

IKEA's Global Sourcing Challenge

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Abstract: *This paper discusses how to tackle the problems of child Labor in India's regions of business. Including how to respond to the negative coverage of German television and similar international public opinions, how IKEA reevaluates and improves supplier contracts or simply chooses to terminate them, and how IKEA decide on its strategy to operate in India. This paper based of the case and reports about IKEA, relating its situation with the methodology of business ethics. IKEA, as an industry leader of the world furniture retailer, plays a role that sells affordable and elegant furniture to consumers around the world. However, IKEA's rapid development of globalization is not smooth. IKEA's rapid development of globalization is not smooth. Despite the company's superior financial performance and market share, some product problems made the company aware of environmental and social problems, which were found to include excessive formaldehyde and child labor The dilemma IKEA faces is that it must work with other suppliers around the world based on suppliers that are not directly controlled by the parent company and the actions of these suppliers have a negative impact on IKEA's products and reputation such as hire the child labor in South Asian. This paper concludes the need to re-evaluate suppliers and the feasibility of the company's strategy in South Asia.*

Keywords: *IKEA, Globalization, Stakeholder theory, Character Virtue Theory, CSR Theory, Child Labor, South Asian, Supplier*

1. Content

IKEA is an international private household goods retailer from Sweden, which was founded by Ingvar Kamprad (Bartlett et al., 2006, p. 4). This paper discusses how to tackle the problems of child Labor in India's regions of business. Including how to respond to the negative coverage of German television and similar international public opinions, how IKEA reevaluates and improves supplier contracts or simply chooses to terminate them, and how IKEA decide on its strategies.

As IKEA continues to expand its overseas retail operations, its products are believed to have excessive formaldehyde emissions. In order to solve environmental problems, IKEA quickly launched corresponding programs to raise environmental standards and adjusted its product range to cooperate with environmentally conscious suppliers (Bartlett et al., 2006, pp. 5-6). A more serious problem is the alleged use of child Labor by IKEA's suppliers in South Asia, which is mainly include Pakistan and India (Bartlett et al., 2006, pp. 6-7). Barner's current problem is how to effectively balance corporate profits and public social responsibility, as well as save the company's reputation when dealing with the invitation of German television. (Bartlett et al., 2006, pp. 7-8).

This report uses Stakeholder Theory, Character Virtue Theory and CSR Theory, and found textbook, PPT, case, and extra paper resource to carry out further analysis.

Barner should accept the invitation of a German TV show and send a PR representative on the show to clarify the whole incident and convey the official IKEA attitude. According to Freeman's Stakeholder Theory Approach, when there are external risks existed, management must decide which stakeholders to consider and the risks (Heblich & Falck, 2007, p. 249). The success of a company needs to consider the externalities that affect the stakeholders. In this case, German TV programs and the customers are external stakeholders of IKEA. IKEA needs to coordinate external factors to achieve success. If IKEA ignores external stakeholders, which refuse to respond to it on German TV, or refuses to show up on the show, these things may eventually get out of control. By accepting the invitation at the first time, IKEA can show to the public that it will be more aware of social responsibility and forthcoming social issues in the future, which can well demonstrate IKEA's value proposition and make an apology. However, the most difficult point is that the German video project does not allow the company to preview the video, which would be a big challenge for IKEA, so IKEA should check and verify the truth of the matter and convey its righteous position. In the meantime, IKEA needs to quickly investigate the truth and get ready

to speak.

Sending a PR rep on a TV show is a positive choice. The public perception of IKEA's attitude is more important than a sycophant narrative. IKEA could turn the show into an opportunity to publicly apologize to the public, acknowledge its lack of oversight and say that it would take the blame and punishments. Given the stakeholder theory, such just action and rapid response can restore the company's image and minimize external criticism. Although the social problem of child labor has been exposed, IKEA can turn this scandal into an opportunity to show its positive attitude.

Ethical companies or people strive to live a balanced life, focusing on bringing good results for themselves, while also finding and helping others find a similar place (Young, 2020, p.15). According to the Character Virtue Theory, it requires companies or people to abide by the bottom line of morality, and influence others to move towards high morality when they are committed to changing the moral level. As an ethical entity, IKEA should punish its Indian suppliers and pass on this character virtue to the company. The case suggests that IKEA should sever its relationship with Rangan. Rangan signed a contract with IKEA in advance that did not use child labor, but it did not abide by the contract (Bartlett et al., 2006, p.8). Rangan was not only in breach of contract, but also of business ethics. At the same time, Barner should investigate all their suppliers to prevent similar problems from happening again. Most importantly, it would violate IKEA's own value proposition and destroy good social influence. Therefore, breaking the relationship with suppliers and re-stating their policies would maintain a good brand image. IKEA should issue a public document, make a public apology, and strengthen its policy against the use of child labor by suppliers.

Although IKEA did not make a direct mistake but just failed in supervision, admitting wrong behavior needs to be taken into consideration in the first place. Failure to assume the corresponding social responsibility or to embody the character virtue will bring a devastating blow to the entire international reputation of IKEA. It would therefore be best for IKEA to sever ties with Rangan, both as a punishment and as a statement against child labor, demonstrating IKEA's position on child labor. It also means IKEA has lost a familiar partner in India, which could lead to problems in IKEA's supply chain. If IKEA wanted to solve this problem, it would have to find a local supplier in India to replace Rangan and strictly monitor it and ensure that it complied with ethical standards. In addition, as a large international company, IKEA can also seek help and advice from international organizations. Part of the annual income is used to improve local education and accommodation. This is the fundamental solution to the problem of child labor.

IKEA has two choices in its current development. If Barner had chosen to leave India, IKEA could have avoided the problem of child labor in India altogether and reduced its negative impact. The pain is that the company has lost a stable of carpet suppliers and the lucrative Indian market. The main problem is that the public will see IKEA's approach to social problems as an escape or an admission of wrongdoing without changing it.

This case shows that IKEA should stay in India, but if IKEA wants to stay in the Indian market for a long time, it must develop a sound long-term strategy. The theory of corporate social responsibility (CSR) refers to that businessmen have the obligation to pursue their own business interests in line with social goals and values and make satisfactory decisions (Hebllich & Falck, 2007, p. 247). It requires enterprises to go beyond profit as the first goal and pursue to make contributions to society in the context of realizing their own interests (Morsing, 2015, p.1). Therefore, in terms of ethics, IKEA must stop local suppliers from behaving in a way that is not in line with business ethics. At the same time assume corresponding social responsibilities. IKEA then must find a suitable supplier to repair its public image. After finding the right supplier, IKEA should strengthen its supervision. A team could be dispatched from headquarters to set up an independent monitoring department in India to help monitor suppliers who work with IKEA in breach of contract. At the same time, it is necessary to establish a set of corresponding rules and regulations and punishment system, so that regulators can better manage according to the corresponding rules and regulations. CSR theories need to be strongly implemented in India, and these theories need to be accepted by Indian suppliers. Finally, in terms of social transformation, IKEA needs to show the social responsibility and Character Virtue Theory of a global company. IKEA can donate to South Asia to improve the situation of child labor through education and accommodation, which can solve the problem of child labor at its root.

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