

Ikea in russia – ethical dilemmas



**ASSIGN
BUSTER**

IKEA is the world's largest retailer of home furnishings. It strives to provide simple, functional, modern, and useful products at affordable prices to as many people as possible in as many places regardless of their geographical location. IKEA concept is implemented from the start of idea, implemented into the design, manufacture, logistics, sales and final assembly of each product. IKEA was developed by Ingvar Kamprad from southern Sweden, where people are known for surviving and making the most from limited resources.

IKEA has aggressively pursued expansion into emerging markets as well as developed economies to make it possible for all consumers to take advantage of its products and enjoy life through its furnishings. It is in constant search of new ideas, designs, functionality, testing and enabling people to assemble its products on their own and to keep shopping at IKEA retail outlets around the world. Stichting INGKA Foundation became the owner of the new "The IKEA Group" to expand the market and concept of IKEA to as many places as possible.

Through aggressive expansion plan IKEA now has nearly 330 stores in 40 countries and as many as 150,000 co-workers. It is on track to open additional through expansion in new and existing markets to have 500 stores by year 2020. IKEA likes to present itself as principled, environmentally conscious, and socially responsible company. Its products that are sourced from others must follow the 'IKEA WAY', which is set of regulations for its suppliers around the world.

These rules require that manufacturers provide annual report on origin, type of wood used and sourcing of the wood in making the products. In addition, it makes sure labor used in making the products meet the fair trade guidelines set by international regulations. IKEA also follows the UN Convention and guidelines on child labor and if any manufacturer is found to be using child labor is asked to suspend the practice immediately otherwise the contract with that producer is terminated. II - Ethical Models

IKEA in becoming a behemoth retailer of low cost, stylish furniture to all does it follow or have the capacity to insure its business practice meets IKEA or UN guidelines on ethical business practices and social responsibility. The first major area of concern from an environmentalist's point is excessive marketing and encouragement of mass-consumption of furniture items that are not long lasting and need replacement in just few short years. Selling products that need replacement in just a few years puts significant strain on world's wood resources.

Additionally, it is a cause of concern when it enters new emerging markets, what steps it takes to make sure it's employees utilize both environmentally and socially responsible business practices. In the case of IKEA operating in Russia, it failed to follow its own business practices and fell victim to bribery practice that is common in former Soviet Republic. IKEA does overall attempt to meet the UN Global Compact practices by: 1) Making sure it protects, respects and supports human rights. 2) That they are not complicit and ignorant in human rights abuses.) Upholding the freedom of association and recognition of the rights of collective bargaining. 4) Elimination of all practices of forced and mandated labor. 5) Effectively checking to make sure

child labor was not used. 6) No discrimination is allowed at any of its suppliers or manufacturers. 7) Practicing environmental consciousness 8) Initiatives to become more environmentally responsible. 9) Continues to develop and utilize environmentally responsible business practices 10) Work against corruption, bribery and extortion in all their forms.

IKEA needs to effectively promote these principles in the stores it operates, but also needs to make sure all of its suppliers, manufacturers, and vendors regardless of their origin follow the UN principles. However, IKEA has failed in some respect in its ability to control and make sure itself abides by these principles. IKEA in business to generate profit is expanding rapidly in both developing and emerging markets. In an attempt to generate more and more profit it markets, inexpensive products that may originate from sustainable resources but at the same time it encourages excessive consumption, it is often located in remote areas with very large footprint. Products with limited life cycle need replacement more frequently and consumers more often than not end up purchasing far more than they needed when they come to IKEA. It is designed to be consumer friendly, stylish rooms set up for one to visualize placement of furniture at home and if needed available staff to help you in planning and placement of your furniture.

Most recently in February 2013, case of embarrassment came from its food service where it was found the " Swedish Meatballs" it served contained horsemeat. Corruption and bribery case in Russia was an awakening experience for IKEA. In 2010, its top two managers were fired due to bribery of contractors to provide electricity power supply generators to its stores to avoid power shortage. Knowingly it allowed payments of bribery to secure

electricity supply, which was a blow to its reputation as ethical business practice around the world. However, it is often understood bribery and corruption is pervasive in Russia and cannot be avoided.

Second instance of corruption for IKEA in Russia happened when in July 2012, when a Turkish national Mr. Okan Yunalan, was sentenced to 5 years in prison for bribery with IKEA MOS Russian subsidiary Head of the Leasing Department Mr. Carl Ola Ingvaldsson. Mr. Ingvaldsson fled the country prior to capture. In addition, same year global environmental agencies became aware of IKEA's use of poorly written Russian logging rules where old growth trees were being cut down. This caused people to question IKEA's environmental conscious and socially responsible policies. III - Solutions

IKEA must institute effective immediately, employment policies where each co-worker signs on to adhere to its policies in respect to being environmentally and socially responsible to avoid any further embarrassment to its image. In addition, it should create an Internal Audit Department hereby referred to as IAD, MUST annually review and pay surprise visits to inspect, check and confirm each division for possible corruption and practices that is against its policies. Similarly, it needs to slow down its expansion plan in pursuit of entering every market to drive even further profits. It is immoral for IKEA on all grounds to project an image of environmentally and socially responsible company when in fact it is failing to control its employees' behavior. Corruption and bribery as well as practices for its suppliers must be kept in check and punished equally across the board to avoid any further damage. IV - Optimal Solution Optimal solution, I believe to be implementing IAD where co-workers visit each subsidiary along with

outside party inspectors annually and review top management and check for possible abuse of its practices.

IAD co-workers must not remain in same position for more than three years and during their tenure should not visit or given the opportunity to inspect same IKEA subsidiary more than once. Outside inspectors when used in conjunction with its own IAD co-workers will be able to inspect and assure top management at each subsidiary accounts for its actions and business practices. More importantly it should display in large print within its corporate, subsidiaries and local retail outlets a sign promoting anti corruption and bribery will not be tolerated and prosecuted if anyone is found to be guilty.

According to Transparency International 2012 report Russia is still among the top five developed countries in the world for corruption and pervasive bribery. In fact it is accepted to be the norm in all of the CIS countries or former Soviet Republics and is understood to be acceptable if you want to get things accomplished through the highly bureaucratic systems. IKEA must be patient in its expansion plans in Russia as well as CIS countries and be willing to reap the benefits systematically via long-term investments.

IKEA with its set of principles must continue to promote environmental and social responsibility to community and countries it operates in. It must serve as a role model to all companies coming into Russia and wanting to take advantage of market opportunities for the goods or services it sells. V -
Conclusion In summary, IKEA is an environmentally and socially responsible

company. However, it must not forget the problems and issues of both sustainability and social responsibility in pursuit of profit at all cost.

Its problems in Russia, may very well happen in other places as well and it must be persistent to promote its environmental and social culture to everywhere it operates in. In addition, the concept of low-price, functional, stylish and modern furniture pieces should be pursued in products that are long lasting, rather than have a several year life cycle as it does now. After all, being environmentally and socially responsible company also means to cut down as little trees as possible and this can only be achieved through furniture offerings that last long time and are built to last.

Although IKEA does attempt to incorporate environmentally responsible products in its buildings through adaptation of solar energy and other resources it uses, it should not shy away from densely populated areas where shoppers will not have to drive long distances and promote overall health and well being of everyone in the world. It must not only market its products to sell and generate profit but also must extensively promote general environmental and socially responsible principles for everyone to comply with.