the suppliers. The Social and Environmental Manager for IKEA Group emphasises the role of external audits by arguing that "if it is internal, we need someone with other eyes to look into how we operate and manage it". Such compliance audits have revealed that some trading areas have used too low judgement levels. The Compliance and Monitoring Group has subsequently had to retrain some of the internal auditors to increase their competence level as well as re-audit suppliers.

Even though various suppliers from time to time complain about IKEA's environmental and social requirements, IKEA seems to benefit from its image as a "tough" customer. Thus, several suppliers consider compliance with IKEA's IWAY requirements a good reference towards current or potential customers, and hence they strive to fulfil the requirements. Moreover, IKEA benefits from its large size. The company constitutes an important customer for many of its suppliers, and the suppliers are often willing to go to great length to fulfil IKEA's IWAY requirements. They simply cannot afford to give IWAY a low priority, as this might imply a termination of the relationship with IKEA, which in turn could be very

damaging to their business. Such a situation facilitates implementation of the IWAY requirements.

Educating and encouraging the actors involved

The IKEA employees involved in the implementation of IWAY have been equipped with the necessary knowledge to undertake their tasks. The knowledge primarily relates to production-related environmental and social issues, audit techniques, local environmental regulations and local culture and language. The knowledge residing in the employees is in large part an outcome of an extensive internal training program. IKEA has a long tradition of offering environmental training courses to employees, and since the introduction of IWAY in 2000 an increasing number of IWAY-related courses have likewise been offered. Besides training, the knowledge level is continuously enhanced through exchanges of experiences among the employees involved, i.e. between the auditors and the purchasing teams and within purchasing teams.

It is also worth noting that the purchasing teams are constantly encouraged to put a great deal of efforts into working with IWAY, because each team has targets for prices, volume, turnover, delivery performance, quality performance and IWAY fulfilment. Moreover, the purchasing team members are constantly encouraged to prioritise IWAY issues in their day-to-day work by the leaders of the teams, who have been appointed as "change agents" by management.

Just as knowledge and encouragement is important for IKEA's employees, a sufficient level of knowledge and understanding is also a prerequisite for the suppliers' ability to implement, maintain and continuously improve the IWAY standards. Therefore, IKEA offers formal training to suppliers in order to improve their understanding of the way IKEA conducts its business, including its emphasis on environmental and social issues. In addition, the purchasing teams also offer more informal social and environmental training during their continuous visits. IKEA's strategy of engaging in long-term relationships with suppliers has proven beneficial in this regard, since it requires a long-term perspective to build up proper knowledge and understanding of the suppliers regarding IWAY requirements. It often requires continuous dialogue, which seems almost impossible to undertake without long-term relations.

Contingency factors related to CSR practices in supply chains

The IKEA case illustrates that practicing CSR in supply chains requires that the concept is embedded within the entire organisation. This argument is supported by a number of scholars (e.g. Cramer, 1996; Rocha and Brezet, 1999; Lippmann, 1999; Kolk, 2000; Organisation for Economic Co-operation and Development, 2001; Schmidt *et al.*, 2001; Jørgensen and Pruzan-Jørgensen, 2002; Bakker and Nijhof, 2002), who claim that in order to understand the full nature of CSR practices in supply chains, we need to understand how the entire concept is embedded within the individual organisation. In this paper we argue that the case of IKEA reveals that organisational embeddedness can be manifested through four broad mechanisms; knowledge enhancing mechanisms, knowledge controlling mechanisms, firm-

specific assets, and corporate history (path dependency). These mechanisms will be discussed in turn.

Knowledge enhancing mechanisms serve to enhance and maintain the knowledge of the actors involved in working with CSR in supply chains and thereby increase their abilities and skills. The IKEA case illustrates that it is possible to distinguish between internal knowledge enhancing mechanisms and external knowledge enhancing mechanisms. *Internal* knowledge enhancement is primarily achieved through employee training aimed specifically at the code of conduct and sharing of experiences among the different organisational members involved in the code of conduct work. It could be argued that knowledge enhancing initiatives contribute to creating a common frame of reference – or a common "thought world" – among the involved employees for how supply chain-related CSR should be handled within the organisation. The Regional Quality Manager perceives the training offers at IKEA particularly in relation to the environment and IWAY as a very positive aspect of the organisation: "there is so much training and so many courses that if you want to specialise within this field, all possibilities exist". The training courses have increased the purchasing team members' knowledge about the reasons behind introducing IWAY, why and how it is important for IKEA's business, the general concept of the code, the contents of the checklist and the consequences for non-compliance with IWAY. Their improved knowledge and capabilities have in turn provided them with a much more positive attitude towards working with environmental and social issues. One of the team members (a technician) describe the importance of the training in the following way: "Before, we had more compromises, because we lacked knowledge and information about IWAY. Today, we are quite sure about what to do and how to do it. I am quite confident about how to implement IWAY at the suppliers".

Whereas internal knowledge enhancing mechanisms involve the creation of a common frame of reference within the organisation, *external* knowledge enhancement involves the creation of a common frame of reference between the organisation and its suppliers. Such external knowledge enhancement can be achieved through frequent dialogue and visits to suppliers as well as formal and informal supplier training.

The IKEA case illustrates that *knowledge controlling mechanisms* can take the form of incorporation of the code of conduct into the performance measurement system. Being measured on their code of conduct efforts encourages employees to go to great length to work effectively with suppliers on environmental and social issues. A second type of knowledge controlling mechanism is the appointment of "change agents", who are expected to continuously keep an eye on other employees' commitment to working with the code of conduct. Performance measurement takes place at two levels. At the global level, IKEA is concerned that the same IWAY monitoring standards are followed throughout the organisation. At the regional level, each purchasing team has targets about prices, volume, turnover, delivery performance, quality performance and IWAY fulfilment. The status of each purchasing team's suppliers is accessible to the other employees in the trading area. The teams are therefore encouraged to put a great deal of efforts into IWAY issues, which the team members find beneficial: "It can make

us more active and give us an incentive to meet the target" (a technician).

Firm-specific assets typically include the size of the company, the design of its global supply chain, financial resources, and reputation. A large size and large amount of resources facilitate implementation of the code of conduct requirements at the suppliers, simply because it is attractive to be a supplier to such a company. Moreover, having a tough set of environmental and social requirements may be beneficial in the sense that fulfilment of the requirements is considered important by the suppliers for their ability to attract new customers. The Regional Quality Manager puts it this way: "When we place an order, we are not talking about 250 pieces only – we are talking about 25 to 50 containers. This factor alone has the effect that the supplier almost turns his factory upside down just to deliver to us".

In addition to its size, reputation and financial resources, the structural set-up of IKEA seems to play a role in its supply chain CSR work. As nearly all IKEA products are produced at suppliers, IKEA's organisation is highly centred on the production operated by the suppliers. In other words, the organisation of IKEA is well adapted to work intensively with conditions at suppliers, of which environmental and social conditions are just one case in point.

Corporate history, such as a tradition of working with environmental and/or social issues, is likely to facilitate the introduction of a code of conduct and the day-to-day performance of the related practices. Having a historical track of being engaged in environmental and/or social issues, as well as a tradition of choosing ethically sound suppliers, enhances the ease with which an organisation takes up the idea of working with CSR in relation to suppliers. Moreover, a history of long-term relationships with suppliers constitutes a good precondition for a relatively smooth implementation of environmental and social requirements at the suppliers.

Figure 2 illustrates the contingency factors, which – based on an examination of the IKEA case – seem to influence CSR in supply chains:

Figure 2 Contingency factors influencing CSR in supply chains
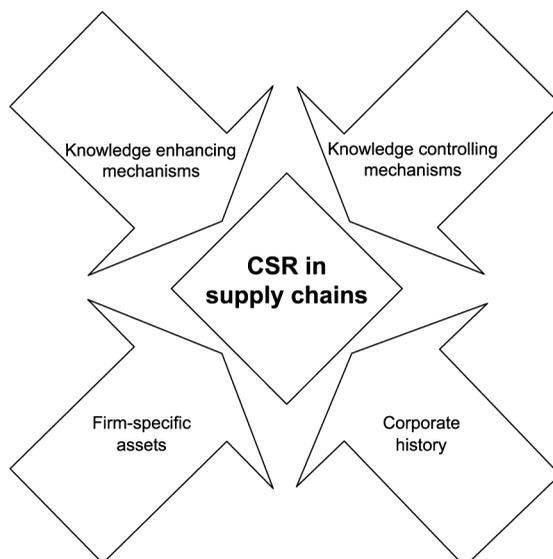
Conclusions and managerial implications

Recently, many multinational corporations have increased their outsourcing of manufacturing activities to developing countries. Parallel with this development, supply chain management has moved from an operational perspective, concerned mostly with purchase prices, quality issues, and sourcing reliability, to a strategic perspective with a focus on long-term relationships with strategic suppliers.

In this paper, we have looked at the growing interest in managing CSR in supply chains proactively. Especially, we have investigated how CSR is embedded in a multinational corporation's global supply chains. The rationale behind this approach is that multinational corporations are not only responsible for sound environmental and social practices within their own premises, but increasingly also for the environmental and social performance at their suppliers, and ultimately for the entire supply chain.

We have presented a case study of CSR practices in a well-known multinational corporation – IKEA. This company represents a pioneering case within CSR in Scandinavia, and has a long tradition of working with environmental and social issues. Therefore, the conclusions drawn from IKEA cannot be generalised directly to other companies. However, the CSR practices of IKEA can serve as inspiration for other companies that are considering adopting corporate codes of conduct.

Practising CSR in supply chains requires that CSR is embedded within the entire organisation. It should not be just another corporate functional or staff activity at headquarters. It has to be disseminated to all functional areas, subsidiaries abroad and offshore suppliers. To achieve such embeddedness, knowledge enhancing mechanisms should be in place. Knowledge enhancing mechanisms can have both an internal and external dimension. The internal dimension includes employee training and sharing of experience among employee groups. The external dimension includes formal and informal training of key personnel at the supplier level, positive incentives for suppliers in terms of long-term contracts and enlarged volume if they implement codes of conduct, and regular auditing of suppliers' performance.

Knowledge controlling mechanisms is another way of embedding the concept of CSR into the organisation. Examples of knowledge controlling mechanisms are incorporation of social and environmental aspects into performance measurements and appointment of "change agents". Moreover, firm-specific assets play an important role in implementing and managing code of conduct requirements in global supply chains. Company size, image and reputation as well as importance of brand protection are some of the factors influencing the chances of a successful implementation of a code. Finally, corporate history matters. Having a corporate history and culture of engaging proactively in environmental and social initiatives is thus likely to increase the ease with which a company adopts and manages CSR in supply chains.

Suggestions for future research

This paper has focused on supply chain-related CSR practices in a specific company. The practices have been analysed from the perspective of the focal company, and the suppliers have been treated as a "black box". However, the success of

implementation of codes of conduct depends to a large extent on the acceptance and willingness of suppliers to adopt the CSR requirements in their own organisation. Therefore, a study of the suppliers' ability to receive and interpret the requirements from the focal company can shed further light on the complexities related to undertaking CSR in supply chains. A study of dimensions related to inter-organisational learning and inter-organisational transfer of knowledge and technologies would give a more comprehensive picture of CSR in supply chains.

A second issue of relevance for future research concerns the extension of supply chain-related CSR practices, i.e. how far back in the chains CSR requirements are posed. So far, most companies working with CSR in supply chains pose requirements to their first-tier suppliers only. However, in order for the entire supply chain to be environmentally and socially sustainable, CSR requirements should preferably be passed on from the first-tier to second-tier suppliers, from second- to third-tier suppliers and so on. A central question in this regard is whether the suppliers are geared to pass on requirements to their own suppliers – and if not, how they can become geared to undertake this task.

Closely related to the issue of an extension of CSR requirements in the chains is the issue of supply chain-related CSR practices in small and medium-sized companies. Currently, most companies working systematically with CSR in supply chains are large multinational companies. However, in a Scandinavian – and even European – context, the majority of suppliers to multinational companies are small and medium-sized companies. It could therefore be argued that the creation of truly sustainable supply chains to a certain extent depends on the ability and interest of these companies to work with CSR issues extending their own factory walls. Accordingly, future research regarding CSR and supply chains should concentrate on examining the potential of small and medium-sized companies of posing and following up on CSR requirements aimed at their suppliers.

A final issue for further research relates to the causal links between the CSR practices and underlying contingency factors. This paper only includes the experiences and practices of one company. Further case studies are necessary in order to find out, which contingency factors influence the organisation of CSR practices in supply chains on a more general level. Is it most appropriate to have a centralised or a decentralised organisation in order to implement and manage CSR practices? Who should control that the intended CSR practices are actually implemented and maintained at the suppliers – internal auditors from the corporate organisation or third-party auditors? These are some of the issues that need to be studied in the future.

Note

1 The empirical data used in this paper were collected as part of Mette Andersen's PhD thesis.

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Further reading

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Appendix 1. Interview guide

Facts about the interviewee
1 What is your position within IKEA?
2 How many years have you been employed with IKEA?

The organisation of Trading Area South East Asia (TASEA) – and the relation to IKEA headquarters in Sweden
1 How long time has TASEA existed?
2 How is TASEA organised?
   • Which functions exist within each country within TASEA?
   • How are the teams organised?
   • Under which form does cooperation/exchange of information take place between the different countries within TASEA?
3 To what extent is TASEA bound by rules/guidelines from IKEA headquarters in Sweden?
   • What rules/guidelines are in place?
4 How does exchange of information between headquarters and TASEA take place?
5 Does IKEA headquarters in Sweden pass on some IKEA values to TASEA?
   • How?
   • Which values?
6 Do the individual trading areas around the world cooperate/exchange information?
   • Under which form does such cooperation/exchange take place?

The development of TASEA's engagement in environmental and social issues
1 What types of activities/initiatives has TASEA been engaged in over the years?
2 Has the number of employees engaged in these issues developed over the years? How? Why?
3 Has the amount of (financial) resources allocated to these issues developed over the years? How? Why?

4 What are the main challenges for TASEA in relation to the environmental and social work at the suppliers?
   • Which items/issues within IWAY are most difficult for the suppliers to understand and/or implement? Why?
5 To what extent are environmental and social issues integrated into the various functions within the organisation?

Supplier relations
1 Which types of suppliers does TASEA use?
2 How is IKEA's strategy and traditions regarding suppliers (number of suppliers, length and content of relationships, etc.)?
3 What are the selection criteria?
4 How is the balance of power between IKEA and the suppliers?
5 How do you think the suppliers view the relation to IKEA?

The supply-chain CSR work
1 When and how has IKEA's code of conduct been developed?
2 What have been the considerations underlying the development of the code?
3 Has IKEA received external assistance for building up the code?
4 How are the code of conduct procedures structured (specific procedures, division of tasks etc.)?
5 What is the scope of the code of conduct work? (number of suppliers subject to the code, number of requirements in the code, and scope of auditing and follow up)?
6 To what extent is IKEA in dialogue with its stakeholders about its work on supply-chain CSR?
7 What are the future plans regarding the work?

Your role in this work
1 What is your job in relation to the suppliers? How often do you visit the suppliers? What do you do when you are at the suppliers?
2 How is this work related to your other tasks?
3 If you are part of a team, please describe how your teamwork is organised. How often do you meet? Which kinds of issues do you discuss?
4 Do you discuss the work at the suppliers with other people outside your team? How often do these discussions take place?
5 How are you located physically vis-à-vis your colleagues? What are the implications hereof?
6 What competences do you possess to fill your role? How are these competences being developed?
7 Have you received training?
8 How is the support/involvement of top management in the code of conduct work?
9 How will you describe the interest/support from employees not involved in the code of conduct work?
10 What kind of feedback has IKEA received from the suppliers concerning the code of conduct work?
11 Can you give me some examples of how suppliers have improved their environmental and/or social performance? Which type of initiative did the suppliers implement, and what was IKEA's role in this implementation?
12 What do you see as the main challenges/barriers in relation to your work?

The organisational culture

1 Does the organisation rely much on written procedures, policies, etc.?
2 How is employee performance measured?
3 What is the attitude towards educational/training activities for employees?
4 How will you describe the traditions, values and norms at IKEA?
5 Does the IKEA office have a written set of values? Do you know what these values are? Do these values have an influence on your daily work? How?

Appendix 2. IKEA's IWAY contents

- General legal requirements.
- Emissions, discharges and noise.
- Ground contamination.
- Chemicals.
- Hazardous and non-hazardous waste.
- Environmental improvements.
- Fire prevention.
- Worker safety.
- Provided housing facilities.
- Wages and working hours.
- Child labour.
- Forced and bonded labour.
- Discrimination.
- Freedom of association.
- Harassment, abuse and disciplinary practices.
- Routines for procurement of wood.
- Protected areas, intact natural forests and high conservation value forests.
- Plantations in tropical and sub-tropical areas.
- High value tropical tree species.

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