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IKEA's Global Sourcing Challenge: Indian Rugs and Child Labor (B)

After more than a decade spent struggling with the issue of child labor, Marianne Barner felt good about how IKEA had responded. But occasionally, she found herself wondering whether the progress the global furniture retailer had made was real and durable. Just as it had in the mid-1990s, in 2005 the company could still find itself on the defensive in dealing with the issue. Even more troubling to Barner was that after 10 years of working to prevent child labor among IKEA's suppliers—introducing a clear code of conduct, developing internal controls and third-party audits, training its suppliers, supporting their corrective actions, and instituting stiff sanctions against offenders—the company was still finding cases of child labor in its supply chain.

The latest issue had been drawn to Barner's attention by Kaisa Mattson, the head of IKEA's compliance office in south Asia. Like Barner herself a decade before, Mattson was facing the decision of whether to terminate a relationship with a long-standing major supplier. This one, however, had violated not one but several items in IKEA's detailed code of conduct, known as "The IKEA Way on Purchasing Products"—or IWAY for short. Venkat Industries was a textile mill with over 10,000 workers, and a recent audit had shown that it had stopped using the water treatment plant it had installed as an IWAY requirement, had violated occupational safety measures, had mandated overtime, and, according to one source, had used child labor. Mattson's immediate instinct was to cancel the contract, but she decided to talk it over with Barner, who was on one of her regular visits to India.

As Barner reflected on the problem, her mind began drifting to a much broader issue. What might the company have done better or differently to avoid this incident? More immediately, could this situation provide fodder for the press's interest in the topic, perhaps triggering yet another round of negative publicity for the company? And, in the end, was it simply an indication that a win/win solution was simply not possible in the company's attempt to manage the child labor problem?

The Initial Problem, the Initial Response

In 1994, when IKEA was first confronted with accusations that some of its rugs may have been manufactured using child labor, its response had been swift and strong. With input from the International Labor Organization (ILO), it quickly amended its purchasing contracts with all its

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suppliers worldwide, requiring them to acknowledge that they were not using child labor. Furthermore, the contract spelled out clearly that any evidence of such behavior would lead to immediate contract termination.

The first big test of the revised contract came in May 1995 when a German television program broadcast an investigative report that named Rangan Exports, a major supplier of rugs to IKEA, as an employer of child labor and called for IKEA to act. Barner recalled the difficult decision:

The terms of our contract at that time were black and white, so when we saw the filmed evidence, we immediately terminated Rangan as a supplier over their strong protests of innocence. But German police later found that the whole story, as well as several others by the same TV producer, had been fabricated. Of course we immediately apologized and reinstated the supplier. We met with the broadcasting company and won a settlement which we handed over to the supplier, who decided to use the funds to build a school on the factory premises. The whole event was a powerful lesson for us.

However, despite the difficult management challenge and the bad publicity, the company never considered pulling out. "We won't abandon existing suppliers unless they are unwilling to work with us to eliminate child labor," explained Barner. "That's just not the way we operate. We commit for the long term. That is how we believe we can make a difference."

IKEA also decided to reject an invitation to join the Rugmark Consortium, an entity formed by carpet manufacturers, exporters and importers, retailers, and some local nongovernmental organizations (NGOs) to create a label for rugs that assured consumers they had not been made with child labor. From the outset, IKEA was uncomfortable with the "no child labor employed" promise that the Rugmark label carried. There were an estimated 175,000 looms in the Uttar Pradesh carpet belt alone, with each accommodating two or three workers at one time and many located in small workshops or homes. It was IKEA's position that no one could monitor such a fragmented production process and guarantee that no child had worked on a rug.

Beyond Control, Toward Prevention

In 1998, Barner was asked to become IKEA's children's ombudsman, a position that would report directly to the CEO. In this new role she would have the responsibility to represent and advocate for the needs of children whose lives could be affected by IKEA's activities. Her challenge was to educate the organization about the existence of child labor, its causes, and IKEA's commitment that actions taken on these issues should always be in the best interests of the child. In doing this, the objective was to supplement third-party auditing with more effective monitoring by IKEA coworkers sensitized to the need to eliminate child labor practices anywhere in the supply chain.

Through her involvement with the issue over several years, Barner gradually developed a richer understanding of the complex causes of the problem of child labor. Increasingly she began to see it as a deeply embedded problem born out of the interactions between poverty, poor health, indebtedness, illiteracy, gender and caste discrimination, poorly run schools, and entrenched social norms. And the more she saw this destructive cycle as the cause of the problem, the more she became convinced that simplistic solutions such as the boycotts or trade sanctions often championed by groups in the Western world would not lead to the elimination of child labor.

A classic example of well-intentioned actions causing harm occurred soon after the Child Labor Deterrent Act was proposed for debate in U.S. Congress in 1993.¹ Threatened with having their exports to the U.S. blocked, garment factory owners in Bangladesh dismissed an estimated 50,000

children working in their factories.² However, as local NGOs later reported, most of these children were then pushed into more hazardous and lower-paying occupations—quarrying, for example—which were exempt from pressure since they were in nonexport industries. Some even ended up in the sex industry or were trafficked abroad.³

Similar unintended consequences occurred a few years later following an initiative organized by the International Labor Organization (ILO) to eliminate child labor from the manufacture of soccer balls in Pakistan by the time of the 1998 World Cup. With the support of local NGOs, the local chamber of commerce, and the district government, the ILO implemented monitoring programs for the tough auditing and report standards it had set. To ensure that all work was strictly controlled, home stitching of soccer balls was eliminated as part of this program, and all work was transferred to monitored factories. But because many women could not leave their houses for cultural reasons, they lost their jobs. As a result, one study estimated that 20,000 workers became unemployed in the implementation of the ILO World Cup Project period.⁴

Barner also believed that most well-intentioned corporate efforts did not fare much better. On visits to India, she had seen empty school buildings built by foreign companies in “the carpet belt” of northern India. Good intent did not always carry with it either the short-term delivery expertise or the long-term commitment required to maintain such programs. “The more we learned, the more we understood we had to tackle child labor as a much larger problem,” she said. “It involved changing mind-sets of whole communities, not just the behavior of our suppliers. Once we recognized that, we knew we would need to work in partnership with experts on community involvement.”

Dealing with Causes: IKEA's Partnership with UNICEF

In 1998, on one of her many trips to India, Barner met with representatives from UNICEF India who were working to eliminate the prevalence of child labor by tackling what they saw as the root causes of the problem—poverty, education, and embedded social norms. Finding this clear holistic view in line with her own growing belief on the best way to tackle this deep-rooted problem, she decided she would like to meet with UNICEF Germany, the project's primary funding agency.

On her return to Europe, Barner traveled to Germany to attend a three-hour UNICEF meeting, at which she listened to their descriptions of the goals, philosophies, and operations of the Indian program. In return, she explained what she had learned about child labor, the stance IKEA had taken, and what the company was trying to do about it. Initially skeptical of IKEA's motivation, UNICEF officials did not immediately embrace its offers of help but instead spent some time checking on the company.

In the meantime, Barner had set up a meeting with UNICEF both in New York and Geneva to present IKEA's view on the child labor problem and solicit their input and suggestions. As these discussions continued, Barner proposed that she approach her company to obtain funding to allow UNICEF to significantly expand its efforts to get children into schools as part of a broader attack on poverty in the carpet belt.

IKEA top management quickly agreed to fund the Indian child labor program, and within weeks, Barner returned to UNICEF India and Germany with the company's commitment. Finally convinced of the company's commitment, UNICEF invited IKEA to participate in their efforts. Beyond the funding, they acknowledged that IKEA could also bring the credibility and clout of a major buyer of carpets in the region, and this could be of great help in gaining local cooperation. Planning for the joint program was soon set in motion.

The Reaction: Doubts and Questions

While Barner and IKEA's senior management were comfortable with the decision to deal with the causes of child labor, others were less convinced of the company's unconventional approach. Journalists, for example, seemed to want simple answers and quick responses and were surprised when the company repeatedly told them they had not solved the problem they had been addressing since 1994. "If others were willing to offer guarantees of no child labor, why couldn't IKEA?" they asked. Barner spent a huge amount of her time trying to explain to the media the complexities of the issues and the company's commitment to long-term systemic solutions. But because child labor had become a hot issue, and because IKEA was a highly visible target, many sensationalized or simply untrue reports continued to be published. In 1998, for example, old stories of child labor at IKEA suppliers reappeared in the Netherlands press, resulting in protests against IKEA stores.

Even within the company there was a call for more clarity and certainty in dealing with this sensitive issue. Particularly at the store level, associates could not understand why they were unable to guarantee that no child labor was used in the rugs they were selling. So in 1998 and 1999, each of IKEA's retail countries worldwide was invited to send two representatives (typically the retail manager and the marketing or PR manager) for a 10-day educational tour of the company's Indian suppliers. The retail representatives met with suppliers, NGOs, unions, representatives of the ILO, government officers, and others. They visited villages and factories and talked to experts and among themselves about the complex causes and potential solutions to the problem of child labor. After the visit, they returned to their stores to present seminars that did a great deal to align the organization around the company's approach to the issue.

Implementing the Program

IKEA's initial commitment to UNICEF was to fund a three-year community development project involving more than 200 villages with a population of 400,000, all located in Uttar Pradesh, the heart of India's carpet belt. Launched in August 2000, the objective was to give all 24,000 children in those villages who did not attend school the opportunity to obtain an education.

Because many of the children were not able or permitted to attend the government schools, the program aimed at setting up alternative learning centers (ALCs) designed to act as "bridge schools" to bring children outside the education system into the traditional schools. Unlike teachers in the state schools, who tended to be quite formal, the instructors in the ALCs were trained in UNICEF's "joyful learning" technique. The schools were often set up in very informal environments—sometimes literally under the village banyan tree. The ALCs welcomed all children, including girls, many of whom had been excluded from receiving an education; those from lower castes; and children who had lost years of education because they were working.

The initial ALC program was so successful that IKEA extended its support for another three years and expanded it to include a total of 500 villages with a population of more than 1 million people. In this new phase, a new element of health care was added to education and poverty alleviation. Because illness in the family was often the cause of a financial crisis that led children into work, a vaccination initiative was added, carried out by UNICEF in cooperation with the World Health Organization and the local government. The plan was to inoculate 150,000 mothers to be and 140,000 infants over the first five-year period.

Building on the education and health-care initiatives, the program subsequently launched a parallel initiative to bring women in these villages together in self-help groups. Because most children had been forced to work in order to repay family debt, the idea of the self-help group was to

encourage women to set aside small amounts of money, then pool the savings and place them in a group bank account that gathered interest and from which group members could borrow. Ultimately, this community loan base would reduce dependence on local money lenders. With the support of some banks, these small pools of funds were used to fund microenterprises started by the women. To further support these self-help groups, IKEA began placing orders for cushion covers embroidered by the women who were part of these groups. It was a project that not only fed into their desire to save but also encouraged women to join the self-help community.

By 2004, the joint program was well established, with over 80% of the unschooled 24,000 children in the original 200 villages now attending primary school and almost all of the remaining 20% attending one of the 103 ALCs. In addition, more than 6,000 women had joined one of the 429 self-help thrift/credit groups, which had already funded scores of small businesses. Said Barner:

In every village women are learning to save money together so they can avoid the money lenders. They may not be saving much, and it is often difficult to do so. One woman told me she has to sneak money out of the house without telling her husband. But groups now are accumulating enough money that they can decide on projects. One woman and her husband borrowed 10,000 rupees to begin a vegetable shop, and another family started a tent and chair rental services for weddings. It's wonderful to see.

Based on the success of their initial partnership, UNICEF and IKEA were now looking to expand into new programs. In the carpet belt, there were plans to add more villages to the original project, with expansion being coordinated with IKEA's business development in the villages. The partnership also wanted to expand its work into the metal industry, which was rampant with child labor and where IKEA was a reasonably large buyer.

A New CEO, a New Level of Commitment

By 2005, IKEA had grown to 202 stores in 32 countries, generating sales for the financial year ending August 2004 of €12.8 billion (about US\$15.8 billion).⁵ That year, 365 million people visited an IKEA store, drawn there by 145 million copies of the IKEA catalog in 25 languages. (**Exhibit 1** shows selected IKEA financials, and **Exhibit 2** shows estimated revenues.)

For the previous six years, the company had been headed by Anders Dahlvig, a 15-year IKEA veteran who succeeded Anders Moberg as CEO in 1999. Like Moberg, Dahlvig had worked as a personal assistant to IKEA's founder, Ingvar Kamprad, as well as in a variety of management roles in stores and at the corporate center. In an environment of increasingly tough global competition from super retailers such as Wal-Mart or do-it-yourself chains like Home Depot, IKEA kept the focus strongly on building its global position through market expansion and price leadership.

As part of his response to this challenge, one of Dahlvig's early priorities was to more explicitly define IKEA's plans and priorities going forward. In a document he titled "10 Jobs for 10 Years" (quickly shortened to the designation 10/10), he outlined the broad direction he hoped to take the company. The document was hardly a typical strategic plan: it focused more on refining IKEA's philosophies and values than on analyzing the market or competition, on defining broad visions more than setting specific targets, and on identifying overall priorities more than defining specific plans of action. (**Exhibit 3** summarizes the 10/10 document.) Still, as Dahlvig reflected in 2005:

For good or for bad, I have only written one plan since I became CEO. It is defined broadly to give people throughout the organization room to achieve the big objectives it sets out. But I give a progress report on each of the 10 jobs every year. As long as the priorities feel relevant

we don't have to change them, which I believe creates stability in the organization. In a company of our size, if you change your priorities every year you'll never really implement anything.

Job 9 and IWAY

"Job 9" in Dahlgvig's 10/10 document was "to take responsibility for our suppliers, their co-workers, and for the environment." (See **Exhibit 4** for details on Job 9.) To implement this challenge more effectively, in 2000 the company gathered all the various policies and practices that had been emerging in its dealing with suppliers and formalized them in a common code of conduct, "The IKEA Way on Purchasing Home Furnishing Products," or IWAY for short. (See **Exhibit 5** for a summary.) IWAY set IKEA's expectations of its suppliers regarding environmental responsibilities and working conditions and also contained a specific section on child labor. (See **Exhibit 6** for "The IKEA Way on Preventing Child Labor.") IWAY drew not only from IKEA's accumulated internal policies but also from international conventions and frameworks such as the U.N. Declaration of Human Rights, the ILO Declaration on Rights at Work, and the Rio Declaration on Sustainable Development.

Organizationally, the implementation of IWAY became the joint responsibility of IKEA's trading organization in the field and its social and environmental affairs group staff, a corporate department with a mandate to lead the development of IKEA's social and environmental responsibility. Thomas Bergmark, head of the department, found spreading the IWAY message relatively easy because management supported its beliefs:

Ingvar has always been driven by cost savings. But we learned very early in our history that being cost conscious in things like efficient design and flat-pack transport is also good for the environment. I never need to do any calculations to prove to Ingvar or Anders that the IWAY program will pay off. They know it will. And at the end of the day, how we act will be reflected in how we are regarded in the market.

Auditing and Compliance

To enforce IWAY, the company put in place an upgraded auditing and compliance process. In addition to five compliance auditors who worked with Bergmark at the head office, there were 80 auditors located in the regions alongside IKEA's regional trading service offices. For example, in China there was an office with more than 10 auditors, while the southeast Asia and south Asia regions each had an office with five full-time auditors. An internal audit typically involved an IKEA compliance auditor visiting a supplier for two to three days. In addition, IKEA had grown its system of using third-party external auditors, who now not only did independent random checks but also verified internal audits and provided feedback and coaching to the internal teams. A typical audit by an external auditor could mean two or three people turning up unannounced at a supplier for a full day.

As social and environmental manager in south Asia, Kaisa Mattson served the company's four trading offices in India, Pakistan, and Bangladesh. In the last year, her group of five auditors had completed 80 audits of IKEA's suppliers in the region. In addition, the assigned external auditor—for this region it was global auditing firm KPMG—had carried out some 600 surprise visits.

On average, suppliers went through a full IWAY audit at least every two years, but in south Asia, southeast Asia, and China audits were more frequent. During an internal audit, auditors had to work

through a checklist of 90 items ranging from environmental responsibilities and timber sourcing to working conditions and child labor. In practice, very few suppliers passed on all 90 audit items. But while the average European or American supplier met 96% of the checklist items, the average Asian supplier met only 75%. (See **Exhibit 7** for a checklist and compliance by region.) Explained one senior purchasing manager:

We still have a long way to go, but five years ago we could not even have done such an audit. Our suppliers simply weren't keeping the records we required. It's a huge step that we can do this now. All of our suppliers had problems of some sort at the start, and our initial focus has been on getting everyone to a base level. To use a sports metaphor, this isn't the high jump final, it's the qualifying round. But even that represents a higher bar than they have attempted before and helps push our suppliers forward as a group.

Common violations revealed by audits concerned improper chemical or waste handling, lack of fire prevention measures, wage and overtime abuses, or limits to freedom of association or collective bargaining. For any such issue, the auditor was required to work out an appropriate response, while the supplier had to describe the corrective action, the responsible person, and the timeline for each noncompliance issue to be rectified. Until the corrective action was taken, the supplier was put on probation. Although outstanding orders for the current product line could be fulfilled, those on probation knew that they were not eligible for any new contracts until corrective action was taken.

If the reason for the probation was a child labor violation, requirements were more stringent. Not only was the supplier required to stop the practice immediately, it also had to ensure that the affected child attended school with any costs paid by the supplier. For those unwilling or unable to meet these requirements, or in cases where the issues were still not rectified after repeated cycles of noncompliance, the relationship was terminated.

Between August 2002 and August 2003, among IKEA's 1,500 suppliers worldwide, the company's transparent audit process reported nine cases of child labor involving 13 children. In the following fiscal year, an additional two cases of child labor were detected in India and 11 in China. Regarding sanctions, in fiscal 2004, IKEA terminated 10 supplier relationships for violations of its IWAY Code of Conduct; in an additional 39 terminations, IWAY violations accounted for one of several reasons for action.⁶

Although much of the press and most consumer watchdog groups had grown more sophisticated in their understanding of child labor issues, some still focused on these reported occurrences as fodder for news stories or causes for action. For example, a recent negative evaluation of IKEA had appeared in Britain's first national survey of ethical trading standards based on a study done by academics from Leeds and Huddersfield Universities. In a report picked up by the press, they concluded that "the vast majority of retailers had failed to adopt codes of conduct that ban products produced by child and bonded labour, unfair working conditions, and exploitative trading." Their specific criticism of IKEA was that there was clear evidence of children being employed by its suppliers since it had "fired suppliers over alleged child labour making carpets in Pakistan and India, and wicker baskets in the Philippines." Despite IKEA's response that this simply confirmed that it had banned child labor, employed compliance officers, and was working with UNICEF and unions to eliminate the problem, the survey awarded it a half-star rating on its five-star scale. In conclusion, the authors suggested that consumers "consider boycotting the worst performing stores."⁷

The Decisions

In 2005, Dahlvig was proud of IKEA's progress in dealing with child labor issues over the past decade. "I'm very, very happy about our cooperation with UNICEF and the programs we are continuing together," he said. But he was also aware that the company could not feel that it had the issue completely under control. "My biggest concern is how we can change the attitude of our suppliers. . . . And with the experiences we have now, I think this will be a long journey."

Barner too was concerned about suppliers' ongoing violations of IWAY standards. Most immediately, she was occupied with reports about Venkat Industries, a supplier that had clearly breached many of the agreed standards. Still intimately involved in IKEA's work on child labor and the IWAY, she was on one of her regular visits to India when Mattson told her about the problem.

Venkat was a longtime IKEA supplier that over the years had continued to improve its compliance to IWAY standards. Following its recent installation of a water treatment plant, Venkat had achieved 80% compliance on its last audit, the supplier's highest ever rating. "But at the next audit, the manager told me they had turned off the water treatment plant to keep down electricity costs," said Mattson. "The place was also clearly more crowded than before, with safety signs and fire-fighting equipment missing. Then, on day two of the audit, when I reviewed their paperwork, I found falsified time records."

Mattson brought the finding to the supplier's attention, who explained that he had just signed a contract with another large Western retailer and needed to increase the output. He openly admitted that as a result, he had put most of the staff on mandatory overtime over the past six months. Mattson continued: "I met with the workers' council, and they actually didn't seem too concerned about the overtime. They were happy with the extra income. One woman even told me that if we stopped the overtime, she would have to take another full-time job and work even more hours to keep the same income. She had 10 people living off her salary: parents, children, siblings."

While Mattson was deeply disappointed in the serious deterioration of conditions at such a long-time supplier, it was a side conversation during her audit that most concerned her: "This woman must have found out who I was and came up when nobody was with me. She pulled me aside and told me there had been children working in the plants." Mattson had not been able to validate the accusation, but it worried her. Given the combined number of violations in a supplier who had long experience with IKEA's standards, Mattson's instinct was to cancel the contract, but she wanted to solicit Barner's input first.

Barner shared her younger colleague's concerns that this supplier seemed to be slipping backwards, but in her head, she was already raising questions that went well beyond Venkat's contract renewal. If this was a reminder of how things continued to operate among major suppliers after a decade of effort, should she be asking whether IKEA was really on the right track in its battle to have its suppliers eliminate child labor?

Exhibit 1 IKEA Sales, Purchasing, and Employment Data: By Region (fiscal year-end 31 August)

a. Sales	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sales (euro billions)	3.8	4.1	4.8	5.5	6.4	7.7	9.5	10.4	11.0	11.3	12.8	14.8
Change previous year	n/a	5%	17%	15%	16%	20%	23%	7%	5%	2%	13%	16%

b. Sales and purchasing by region (fiscal year 2004–2005, ending 31 August 2005)	Sales (€mn)	%	Purchasing %
Asia + Australia	0.4	3%	30%
North America	2.4	16%	3%
Europe	12.0	81%	67%
	14.8		

c. Sales and purchasing—Top 5 countries (fiscal year 2004–2005, end 31 August 2005)	Sales (€mn)	%	Purchasing	%
Germany	2.8	19%	China	18%
United Kingdom	1.6	11%	Poland	12%
United States	1.6	11%	Sweden	9%
France	1.3	9%	Italy	7%
Sweden	1.2	8%	Germany	6%

d. Coworkers (fiscal year 2004–2005, end 31 August 2005)		
By region		
Asia + Australia	3,000	3%
North America	13,000	14%
Europe	74,000	82%
	90,000	
By function		
Purchasing, distribution, wholesale, range and others	8,000	9%
Industrial production—Swedwood Group	13,000	14%
Retail	69,000	77%
	90,000	

Source: *IKEA Facts and Figures 2004*, *IKEA Facts and Figures 2003*, casewriter research.

Exhibit 2 IKEA Estimated Profitability (in Swedish kronor): 1992–2002

Group Ingka Holding, bn SEK	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Turnover	31.0	33.0	35.0	37.0	40.0	49.0	58.0	70.0	88.0	96.0	101.0
Profit before taxes	3.6	3.6	4.0	3.8	4.2	7.6	10.7	11.7	16.1	16.6	14.5
Net profit	2.4	2.4	2.9	2.8	3.2	5.8	7.7	8.2	11.7	12.4	10.7
Net margin (%)	7.7%	7.4%	8.4%	7.6%	7.9%	11.9%	13.3%	11.7%	13.3%	12.9%	10.6%

Source: Bo Pettersson, "Han släpper aldrig taget," *Veckans Affärer*, March 1, 2004, pp. 30–48.

Note: Table based on external analyst's assessment. IKEA did not release or comment on any of these numbers.

Exhibit 3 IKEA's Mission, Objectives, and "10 Jobs in 10 Years" (summarized)*Mission Statement*

To create a better everyday life for the many people:

By offering a wide range of well designed functional home furnishing products at prices so low that as many people as possible will be able to afford them.

By giving down-to-earth, straightforward people the possibility to grow, both as individuals and in their professional roles, so that together we are strongly committed to creating a better everyday life for ourselves and our customers.

Objectives

The 10/10 document builds on three objectives for IKEA:

- To be the leading home furnishing company
- To strengthen IKEA's competitive position
- To sustain long-term profitability

Ten Jobs

In order to achieve these objectives, IKEA should focus on the following ten jobs in the next decade:

1. To develop a strong and vital range
2. To offer outstanding sales prices
3. To improve the meeting with our customers
4. To continue to reduce purchase prices and improve product quality
5. To develop a logistical efficiency in the whole pipeline
6. To attract, develop and inspire our people
7. To be one IKEA
8. To become leaner, simpler and quicker
9. To take responsibility for our suppliers, their co-workers, and for the environment
10. To keep the culture of IKEA a strong living reality

Source: IKEA, "10 Jobs in 10 Years—A Direction for IKEA 2001–2010," March 30, 2000.

Exhibit 4 Job 9 in “10 Jobs in 10 Years”*Job 9: To take responsibility for our suppliers, their co-workers, and for the environment*

Up to this point, we have been a business with focus mainly on two stakeholders: our customers and our co-workers. Gradually we have come to realize, just as the world around us, that we must take an increased responsibility also for what happens at our suppliers and what happens with the environment as a consequence of our actions.

In the past, our suppliers' working conditions and the way they treated the environment was something we sometimes did not see as our responsibility. This cannot be the case any more, as it makes neither good moral practice nor sound business sense. We must work with our suppliers to find conditions that are mutually beneficial. We must work with them to secure acceptable working conditions. We must share our production experience with suppliers and be honest and open in all dealings with them. This way we will build a globally strong supply base—through trust and mutual advantage.

IKEA is a big company. What we do affects not only our customers but also our planet and its resources. We are dependent on natural resources for our long-term development and growth. Here again we must choose to take responsibility for our actions. Our goal is to try always to minimize our effect upon the environment.

We shall strive towards an environmentally adapted range—something our customers will call for in the course of time. We shall get to a position where all the wood in our products is derived from well-managed forests. We shall reduce the environmental impact of the transportation of our furnishings and of our co-workers and customers. We shall ensure that our stores are doing active environmental work. And we shall insist that our suppliers adhere to the same environmental practices as we set for ourselves.

Source: IKEA, “10 Jobs in 10 Years—A Direction for IKEA 2001–2010,” March 30, 2000.

Exhibit 5 IWAY—The IKEA Code of Conduct (summarized)

"The IKEA Way on Purchasing Home Furnishing Products" (IWAY) defines what suppliers can expect from IKEA and what IKEA requires from its suppliers in terms of legal requirements, working conditions, child labor, environment and forestry management.

Start-up Requirements

Potential IKEA suppliers—prior to starting up a business relationship with IKEA—must fulfill the following start-up requirements:

- no forced or bonded labor
- no child labor
- no wood from intact natural forests or high conservation value forests
- suppliers delivering IKEA products containing solid wood, veneer, plywood and layer glued wood must complete a Forest Tracing System questionnaire.

In addition, IKEA requires the supplier to make an action plan including timeline for fulfilling the rest of the criteria of IWAY.

Suppliers can expect IKEA:

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

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

Working Conditions

IKEA expects its suppliers to respect fundamental human rights, to treat their workers fairly and with respect.

Suppliers must:

- provide a healthy and safe working environment,
- pay the legal minimum wage or the local industry standard and compensate for overtime,
- if housing facilities are provided, ensure reasonable privacy, quietness and personal hygiene.

Suppliers must not:

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

Environment and Forestry

At IKEA, we shall always strive to minimize any possible damaging effects to the environment which may result as a consequence of our activities. Therefore, IKEA and its suppliers shall continuously reduce the environmental impacts of operations.

Suppliers must:

- work to reduce waste and emissions to air, ground and water,
- handle chemicals in an environmentally safe way,
- handle, store and dispose of hazardous waste in an environmentally safe manner,
- contribute to the recycling and reuse of materials and used products,
- use wood from known areas and, if possible, from sources that are well managed and preferably independently certified as such.

Suppliers must not:

- use or exceed the use of substances forbidden or restricted in the IKEA list of "Chemical Compounds and Substances,"
- use wood originating from natural parks, nature reserves, intact natural forests or any areas with officially declared high conservation values, unless certified.

Source: IKEA Social and Environmental Responsibility Report 2004, p. 23.

Exhibit 6 The IKEA Way on Preventing Child Labour

The IKEA Group of Companies (IKEA) acknowledges the fact that Child Labour does exist in various countries. However, IKEA disassociates itself from Child Labour, and works actively against it. The complexity of the Child Labour problem requires a consistent, long-term effort to create broad-based and enduring developments. IKEA respects different cultures and values in countries where IKEA operates and sources its products, without compromising the basic requirements regarding the Rights of the Child.

This is our Code of Conduct on Child Labour and a part of the overall document "The IKEA Way on Purchasing Home Furnishing Products." Our goal is to ensure that no products delivered to IKEA are manufactured by Child Labour. This IKEA Way on Preventing Child Labour has been established in order to make the IKEA position clear to suppliers and their co-workers, as well as any other parties. It is a mandatory requirement that all suppliers comply with and implement the stipulations contained herein.

1. General Principle

IKEA does not accept Child Labour.

IKEA supports the United Nations (U.N.) Convention on the Rights of the Child (1989). The IKEA Child Labour Code of Conduct is based on this Convention, stipulated in:

Article 3; "All actions concerning the Child shall take full account of his or her best interests."

Article 32.1 "the right of the child to be protected from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development."

In addition, this Code of Conduct is based on the International Labour Organisation (ILO) Minimum Age Convention no. 138 (1973).

According to this convention, the word "Child" is defined as any person below fifteen (15) years of age, unless local minimum age law stipulates a higher age for work or mandatory schooling, in which case the higher age would apply. If, however, the local minimum working age is set at fourteen (14) years of age in accordance with exceptions for developing countries, the lower age will apply.

This Code of Conduct also incorporates the ILO Convention on the Worst Forms of Child Labour no. 182 (1999).

2. Implementation

All actions to avoid Child Labour shall be implemented taking the Child's best interests into account.

IKEA requires that all suppliers shall recognise the U.N. Convention on the Rights of the Child, and that the suppliers comply with all relevant national and international laws, regulations and provisions applicable in the country of production.

Suppliers are obliged to take the appropriate measures to ensure that no Child Labour occurs at suppliers' and their sub-contractors' places of production.

If Child Labour is found in any place of production, IKEA will require the supplier to implement a corrective action plan. If corrective action is not implemented within the agreed time-frame, or if repeated violations occur, IKEA will terminate all business with the supplier concerned.

A corrective action plan shall take the Child's best interests into consideration, i.e., family and social situation and level of education. Care shall be taken not merely to move Child Labour from one supplier's workplace to another, but to enable more viable and sustainable alternatives for the children.

The supplier shall effectively communicate to all its sub-contractors, as well as to its own co-workers, the content of the IKEA Way on Preventing Child Labour, and ensure that all measures required are implemented accordingly.

3. Young Workers

Young workers of legal working age have, until the age of 18, the right to be protected from any type of employment or work which, by its nature or the circumstances in which it is carried out, is likely to jeopardise their health, safety or morals.

IKEA therefore requires all its suppliers to ensure that young workers are treated accordingly; this includes measures to avoid employment during school hours. Limits for working hours and overtime should be set with special consideration to the workers' low age.

4. Labour force register

The supplier shall maintain documentation for every worker verifying the worker's date of birth. In countries where such official documents are not available, the supplier must use appropriate assessment methods as per local practice and law.

5. Monitoring

All suppliers are obliged to keep IKEA informed at all times about all places of production (including their subcontractors). Through the General Purchasing Conditions for the supply of products to the IKEA Group of Companies, IKEA has reserved the right to make unannounced visits at any time to all places of production (including their subcontractors) for goods intended for supply to IKEA. The IKEA Group furthermore reserves the right to, at its sole discretion, assign an independent third party to conduct unannounced inspections in order to ensure compliance with the IKEA Way on Preventing Child Labour.

This is a living document, and as we gain more experience and learn, it will be revised.

Source: "The IKEA Way on Preventing Child Labour," IKEA Services AB, 2005. Issued by Marianne Barner and approved by Anders Dahlvig. Version dated July 1, 2005.

Exhibit 7 IWAY Supplier Checklist and Compliance by Geography

IWAY Fulfillment by IKEA Trading Audits	Europe	Asia	Americas
1. Legal compliance	96%	77%	96%
2. Emissions	96%	75%	100%
3. Ground contamination	97%	79%	99%
4. Chemicals	93%	64%	90%
5. Waste, hazardous waste	93%	63%	90%
6. Environmental improvement	94%	73%	90%
7. Fire prevention	92%	72%	94%
8. Workers' safety	97%	79%	96%
9. Dormitories	NA	80%	100%
10. Wages, overtime	100%	69%	99%
11. Child labor	98%	84%	99%
12. Forced & bonded labor	100%	94%	100%
13. Discrimination	100%	92%	100%
14. Freedom of association and collective bargaining	100%	42%	100%
15. Harassment	99%	84%	100%
16. Forestry, Routines for procurement of wood	98%	82%	98%
17. Forestry, Protected areas, intact natural forest and high conservation value forests	100%	61%	100%
18. Forestry, Plantations in the tropical and subtropical region	100%	83%	100%
19. Forestry, High value tropical tree species	100%	88%	100%
Average total	96%	75%	96%

Source: IKEA Social and Environmental Responsibility Report 2004, p. 26.

Note: The IWAY checklist comprised 90 items. This table groups them in 19 areas.

Endnotes

¹ See Shamarukh Mohiuddin, "Saving the Children," Policy Report for the Progressive Policy Institute, October 2004, available at http://www.ppionline.org/documents/SavingChildren_1020.pdf, accessed October 5, 2005.

² Data from the Bangladeshi Human Rights Network website, "Banglarights.net," available at http://www.banglarights.net/news_and_issues.php?story_id=2, accessed October 5, 2005.

³ Ibid.

⁴ Pouloni Saha and Tobias Webb, "Facing Up to the Child Labour Challenge," Special Report: Tackling Child Labour, Ethical Corporation, September 2005.

⁵ All numbers taken from the IKEA brochure, "IKEA Facts and Figures 2004." IKEA did not publish any official annual reports, nor did it report on profit levels. It did however put out an annual "IKEA Group Facts and Figures" brochure that detailed, for example, sales numbers, purchasing, and coworkers by region.

⁶ Numbers on violations and cancellations taken from "IKEA – Social and Environmental Responsibility Report 2004," pp. 20, 24, and 31, available at http://www.ikea-group.ikea.com/corporate/PDF/IKEA_SaER.pdf, accessed October 5, 2005.

⁷ Severin Carrell, "Shops Score Poorly in Fair Trade Survey," *The Independent*, June 16, 2002, p. 4.