

Costs and Benefits from Implementing a Code of Conduct

-The IKEA Code of Conduct (IWAY)
and the effects on the supplier

Masters thesis

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Foreword

This report, my master thesis was written to finalize my studies at the Masters program Industrial Management and Engineering.

The purpose of this thesis is to study the costs and the benefits facing suppliers when implementing a Code of Conduct. The report aims to present a well founded analysis to people who are interested in, or responsible for the design and implementation process of Codes of Conduct. It should also give an indication on what can be found when analyzing the costs and benefits from implementing the IKEA Code of Conduct, IWAY in developed as well as less developed countries.

The following persons have supported me with their valuable knowledge throughout this project.

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My warmest regards also to the staff at the IKEA Trading offices in Poland as well as India. Thank you for your friendly hospitality and for taking me on your trips. It has been an invaluable experience for me and I hope to meet with you all soon again.

Rikard Bergmark

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Abstract

The awareness of issues regarding environment, social and working conditions is getting more and more intense. Therefore the need for a structured and reliable way of working with these questions is crucial for making long term business.

According to the Code of Conduct set by IKEA, IWAY all IKEA products should be manufactured under acceptable working conditions by suppliers who take responsibility for the environment as well as social and working conditions.

The consequences facing the supplier when implementing IWAY are not known. A common understanding amongst new suppliers is that the costs are high. In order to study the costs and benefits that face the supplier when implementing IWAY I visited 16 suppliers in Poland and 12 suppliers in India.

This report gives an indication on what can be found when analysing the costs and benefits from implementing a code of conduct in developed as well as less developed countries. The benefits from implementing the IKEA Code of Conduct, IWAY are according to my findings dominating the costs. By analyzing and presenting the likely costs and benefits to the new suppliers in each region the energy in the implementation process will be increased.

The initial cost mentioned by the Polish suppliers is in average 0.052% of the supplier turnover. The yearly running cost in Poland is 0.0040% of the total turnover.

The cost from investments that is a benefit to the outside environment in Poland is a close mix of results from their own economical interests, polish law, IWAY and in many cases ISO standards. More then 75% of the suppliers in Poland answered that their cost for improving the working conditions according to IWAY requirements is negligible. Most of the requirements are already enforced by law or by requirements from other parties.

The initial cost for implementing IWAY at the Indian suppliers can be estimated to 2.4% of the supplier turnover. The cost will increase dramatically when the implementation of the social security benefits proceeds down the supply chain to the sub-suppliers, maybe by moving more production in-house. The running cost from the implementation is in average 1.4% of the Indian supplier turnover.

The work with IWAY has lead to many investments that benefit to a better environment in India. Neither economical nor environmental benefits have previously motivated the suppliers in India to invest money in the environment. Many investments in better working conditions in India have been done after starting to work with IWAY. In India the social security benefits that are being

enforced by IKEA are also required by law. A remarkable hindrance in the implementation process is the weak enforcement of the country law.

The work with IWAY gives many benefits in relations to other buyers. Half of the Polish suppliers and ten out of the twelve Indian suppliers state that they can benefit significantly from the work with IWAY in relations to other buyers. The work with IWAY has the power to attract new buyers as well as generating more orders from existing buyers.

The IKEA purchasers and auditors are sharing their knowledge and helping the suppliers with the best practice. In Poland suppliers who have doubled their turnover have been able to cut their cost for emissions by half. At the Indian suppliers which measure efficiency an increase of in average 16% has taken place since starting to implement IWAY. The rejection rate has been decreased by in average 6% during the same period of time. In parts of the production in India the numbers for efficiency and rejection rate are not available.

The improved working conditions result in healthier employees. In Poland 30% of the Polish suppliers could show a straight decreasing trend in number of days taken as medical leave since implementing IWAY. Significant improvements have been done in the working conditions by investing in Personal Protective Equipment, ventilation and safety guards in India.

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1. Introduction

The bigger the moose, the easier it is to shoot. Companies like Toyota, NIKE, McDonalds and IKEA are all subject to examination from non governmental organizations, activists and competitors of all kinds. The scale of their business gives them influence on standards in different markets.

The awareness of issues regarding environment, social and working conditions is getting more and more intense. Not only are the laws getting stricter, but also the requirements from the customer side. Therefore the need for a structured and reliable way of working with these questions is crucial for making long term business.

In a study conducted by Innovest Strategic Value Advisors, 85% of the studied 15 cases could show a positive correlation between environmental governance/events and financial performance. [1]

Many large companies, such as NIKE and IBM, are in the Climate Savers Program conducted by WWF (World Wildlife Foundation). This program is focusing on reversing the rising trend of carbon dioxide emission from industrialized countries. During the financial year 2003 / 2004 altogether 44 of Europe's 50 biggest corporations issued a corporate social responsibility report. [2] IKEA is participating in several projects conducted by UNICEF and Save the Children, preventing and opposing child labor as well as supporting regions suffering from war. IKEA also have several forestry projects in co-operation with WWF.

Not only actions outside the organization are of importance. Influencing thousands of suppliers the importance of healthy relationships and a corporative scheme when it comes to questions regarding outside environment, social and working conditions are crucial. The emerging role of global companies as mentors to their suppliers serve the purpose to drop long term costs, improve the health and safety of workers and to boost the reputation of the company as well as the whole industry. This can be done by implementing social and environmental standards. [3] There are a number of Codes of Conduct as well as Management Systems (MS) dealing with the same issues that are being implemented by enterprises around the world. The most known MS on the above issues are ISO 14001 for environment, OHSAS 18001 for health and safety and SA 8000 for Social Accountability. ISO 14001 has been implemented by over 600 000 organizations. IKEA and Hennes & Mauritz are examples of companies who have set their own Code of Conduct.

2. Background

“The IKEA Concept is based on 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.”

[4]

IKEA was founded in 1943 by Ingvar Kamprad and the first store was opened in Älmhult 1953. Today IKEA represents the leading home furnishing brands in the world with more than 200 stores and 85 000 co-workers.

The turnover for financial year 2004 for the IKEA group was 12.8 billion Euro. Europe was the region where 81% of the total turnover was generated. Europe was also the region where most of the products were sourced. During the year 66% of the total purchasing activities were conducted in Europe. Poland was the second biggest purchasing country after China. During last year IKEA bought 12% of its products from the Polish market and 5% from the South Asian market (including India, Pakistan and Bangladesh). Contracts and contacts with the 1500 suppliers in 55 countries are kept by the 44 purchasing offices in 33 countries.

[5]

According to the code of conduct set by IKEA all IKEA products should be manufactured under acceptable working conditions by suppliers who take responsibility for the environment as well as social and working conditions. The code of conduct, “The IKEA Way on Purchasing Home Furnishing Products” (IWAY), was adopted in the year 2000. IWAY specifies the minimum criteria for suppliers and what suppliers can expect of IKEA. The requirements are in a living document and updates are being done every second year.

The main document, mentioned above is supported by the IWAY Standard which in detail specifies the requirements in each one of the sections of IWAY. A checklist containing 91 points is then used by the auditors when performing audits.

There are requirements for working conditions, overtime rates, minimum wages, trade union representation rights, waste management, chemical management and emission to air and water etc. [6] IKEA is also encouraging suppliers to implement other Management Systems, such as ISO 14001 and OHSAS 18001, but IWAY serves as the minimum requirement.

IKEA has decided to focus on:

- Improving their role as a supporter to the supplier, instead of just auditing
- Improving it's methods of interviewing workers in connection with IWAY inspections
- Starting up some monitoring also of sub-contractors

[7]

IKEA has three startup requirements for new suppliers. The supplier has to ensure that they are not using any forced/bonded or child labor. The supplier also has to show that it is not sourcing wood from any intact natural forests or high conservation forests unless certified according to FSC (Forest Stewardship Council). After passing the startup requirements an IWAY audit has to be done prior to the first delivery. The supplier will then be asked to provide an action plan for compliance with each deviation that has been identified during the audit. Suppliers are expected to meet the IWAY requirements within maximum 24 months.

The IKEA requirements are being updated every second year. Periodic audits are being done by the auditors as well as by the purchasing teams. After finding a non compliance a corrective and preventive action plan is agreed on with the supplier. The Compliance and Monitoring Group is doing compliance audits to secure that the same judgment level is used worldwide. Records are kept from all the parts of the process.

For more detailed information and facts about IWAY please visit www.ikea-group.ikea.com to find [5], [6] and [7].

3. Problem definition

The economical consequences facing the supplier when implementing IWAY have previously not been investigated. Using the knowledge from studying the costs and benefits when communicating the Code of Conduct to suppliers can contribute to higher energy amongst the suppliers in the implementation process.

1. What are the costs and benefits facing the supplier when implementing IWAY?
2. How can we use this information to motivate suppliers in the process of implementing IWAY?

The cultural inheritance, traditions and history in the region affect the implementation process. Knowledge about these differences needs to be increased and this has to be taken into consideration throughout the analysis.

4. Methodology

Based on information provided by IKEA, including the IWAY Checklist a questionnaire was designed. The questionnaire is aimed to investigate the costs and benefits facing the suppliers when implementing IWAY. Adjustments were then done after discussing with the IWAY responsible staff in each of the two countries. In Poland Ryszard Gajak, Environmental Manager, Przemek Tokarski, IWAY Manager as well as Benny Gunnarsson, Technical Quality and Environmental Manager assisted in improving the questionnaire.

The two countries that are in the analysis, Poland and India, are working on different issues in order to make progress and to help their suppliers fulfill the IWAY requirements. In India issues on social conditions are a major challenge. After discussing with staff at each of the two trading offices the questions were adjusted to fit the specific market.

In India Kajsa Matsson, Social and Environmental Manager, Dhiraj Manhas and Sangeeta Bahl, both auditors were the staff which assisted me in making the questionnaire suitable for the IWAY process in India. The final questionnaire, including the questions used both in India and Poland can be found in Appendix 1.

I sent the questionnaire to the suppliers prior to the visits. The suppliers were then asked to prepare answers that could be discussed at my visit. In order to get a clear picture of what is facing the suppliers when implementing IWAY it was necessary to make visits to see the production facilities and to discuss the supplier answers. During the period of the visits I was stationed in the IKEA Trading Service Office in Warsaw, Poland and later in IKEA Trading Service Office in New Delhi, India. I planned and traveled together with purchasers, technicians, business support as well as staff responsible for questions regarding outside environment, social and working conditions.

During a period of four months I visited 16 suppliers in Poland and 12 suppliers in India. Every visit was started by small company introduction from one of the managers. After this I went on a tour following the product flow around the factory. During the tour I looked especially for investments that have been a benefit to the environment or to the working conditions.

After the tour I discussed their answers to the questionnaire with the IWAY responsible staff at each factory. I also discussed my findings from the factory tour. At many visits, especially in India I also got time to sit down and discuss with the owner of the factory. In Poland I could sometimes discuss the

implementation process with management from the production. Below is a brief list of the aspects focused during my visits.

- Staff responsible for environmental, social and working environment
- Reports on misconduct, medical leave and accidents amongst staff
- Relations to other buyers as well as to sub-suppliers
- Investments, training programs and permissions
- Reports on performance in production
- Social conditions

Due to circumstances described in this report the main focus in India is the social conditions. The main focus in Poland is the environmental conditions.

The rate used when converting the local currencies into euro was fixed for this report in January 2005. The rates are presented in Appendix 3.

5. Scope

There are about 80 suppliers working with IKEA in the two countries. As per discussion with qualified IKEA staff at the trading offices, 40 of the suppliers were chosen to be more interesting for the study. The purpose was to focus on suppliers that have shown most energy when working with questions regarding IWAY. The assumption supporting this is that these suppliers have the most experience to share, and they are also the suppliers that are most likely to be open to share information about their work. Altogether 28 supplier visits were done in the two countries, Poland and India.

The following were preferred features amongst the chosen suppliers:

1. The supplier has an open relationship to IKEA
2. The supplier has faced challenges from implementing IWAY
3. The supplier has been open to implement changes required by IWAY
4. The supplier has showed a will to invest and improve beyond what is required by IWAY regarding outside environment, social and working conditions*

*This feature is not crucial for a supplier to be in the analysis.

Due to this approach to the analysis, some companies that could be valuable for the study could end up outside the scope of the project. See below.

- Suppliers that have been required to do heavy investments due to the implementation of IWAY. This could affect their attitude to the implementation process as well as it could affect the relationship to IWAY as well as to IKEA. This could contradict with the first and the third features mentioned above.
- Large suppliers that deliver only a small part of their production to IKEA. These suppliers might have a more closed relationship to IKEA. This would contradict with the first feature mentioned above.
- Suppliers that did not have to make any investments due to their implementation of IWAY. This would contradict with the second feature mentioned above.
- Suppliers that have faced heavy investments in order to fulfill IWAY and therefore have not been open to other environmental investments not specifically required by IWAY. This would contradict with the fourth feature mentioned above.

After speaking to Ryszard Gajak, IWAY Specialist at IKEA Hanim Poland S.A., and Kaisa Mattson, Social and Environmental Manager in the Delhi office, I could conclude that our selection of suppliers were well in the purpose of this project.

6. Terminology

Environment

Surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans, and their interrelation.

Management System

In this report referring to the part of the overall management system that includes organizational structure, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the policy for environmental, social and working conditions.

IWAY

IWAY is an abbreviation for “The IKEA Way on Purchasing Home Furnishing Products”. IWAY is a Code of Conduct that specifies the minimum requirements for the suppliers and what suppliers can expect of IKEA.

Non compliance with IWAY

When a supplier does not have compliance with IWAY it means that it does not meet the minimum requirements that are set by IKEA when it comes to issues regarding outside environment, social and working conditions. This is often explained by non conformances with requirements in the IWAY checklist.

Issue of outsourcing

Suppliers sometimes outsource parts of their production to sub contractors. This can result in decreased visibility of the conditions of outside environment, social and working conditions at IKEA supplier sites. The phrasing “issue of outsourcing” is used in this report to summarize the disadvantages from the above when ensuring that the IWAY requirements are met.

IWAY checklist

A list of requirements used when performing a supplier audit.

Organization

A Company, corporation, firm, enterprise, authority or institution, or part or combination thereof, whether incorporated or not, public or private, that has its own functions and administration. [7], [8]

7. Codes of Conduct

Written Codes of Conduct are not new in the business community. They have been used to set rules guiding ethical business practices for many years. A big change in the design of these requirements has been taking place since 1991. During this year the first code of conduct was developed that take the supplier labor practices into consideration. The previous guidelines were focused on the internal business, excluding conditions at the supplier sites.

A new concept was established and private companies were expected to take responsibility for consistent application of the human rights norms to workers, no matter if they own the organization or not.

Now the question is not weather a company should adopt a code of conduct, the question is how it should be designed and how it is best implemented. Codes of conduct usually set guidelines on issues like child labor, forced/bonded labor, working hours, social security benefits, discrimination, freedom of association, environment, and health and safety.

[9]

These are some general principles in a Code of Conduct

- A Code of Conduct is a process, not an event
- An Code of Conduct is the people and the actions, not the words and aspiration
- Improvement rests on changing attitude and behavior. “Have to” should be changed to “Want to”
- A well designed Code of Conduct will improve business performance at the supplier sites as well as in the company itself

[12]

7.1 Codes of Conduct and Management Systems

The management systems (MS) that will be referred to in this report are dealing with issues on environment, social and working conditions. These MS are providing a systematic approach to dealing with the aspects regarding the above issues. The most known MS are the ISO 14001 for environment, the OHSAS 18001 for health and safety and SA 8000 for Social Accountability.

It is possible to compare Codes of Conduct with well known MS. When doing so it is important to know the differences in approach to improvement.

- A code of conduct is to be followed by all suppliers and business partners which the company benefits from. It is not only to be followed by the company itself.
- A typical Code of Conduct has a bottom up approach. The implementation process starts by findings non conformances in the production facilities. The corrective actions should then make sure the deviations do not re-occur.
- A Code of Conduct is often aiming at reaching a certain performance level, while MS are a tool for approaching the issues in a structured way and working with continuous improvement. The periodic audits, sometimes done by a third party auditing firm and the corrective actions are in focus. The code is focusing on “performance level in reality”. Documentation and the designing of information systems are less focused.
- Following a code of conduct often involve consequences in case of re-occurring non conformance. Codes of Conduct are stricter on implementation with business consequences pushing towards full compliance.

The similarities between Codes of Conduct and MS make principles applicable for MSs also useful when describing a Code of Conduct.

7.2 Reasons for implementation

7.2.1 Protect brand reputation

Now more then ever the customers, non governmental organizations, activists and media examine and judge weather the corporate business is ethical or not. All the parts in the supply chain that provides profit to the brand are included and will be subject to examination. The reputation of a brand is a very valuable asset and a well implemented code of conduct can help to sustain the reputation.

IKEA has managed to keep the brand name off the angry banners waved by activists around the world according to The Teflon Shield article presented in The Newsweek 2001. The article describes how IKEA has been moving quickly, through hard work, to address charges linking it to everything from child labor to dangerous plastics.

[11]

7.2.2 Increased quality, productivity, reliability and trust

Business partners who manage the code of conduct well also tend to perform better when it comes to delivery time and quality. The communication systems that are needed to enhance quality and productivity also enhance workplace conditions. In a study conducted by Innovest Strategic Value Advisors, 85% of the studied 15 cases could show a positive correlation between environmental governance and or events and financial performance. [1] The code of conduct programs can help to improve on quality and efficiency and therefore the implementation can result in greater trust from the buyers.

Maintaining good health of the workers is one of the targets in a code of conduct. A healthy workforce is also beneficial to the employer. With better trained staff the suppliers will also be better prepared for any emergency. The actions preventing fire, teaching fire fighting and conducting first aid training can be invaluable.

7.2.3 Strengthen legal compliance

The Codes of Conduct are designed for multinational implementation with compliance with the country law as one of the minimum requirements. In the countries where the country law is not fully enforced it can be challenging to gain understanding from the suppliers.

The implementation process will help to identify desired, committed and forward thinking suppliers. In case the laws will be enforced later, maybe by campaigns targeting the industry, the implementation of the code of conduct will reduce the risk of liability.

7.2.4 Increase ability to respond to crisis

In case of bad publicity the company can respond in a proactive manner. The Code of Conduct will help in locating the core issue and corrective actions can be taken accordingly.

7.3 Designing and implementing a Code of Conduct

The work with designing and implementing a code of conduct is an ongoing process. IKEA has chosen to update IWAY every second year. Also implementing and sustaining the required level at the supplier sites is an ongoing process.

7.3.1 The Code of Conduct procedure

The process of auditing and making corrective actions should be dynamic and continuous. By adding a box for updating the requirements in the Figure 2 the

dynamic part is underlined. The picture has been modified to match the process at IKEA.

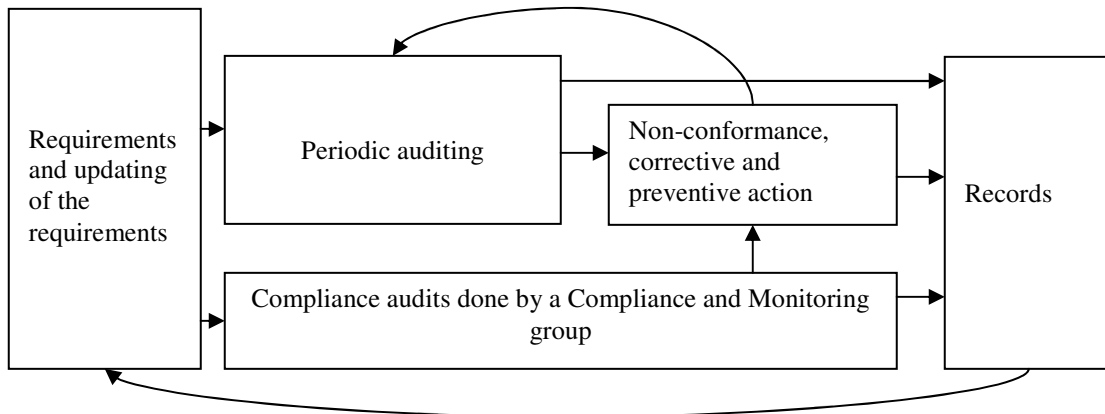


Figure 1. Code of Conduct - Checking and corrective actions [12]

7.3.2 Designing the Code of Conduct

When designing a code of conduct a company can use many sources. The local laws and regulations together with international accepted declarations and conventions are normally used. Local laws are usually applied to set limits for working hours, to set the minimum wages, to set requirements on provided benefits, documentation and permits. Companies then rely on international declarations and conventions e.g. set by the International Labor Organization (Forced Labor Convention and Freedom of Association Convention etc.) and by the United Nations (The Universal Declaration of Human Rights and Convention on the Rights of the Child etc.) for nondiscrimination at the work place and freedom of associations.

When introducing a code of conduct it is important to take the own business model into consideration. The code chosen should be consistent with the company values and feasible to implement throughout the organization. The company may choose to implement an existing standard or model the code after another company's policy. The last option is to write its own code. If the company chooses to write its own Code of Conduct legal review as well as consultation with relevant stakeholders is necessary.

7.3.3 Communicate the Code of Conduct

Internally the code has to be communicated to everyone in all locations and functions. It is important to clearly explain the procedures, the timelines and who is responsible. The code should also be communicated to all business partners

and ultimately to all their employees. The policies can also be shared with the public on the company website or through an annual report.

At IKEA the purchasing teams are responsible for communicating the code to the suppliers. They are also responsible for the implementation of the code.

7.3.4 Training

The codes are often based on universal principles. The local circumstances make the implementation challenging. To build appropriate expertise and awareness amongst the staff dealing with Code of Conduct issues it is necessary to provide relevant training. (Picture 1.) The suppliers may also have questions on the practical implications that the implementation process may cause. It is important to be fully informed and confident with the code of conduct when communicating it to customers.



Picture 1. Fire drill initiated by a trained auditor

IKEA has set up a one week training program for all recruited auditors. After this they start their job by joining an experienced auditor in the daily work. To be approved IWAY auditor one must do the training, and at least 3 audits together with an approved IWAY auditor, of which at least one as lead auditor.

7.3.5 Audits

When the expectations have been communicated the verification starts, usually by performing audits. A company can choose between doing audits themselves or by consulting a third party auditing firm. The advantage of third party audits is that objectivity can be guaranteed to stake holders. It is also the more costly option.

Using internal staff to audit the suppliers is more cost efficient. It is compulsory for the purchasing teams to join the auditors at the audits. The purchasing teams should make sure that the corrective action plan is done. By involving the purchasing business teams in the work with the Code of Conduct the environment, social and working conditions becomes a natural part of the daily business. By conducting the audits internally, knowledge gained at the supplier sites stays inside the company. This knowledge is very valuable and can be used continuously to help suppliers in the implementation process. It is also beneficial to share the information inside the company for future improvements of the code.

After the audit is complete a corrective plan should be agreed on. This is the start of an ongoing auditing cycle where the frequencies of the audits are varying depending on the risk, severity of findings as well as on the company resources.

IKEA is now moving towards letting the suppliers make their own internal IWAY audits. The internal audits performed by the supplier should be done once every 12 months and the documents from the audit should be sent to IKEA upon request. This will in many cases require a lot of training at the supplier sites. The positive effects from the increased ownership and knowledge gained at the supplier sites is expected to be very valuable.

7.3.6 Technical assistance

The suppliers may not always have the “know how” to implement the corrective action plans. The company can then help with resources providing expertise, suggesting training opportunities or sharing best practice from other cases. (Picture 2.)



Picture 2. Fire buckets at a supplier in India

7.3.7 Enforcement

The audits and the cycles of corrective actions works best when providing a business motive for the supplier to implement the changes. This includes business consequences such as reduction in orders, no further business development or termination of the business relationship. Also positive incentives such as choosing suppliers with high compliance as “preferred suppliers” and recognizing well performing suppliers at annual meetings is recommended.

Since IKEA introduced the Code of Conduct 354 contracts with suppliers have been terminated. Of these were

- 21 (6%) terminated because IWAY was the main reason
- 38 (11%) terminated because IWAY was a part of the reason

During the financial year 2003 a total of 162 contracts were terminated

- 14 (9%) terminated because IWAY was the main reason
- 22 (14%) terminated because IWAY was a part of the reason

[13]

IKEA also award successful suppliers at the annual “supplier day” with rewards like “Supplier of the year” in different disciplines. (Picture 3.)



Picture 3. Awards received by an Indian supplier

7.4 Success factors

In order for a Code of Conduct to be effective it has to not only look at **what** is happening, but also **why** it happens.

[14]

7.4.1 Continuous improvements

A common ingredient when designing a Code of Conduct is to start from the “Plan, Do, Study, Act” model for continuous improvement introduced by Shewart and Deming. A Code of Conduct should provide a structured framework designed to achieve continual environmental improvement. The assumption that no organization is perfect suggests that problems will occur. The model leads the way to learn from mistakes and prevent similar problems from recurring. [14]

7.4.2 Involvement of top management

Top management involvement is stressed in ISO 14001.

“The success of the system depends on commitment from all levels and functions, especially from top management.” [8] Page 6.

It is important that the top management provides adequate resources. Some staff may view the Code of Conduct as unnecessary bureaucracy or extra expense. It is also common to encounter resistance of change and fear of new responsibilities. See section 8. Implementation process and resistance to change. The initial enthusiasm amongst workers is likely to vary and therefore management has to communicate the importance of:

- Making the work with environment, social and working conditions a priority
- Integrating responsibilities for the above throughout the organization
- Looking at problems as opportunities
- Understanding the benefits from having a well implemented Code of Conduct

It is important that everyone in contact with the suppliers understands why the organization needs an effective Code of Conduct and what their role is. By showing how it will help to control environmental impacts as well as how it will improve relations to environmental activists and organizations the implementation will be favored.

At IKEA the Code of Conduct is decided in the Group Management . IKEA is integrating the top management by letting the Chairman of the IKEA group also be the chairman of the IWAY Council, a forum where decisions on difficult IWAY issues are taken.

8. Implementation and resistance to change

When requesting a supplier to implement requirements it is valuable to know the possible reactions than can take place. For the implementation to be successful answers to the three following questions are crucial: What to Change? To what to change? How to make the change happen?

“Even if an improvement with real potential has been identified by appropriately addressing the first two of these questions, how the third question is dealt with can often make or break the effort. It’s not just an issue of technical solutions or project management. It also involves the dealing with the dreaded “resistance to change”. ”

[16]

8.1 The six layers of resistance to change

The resistance to change can be better understood in terms of six layers that regularly appear. (Figure 2.) As you can see below they are associated with the three questions mentioned before.

Questions	Objectives	Layers of Resistance
What to change?	Situation assessment, description of “current reality,” and identification of the core problem or conflict and assumptions that sustain it. Diagnosis, systemic root cause analysis.	1) Lack of agreement on the problem
To what to change to?	Verbalization of vision/solution, description of strategy to attain the desired state, and avoidance of undesirable side effects. Prescription, decision-making, and solution development.	2) Lack of agreement on a possible direction for a solution 3) Lack of agreement that the solution will truly address the problem 4) Concern that the solution will lead to new undesirable side effects (“Yes, but...”)
How to make the change happen?	Development of detailed plans and tactics that will clarify what needs to happen. Synchronization of the efforts of the group in the implementation of the strategy. Planning, team-building, and leadership	5) Lack of a clear path around obstacles blocking the solution 6) Lack of follow-through even after agreement to proceed with the solution (unverbalized fear or concerns)

Figure 2. Layers of resistance [16]

Not all of the “layers of resistance” arise all the time but when they do arise, they are likely to do so in the order listed above.

For every obstacle that can be identified the implementation process will get more complete. The obstacles will exist whether identified or not and it is far better to prepare for them and prevent them instead of being surprised by them.

The benefits of addressing the layers go far beyond overcoming the resistance. The resistance is a valuable source of improvements on the original proposal. Updates are made continuously in the Code of Conducts and feedback from the suppliers is important in the never ending learning process.

8.1.1 Lack of agreement on the problem

The lack of agreement on the problem can have many sources. When implementing the same code of conduct worldwide the cultural differences can be the source of such a problem.

One of the suppliers I visited had faced the requirements that the workers should wear protective shoes when necessary. The workers first refused and explained that they will not wear shoes in the facilities where they are earning their living. The fact that he was working with extremely hot metal, doing brass molding for over 10 years, was not a reason for him to wear shoes. “When my feet are close to the liquid brass I can feel the heat and I will remove my foot. If the brass gets porn on my foot, stuck in a shoe, the time it takes to remove my shoe will be enough for the brass to do severe harm on my foot.” he explains.

The implementation is to benefit the workers and situations like the above easily triggers the “What’s in it for me?” question from the worker. These questions are important to deal with on an early stage as if they are not then the symptoms keep coming back in the form of chronic day-to-day issues and problems.

The workers handling substances with dangerous fumes are being asked to wear protective masks. The masks are sometimes considered to be uncomfortable and workers are likely to remove them when nobody is making sure they wear them. This stresses the importance of educating the workers in the long term benefits of using masks and to answer their question, “What’s in it for me?”. The main purpose of the implementation is that the workers should benefit from improved health. To the supplier there are also economical benefits. By fulfilling the requirements business consequences are avoided and further development of the business is possible.

Ideally the requirements and the implementation should be fully supported by the workers already from the start. With training and education the long term benefits from the implementation should be made clear.

8.1.2 Lack of direction for a solution

When implementing a change it is possible that a conflict occurs between two actions necessary to move towards an objective. Francis S. Patrick is making this clear in the evaporating cloud. (Figure 3.)

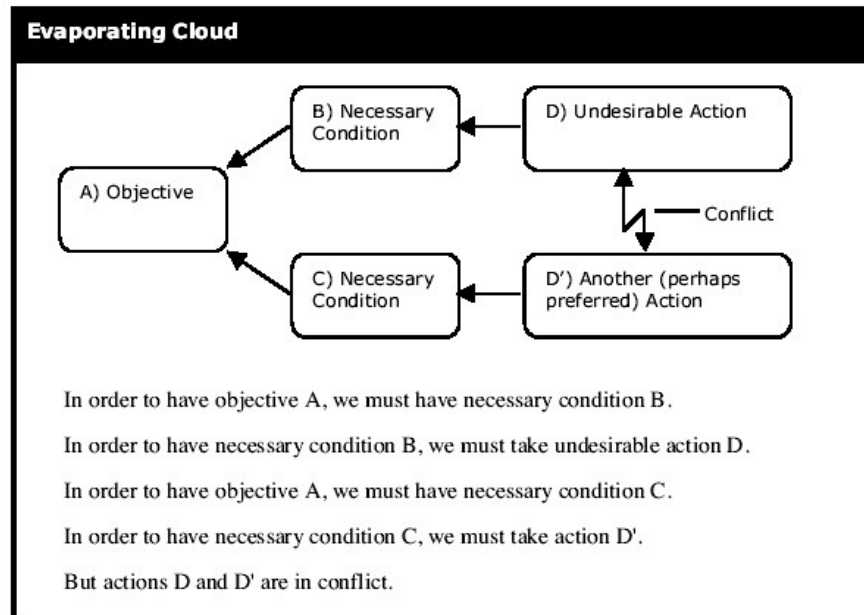


Figure 3. The evaporating cloud [16]

When implementing a Code of conduct the Evaporating Cloud process can be useful in some specific cases. Problems that occur are very often the dilemma of doing one thing or the other, doing D or doing D'. The cloud tells you that there really is no choice, it is a matter of examining the assumptions that makes make you think there is a choice.

One example I found was at a glass supplier. The glass blowers are standing on an elevated stage blowing the glass, then passing the product, with a precise throw, to the colleagues below for finer adjustment. The glass blowers are respected and experienced craftsmen that often perform the same job for their entire working life. The question is, should there be safety guards preventing the blowers from falling off the ramp?

If the objective is to improve the working conditions, then two necessary conditions would be comfortable workers and safe work environment.

After interviewing the workers it was clear that for them to perform their job comfortably they did not want safety guards to be installed. All objects that could possibly interfere with their motions were not considered welcome.

On the other hand, for the work place to be perfectly safe, the guards would need to be installed.

There is a clear conflict between installing the safety guards and not installing the safety guards. The cloud then tells you that there really is no choice. It is just a matter of examining the assumptions that make you think there is a choice. One option will always be better and this makes the other option no longer an option. Then the evaporating of the conflict cloud can be complete. In this case it was decided that the safety guard was not necessary.

8.1.3 Lack of agreement that the solution will address the problem

In order to make the solution attractive to everyone involved it is important to show that the solution addresses the problem. One way to do this can be to present a future reality tree. (Figure 4.)

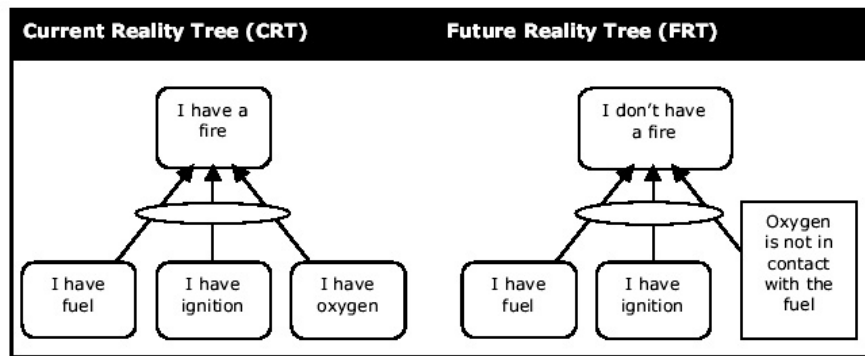


Figure 4. Future reality tree [16]

Unfortunately it is not always as simple in reality as it is in the case described in the figure above. An Indian supplier I visited had, before implementing IWAY, workers working twelve hours per day. This is in violation with the country law and also with the IKEA requirements. The maximum working hours per day were set to eight and the implementation process were successful. The working hours were successfully reduced to eight in the factory and the problem seemed to be solved.

The supplier was not convinced that the situation was shifted to the better. At a later stage the supplier found out that his suspiciousness were correct. The

workers were still working twelve hours per day. But the last four hours were performed in a neighboring factory.

8.1.4 Concerns that the solution will lead to negative side effects

Presenting the change in a future reality tree provides enough detailed information to allow open scrutiny of the suggestion. In reality the scrutiny amongst suppliers might be limited due to fear of loosing business but it is still important to clarify possible side effects to get a successful implementation.

Some of the suppliers in India did not have the consents for emissions to air and water that are required by law before they started to work with IKEA. With some concerns in mind the suppliers accepted to implement the requirements. Many suppliers have improved their legal compliance when it comes to holding and renewing consents and permissions for emissions.

They now have yearly contact with governmental officials in order to receive the consents. One of the concerns some of the supplier had turned out to be reality. Involvement of governmental staff in India can result in that bribes have to be paid in order to get their corporation.

8.1.5 Lack of a clear path around obstacles to the solution

With a well founded Future Reality Tree and after analyzing the undesirable side effects there can still be stuff blocking a smooth implementation.

Constructing a Prerequisite Tree can be an efficient way of identifying obstacles that can be faced in the implementation process. (Figure 5.)

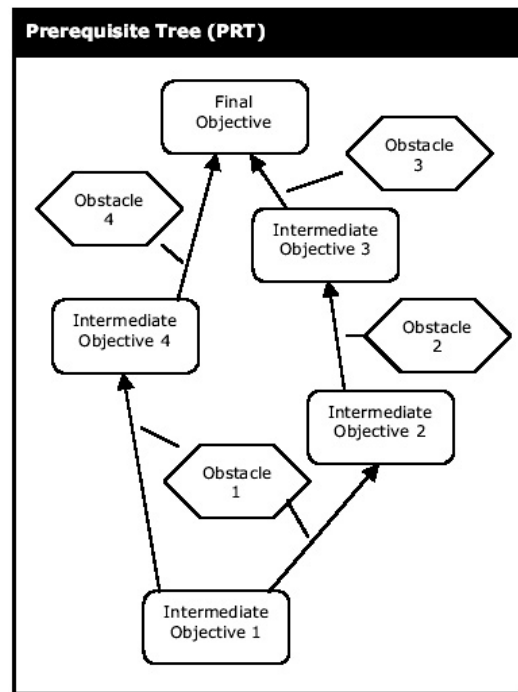


Figure 5. Prerequisite Tree [16]

Usually this is done in a group of people. The first step is to collect all the obstacles that the group can come up with. Then, each individual who raised an obstacle identifies an “intermediate objective” (IO) that will overcome the obstacle. The IOs are not actions, but states, that if they existed, would deal with the obstacle. They are similar to what would be called milestones in the implementation process.

In the process of implementing IWAY in India the production of rugs and carpets is to be moved in-house. The production is to be moved from the smaller weaver sites, at the weavers’ homes, in under the same roof as where the final packing and inspection is taking place.

This process might find cultural as well as economical and practical obstacles. Therefore it might be necessary to do this by identifying intermediate objectives, and maintaining these first before moving to the final objective, to have a secured all in-house production.

“If the question is how to eat an elephant, the answer is “one bite at a time”. The Prerequisite Tree is a painless way of identifying which “bites of the elephant” we’ll gnaw on first in our attempt to consume the whole thing.” [16]

8.1.6 Lack of follow-through after agreement on a solution

Most of the sources of resistance can be dealt with by moving through the first five layers as fully as possible. But there is still a risk that unstated fear and resistance may remain. It might be because it is embarrassing to oppose a change due to fear of superiors and of losing responsibility.

Workers in noisy metal industries in Poland are requested to wear protective ear-muffs. The workers showed that they understood and accepted the requirements during the training programs. They were well informed on the dangers with consistent exposure of noise. The change taking place after finished the training were not as distinct as the management were hoping for. During anonymous interviews it was made clear that the workers did not like to wear the ear-muffs because they felt uncomfortable in front of other workers.

An effective way of dealing with this layer is to show commitment from the management, to demonstrate the commitment to the implementation by walking the talk. This means simply put ear-muffs on when walking through the noisy production halls.

[16]

9. Analysis of a Code of Conduct

In this thesis, a cost and benefit analysis of a Code of Conduct is performed. Many large corporations, like IKEA in this study, have requirements on their suppliers when it comes to outside environment, social and working conditions. Analyzing the effects on the suppliers could be beneficial from many aspects.

9.1 Benefits from the analysis

When requesting a supplier to implement requirements in a Code of Conduct, sharing solid facts and arguments can be used to motivate the supplier in the process. An effective way of doing this is to analyze the costs and benefits from the implementation process at supplier sites within the specific industry. When the costs and benefits are estimated the result could be presented to the approved, to the not approved and to the potential suppliers.

9.1.1 Effective communication and negotiation

The role as a mentor also includes understanding the consequences that the implementation of the Code of Conduct will have on the business. A better understanding will result in more effective communication and more fruitful negotiations. By looking at the economical effects from the requirements the possible impact on product price can be estimated. Further the analysis of the effects on the production process will provide additional information about the effects on the product price. The production analysis will also give information about the impact on capacity.

9.1.2 Smother implementation

The increased knowledge in the team working with the supplier can be used to motivate the supplier to meet the requirements. The analysis provides information that can be used when introducing the Code of Conduct to new suppliers. A more motivated supplier with increased knowledge will have a smother process of implementation.

9.1.3 Summarized benefits including supplier benefits

The benefits, to the mentor as well as to the supplier, from analyzing the costs and benefits of a Code of Conduct can be summarized as in Figure 6.

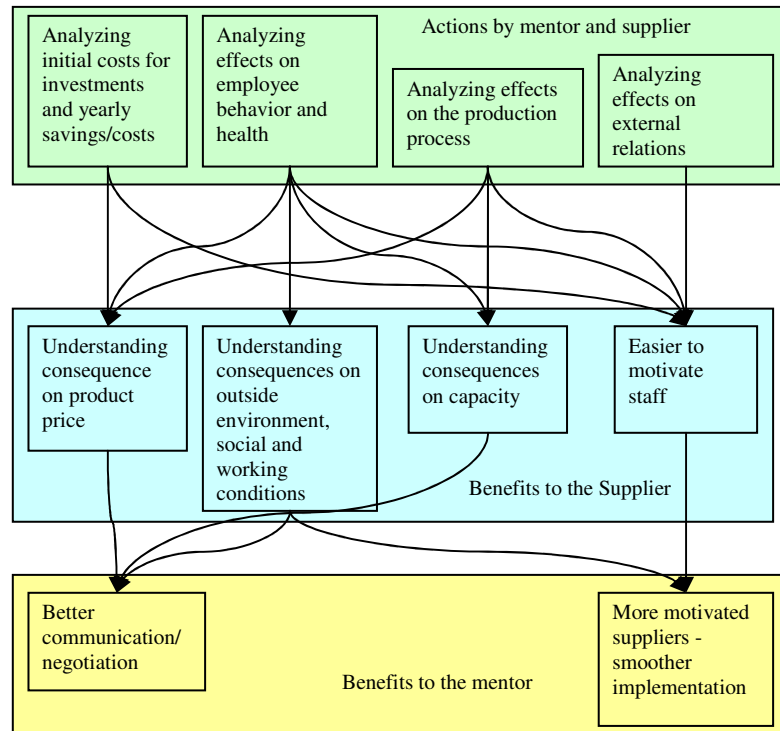


Figure 6. The benefits from analyzing the costs and benefits from implementing a Code of Conduct

Finally the overall employee awareness, social and working conditions have the power to give positive influence to all the business fields.

10. Present IWAY Situation

To become IWAY approved you have to fulfill all the 91 requirements in the IWAY Checklist. 45% of the IKEA suppliers are IWAY approved (12th November 2004). The average level of fulfillment of the 91 points in the IWAY checklist is 90%. This means that there are a lot of suppliers not yet approved, but fulfilling most of the requirements.

The cultural differences between the two countries result in differences in the process of implementing IWAY. The differences are described below.

10.1 India

37% of the 80 suppliers in India were IWAY approved by 12th November 2004. The average fulfillment of the IWAY requirements was 80% in August during the same year. This was an improvement by two percent since March but it is still one of the lowest percentages of fulfillment amongst all Trading Areas.

10.1.1 Organization at IKEA Trading in India

In November 2004 there was a pool of 13 IKEA auditors working in the Trading Area South Asia (TA SA consists of India, Bangladesh and Pakistan). In order to look beyond what is obvious, and to sharpen the observation skills, calibrating audits were done with external staff from CMG and KPMG.

10.1.2 Focus in India

The work has been focusing on making the suppliers understand the importance of taking social and environmental responsibility in their business. The work has strived to make suppliers understand the high significance of compliance in the region.

Some suppliers, mostly producers of rugs and carpets, have parts of their production outsourced to contractors. At the sites where more than 21 people are working all the requirements on social security benefits, safe work environment are applicable. The law has worked as an incentive for the suppliers to have more but smaller contractors, each one with less than 21 employees to avoid these requirements. Therefore IKEA is now motivating the suppliers to move the production “in-house”. During the financial year 2003-2004 more than 500 audits specially focusing on issues with child labor were done by external auditors at sub-suppliers to IKEA in the region.

10.1.3 Country law in India

All of India is covered by the country law. The country law in India is very similar and just as strict as the country laws that are in use in Europe. These laws

are to be followed by all the states in the country. In November 2004 India had 32 states. In addition to the country law each state is also governed by the state laws. The state laws are generally the same as the country law with some special provisions made for each particular state. Where there is a difference between the state law and the country law, the state law is always more strict.

The law is split into different acts. The relevant laws for this report are found under the Factories Act. A brief summary of some of these laws are presented below.

- The Minimum Wages Act - This act sets the standards for the minimum salary to be paid to an unskilled worker. The minimum wage consists of two components, the basic amount and the Dearness Allowance (DA) amount. The basic amount is different in each state. The DA level is updated every year, for every state, to compensate for inflation.
- Provident Fund (PF) Act - This act is only applicable at production sites where more than 21 employees are working. PF is to be paid by the employer as well as by the employee to ensure economical stability at the time for retirement. 12% from the employee's salary is put into the PF. The same amount is also to be paid by the employer to the same fund. Theoretically what the employee will pay from his salary will be more than doubled with the employer contribution and with the interest on the total contribution. (Figure 7.)

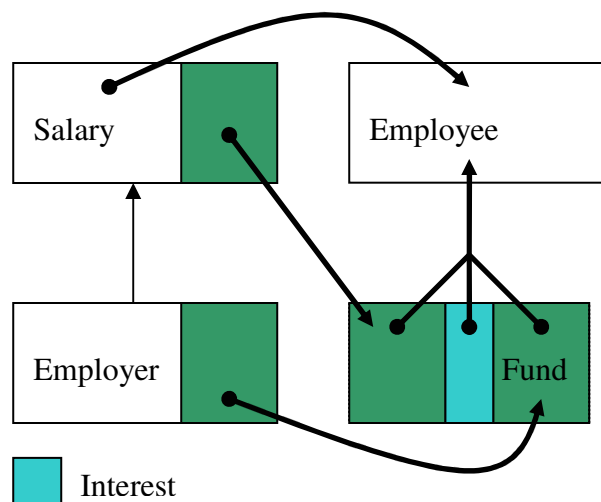


Figure 7. The system for Provident Fond in India

- Employees State Insurance (ESI) Act - In most of India the employees are covered by ESI. In these areas both the employer and the employee contribute to this insurance. The employee pays 1.75% from his salary and the employer pays 4.75% of the same amount. By paying ESI the workers can use the hospitals included in the ESI program. They are also entitled to other medical benefits and in some states even family members are covered. The worker is not entitled to ESI if he earns more than 150 € per month.
- Workman Compensation Act (WCA) - In case the state is not covered by ESI it is covered by the WCA. This act gives the worker and his family the right to receive compensation from the insurance company in case of sickness, injury and death.
- Bonus Act - Every worker that has been employed for more than 30 days by the same employer is entitled to get a bonus once a year. The bonus is often paid prior to a festival, e.g. Diwali, Id and Pongal. The amount paid is equal to the workers monthly salary.
- Gratuity - Gratuity shall be paid to the employee on the termination of his employment after he has rendered continuous service for not less than five years. For every completed year of service the employer should pay gratuity to an employee at the rate of fifteen days wages based on the rate of wages last drawn by the employee concerned.
- Annual paid leave - Annual paid leave is given to a worker who has worked for a period of 240 working days or more in the factory during a calendar year. The leave is to be availed by him in the subsequent calendar year. The earned days of paid leave are to be calculated at the rate of one day for every twenty working days of work performed by him during the previous calendar year.
- Child Labor Act - This act is less strict than the ILO requirements and therefore it is not in use. According to the ILO requirements nobody under the age of 14 is allowed to perform work. Young workers (between 14 and 18 years old) can perform some work that is considered not hazardous to their health. Workers older than 18 years are called adult workers. Every factory is requested to hold age proof for each and every one of its workers. ILO is accepting the following papers as valid age

proofs: Birth certificate, school leaving certificate, driver license, passport, ration card, voters ID and doctor certificates from either orthopedic surgeon or dental surgeon.

- Maternity Benefit Act - In case of maternity every worker is entitled to 12 weeks of paid leave. The leave, six weeks before and six weeks after delivery, is to be paid by the supplier if the state is not covered by ESI.
- Factory license - If a production unit involves 20 workers or more, or 10 workers and a plant powered by electricity, it is per law considered a factory. Each factory has to hold a factory license that will be issued by governmental representatives after inspection of the facilities.

Each factory is rated by how hazardous the production is to the outside environment. The scale goes from green to red where the red industries are considered to be the most hazardous. Examples on red industries are units performing metal finishing, dying, bleaching, printing as well as cleaning of fabrics. For emissions to air and water each factory has to receive a consent issued by the governmental state pollution control board (SPCB). The consent should be issued only if the emissions are between the set limits.

There are also a number of other laws that will act on the supplier in questions regarding IWAY.

10.1.4 The IWAY process in India

After the first two years as an IKEA supplier 100% of the IWAY requirements have to be fulfilled. See 2. IKEA and IWAY. After an IWAY audit has been done, in which non conformances were found, a 90 day action plan is being designed in cooperation with the supplier. After the 90 days a follow up audit is being done. The management in India has decided to audit approved suppliers twice a year. The minimum requirement is set to once a year. The whole process is shown in the Figure 8.

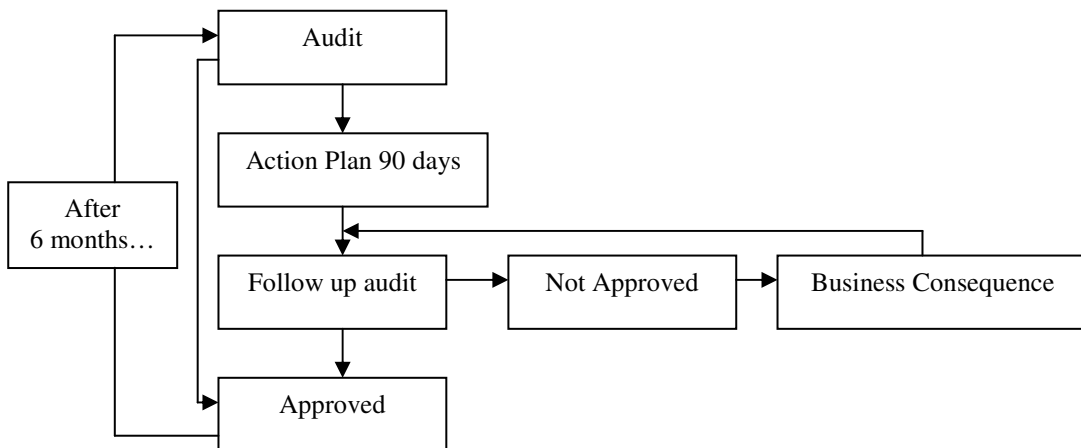


Figure 8. The IWAY process with business consequences [15]

The business consequences that will be taken due to non compliance with IWAY requirements after a follow up audit are shown in the Figure 9.

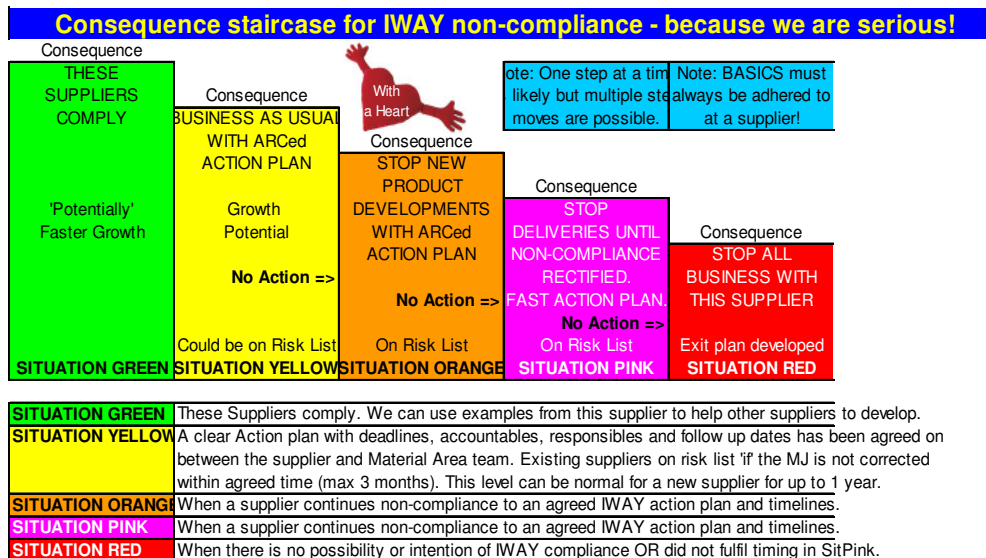


Figure 9. The consequence staircase [15]

Also unannounced visits are being done by IKEA personnel in order to reinforce their intention of developing sustainability in their work with IWAY. During the year 2003 a pilot study of worker interviews was performed.

10.1.5 IWAY progress in India

During the financial year 2003-2004 IKEA Trading in India could experience a more fluent implementation of IWAY compared to previous years. This is

explained by the increased commitment and willingness to implement and sustain the IKEA's requirements from top management at the supplier sites.

Since the IWAY process started in 2000, approximately 15 000 workers in India have started getting Provident Fund. Workers are feeling more confident with their employment status as all of them have received confirmation of their status (appointment letters) from the factories that they are employed in.

Now training on health and safety issues are done regularly. There is an overall improvement in this area and workers are more aware. Benefits can also be seen in increased clarity the "issue of outsourcing".

[15]

10.2 India specific complications

The handicraft traditions in India are thousands of years old. The skills are passed on from one generation to the next. This can sometimes be a hinder in a smooth implementation of IWAY.

10.2.1 The payment of provident fund

One of the main issues regarding the implementation of IWAY in India is about the payment of the social security benefit Provident Fund (PF). See 11.1.3 Country law in India.

The payment is required by law but in reality there are some complications. They are listed below.

1. The employee wants to have "the money today". Many of the workers are so poor that they do not think that they can afford to save for their future retirement. They do not fully trust the system and are not aware of the benefits from it.
2. It is not 100% guaranteed that the employees will get access to the saved money. It is common that a worker move from one state to another (migrant labor) and there is no efficient system to get the money transferred so they can benefit from the Provident Fund in the new state.
3. All contact with the governmental authorities is likely to be avoided if possible. In the progress started by a worker to benefit from his Provident Fund, he will most likely have to pay bribes to governmental authorities to get the fund within a reasonable time. This situation was described by

various staff at the IKEA Trading Service Office in Delhi as well as by IKEA supplier representatives during November 2004.

A similar situation is with the Employee State Insurance (ESI). See the section 10.1.3 Country law in India.

A common belief is that, for the situation to change it is necessary for someone to state an example. Maybe this can be done by suppliers to IKEA who put the system for Provident Fund in use.

10.2.2 Establishment of unions

When moving production in-house it becomes easier for workers to establish unions. In the law as well as in the IKEA requirements, it is stated that workers should be free to establish and join unions. Sometimes the unions in India have created difficult situations to the suppliers. The low education level amongst the workers and the new possibilities when they are organized to express their opinions creates an unfamiliar environment for the suppliers. The unions sometimes act unpredictable and use the possibility to announce a strike for minor disagreements. The suppliers on the other hand are not used to two way communication with the employees. The result from this is sometimes devastating for the business.

IKEA together with other big companies is going in the direction of also asking the suppliers to establish Health and Safety Committees. The suppliers would then be asked to ensure and demonstrate continuous health and safety improvements focusing on involving the workers in the development of their work environment. A committee is considered to be powerful tool for finding new ways to make improvement. The committees will give valuable experience to the workers.

10.2.3 Payment of bribes

The implementation of requirements on consents and permits issued by government authorities can be tougher then it seems at first. The authorities find themselves in a powerful situation when suppliers are dependant on their approval to continue with the business. The relationship puts the supplier in a position where it often has more to loose if it chose to disclose the practice with bribes. The level of corruption varies between the different states.

10.2.4 Child labor

The attitude towards child labor in the culture and in the country law in India is more relaxed than the IKEA requirements. Therefore IKEA has employed one

person in India whose specific task is to work with child labor issues. The local "Children's Ombudsman" also works with social projects in South Asia. As mentioned before, all suppliers have to hold an age proof for each and every one of the workers. So far no cases with false identity papers have been discovered in India, but the problem should not be ignored.

10.2.5 Overtime

It is common amongst workers in India that they prefer to work extra hours to earn more money. Twelve hour working days are practice in some industries. Legal requirements, as well as the IKEA requirements are stricter and the suppliers must pay double the salary when the employees work overtime.

Some cases where employees are taking turns being on leave have been discovered. The employee who shows up at work then have to cover for his friend and can earn more money due to the double compensation for overtime.

The result from this is usually that the employer hires more staff to avoid the extra cost. The employees on the other hand may look for other jobs to perform after finishing at the IKEA supplier. In the long run this is a health hazard to the worker and an economic hazard to the employer. According to staff at one of the IKEA suppliers in India an employer is likely to be held responsible for any problems with the health that may occur due to the heavy work load.

10.3 Poland

In Poland 79% of the 80 suppliers are IWAY approved by 12 November 2004. The average fulfillment of the 91 points, in the IWAY Checklist in August the same year was 99%.

10.3.1 Organization at IKEA trading in Poland

IKEA Trading Poland is using the staff from the purchasing teams to perform audits. Also external audits are being done. The two staff working with questions regarding IWAY is led by the Technical, Quality and Environmental manager.

10.3.2 Focus in Poland

The work with IWAY in Poland has changed the way many factories conduct training of the employees. An increased knowledge and understanding of the aspects controlling the working environment has also been achieved since the work started with IWAY. During my time in Poland no internal audits were done. I made two visits to suppliers together with the Compliance and Monitoring group.

The IKEA Code of Conduct says that the suppliers are not allowed to source any wood from intact natural forests or high conservation forests unless certified according to Forest Stewardship Council standard. Since many of the suppliers are delivering wooden products a lot of work has been done to secure the sources of the wood.

The environmental team in Poland has started a project in which they bring school kids to the IKEA store to teach them about recycling. They have also set up a recycling station where anyone can leave their segregated waste.

10.3.3 Country law in Poland

Poland has an effective social security system that is well implemented throughout the workforce in the country. The social security system is covering 85% of the whole population.

Since the Second World War Poland has used a detailed economical plan to change from a strong agriculture economy to an industry nation. Therefore the industry is quite young and this has contributed to a strong enforcement of the country law. The average income increased with 40% during the seventies and with government control on food prices the standard of living increased dramatically.

The paid pension is dependant on the number of years in service as well as on the level of the salary. Since 1974 the sick leave is equal to full salary but can only be used in 26 weeks. Maternity leave can be taken for 16-18 weeks. The polish law says that a working can be 8 hours per day six days a week. The length of vacation is dependent on number of years in service and the maximum number of days off per year is 26. For a majority of the polish people the healthcare is for free.

The attitude towards environment, social and working conditions have changed a lot during the last five years in Poland. Due to the high unemployment, over 20% in some regions it has been possible for employers to hire staff paying less then the minimum wage. Altogether the increased control from the industry as well as from the government has contributed a lot in the implementation of the country law.

10.3.4 The IWAY process in Poland

The IWAY process in Poland is similar to India. The suppliers have to fulfill the three startup requirements before the first delivery and all the IWAY requirements within two years.

If a non compliance is found after approval they have 90 days to implement the corrective action plan including preventive action.

The three main differences are mentioned below.

- After a supplier gets IWAY approved the next audit should be within 21 months.
- No clear model is established for the business consequences. The consequences are being decided in each individual case.
- Child labor is not an issue as in Poland, and there are no external audits focusing on this.

The fact that the purchasing staff is always joining the audits makes IWAY a natural part of the business development. With this model they have chosen not to have a strict model for the business consequences. The purchasers and technicians are encouraged to take a walk around the production facilities at every visit.

10.4 Poland specific complications

The well implemented social security system in Poland makes many of the complications in India not relevant for Poland. When Ingvar Kamprad faced trouble buying furniture in Sweden due to boycott amongst the suppliers Ingvar turned to Poland. Since then Poland has been an important purchasing country considered by Ingvar Kamprad to be his second home.

According to staff at IKEA Services AB in Helsingborg many Polish suppliers had poor liquidity when they started to work with IKEA. This can be compared to the different situation in India where the suppliers usually are very strong economically. IKEA has helped the Polish suppliers and other suppliers in east Europe with investments in modern, effective and functional machinery. These investments has lifted the production process in Poland and made a smooth not so costly implementation of IWAY possible.

11. Cost and Benefit analysis from implementing IWAY

The questions used in the analysis, presented in Appendix 1 were asked to 16 suppliers in Poland and 12 suppliers in India. The section on Social Conditions in the questionnaire was used only in India.

11.1 Structure of the analysis

The analysis has been done in the two countries India and Poland. The results are summarized on an aggregated level. The individual information collected from each supplier is confidential and will not be shared in this report.

By filling in supplier profiles at the supplier visits information about each supplier in the analysis were collected. See Appendix 2. The collected answers have been analyzed using the following supplier information.

- Country of production (laws, culture etc.)
- Type of production
- Size of production
- Growth of production
- Development in number of employees
- Age of corporation
- Owner structure of corporation
- Number of years working with the Code of Conduct

The investments that have been a benefit to the environment social and working conditions in India were classified depending on if they are:

1. Required by law and enforced by law.
2. Required by law but not enforced by law. Enforced by IKEA.
3. Not required by law but enforced by IKEA.
4. Voluntary, possibly inspired by IKEA.

Most of the investments in Poland are either from category 1 or 4 in the above list. In reality there are very few investments that are required by law but not enforced by law in Poland. The Polish suppliers have done few investments initiated only by requirements from IWAY. Therefore the classification is only useful in India.

The analysis is presented using the above classification, with the process divided as shown below.

- Supplier Profile
- Outside Environment
- Working Environment
- Social Environment
- Other costs and benefits

11.2 Result of the analysis

11.2.1 Supplier profile

Turnover and number of employees - The average total turnover for the visited suppliers in Poland is 25M € and the average number of employees is 500. In India the average turnover the last year is 4M €. The average number of employees, excluding contractors and staff at sub-suppliers, in India is 300. The production in Poland are more industrialized and focused on more expensive products. The advanced technologies used in Poland makes the manufacturing of furniture and mattresses effective. These are expensive products generating a higher turnover at the Polish suppliers compared to the Indian suppliers. The suppliers in India are mostly used to source textile products.

Many suppliers which have recently started working with IKEA and IWAY show increasing turnover not only from IKEA, but also from other buyers. The suppliers say that their work with IWAY is an important contributor to this success. The implementation of IWAY has enabled a smoother implementation of Management Systems like ISO 14001 and SA 8000. The benefits from implementing IWAY when looking for new buyers is described in the section on other costs and benefits.

Owner structure - Most of the suppliers in both countries are privately owned. It is typical for the Indian suppliers to be family owned with members of the families holding the higher positions. The suppliers in Poland often have one single owner. The trend is towards hiring specialized staff dealing with smaller sections of the business. The suppliers within the Swedwood group in Poland are owned by IKEA.

Founding of the business - The oldest supplier analyzed in Poland was founded in 1934. The average supplier where founded in the year 1984. The average supplier in India where founded in 1969. The oldest supplier in the analysis is an Indian supplier founded in 1888. The average length of the corporation with IKEA is the same in both countries, about 12 years.

Responsible staff - In Poland all the suppliers except one already had staff responsible for environment, social and working conditions before starting to work with IWAY. In India only two of the suppliers had the mentioned staff before the introduction of IWAY.

In Poland the suppliers had in average one fulltime employee and one half time employee working on the environment, social and working conditions (150%). The same number for India is just above 300%. It is common that the suppliers in India split the responsibility on a higher number of staff each responsible for the implementation in his part of the production. The trend is towards having only a smaller group of staff working full time with securing the environment, social and working conditions in the whole production.

The average yearly salary cost for the staff (150% fulltime services) mentioned above in Poland is 8 000 €. The cost for salary for the same staff in India (300% fulltime services) is 5 000 €. The average yearly salary cost per fulltime staff mentioned is estimated to 5 300 € in Poland and 1 600 € in India.

11.2.2 Environment – India

The work with IWAY has lead to many investments that benefit to a better environment in India. The corporation with IKEA and work with IWAY has in many cases been the start of the suppliers work with an environment policy. Neither economical nor environmental benefits have previously motivated the suppliers to invest money in the environment.

For example many suppliers have had the equipment to clean chemically polluted water before starting to work with IWAY. This is a partly enforced requirement on polluting industries in the country law. The weak enforcement of the country law has made it possible to run the production without using the installed treatment plants. This has short term economical benefits to the supplier and severe consequences on the surrounding environment.

The increased attention on the environmental issues, e.g. from buyers like IKEA have increased the attention on environmental issues amongst the authorities in India. This leads to big pressure on the suppliers to obey by the regulations protecting the environment. One side effect is authorities who now see a business opportunity to take bribes to give the relevant certificates and permissions required by IWAY. This has been confirmed by the visited suppliers in India.

The most common investments which benefit to a better environment since starting to work with IWAY in India are listed in Table 1.

Number of examples found	Investments and actions	Average cost
11	Acoustic canopy for generator. To reduce the noise level from the generator set.	13 000 €
9	Storage for chemical substances/waste.	1 400 €
7	Effluent treatment plant. Used to purify chemically polluted water.	14 000 €
4	Boiler. Change to environmental friendly fuel.	12 000 € - 52 000 €
3	Power factor. Energy saving by smoothen the incoming electrical current.	4 000 €
2	Cyclone. Collect pollution particles before emitting the smoke from the boiler to the air.	1 300 € - 5 600 €

Table 1. Common environmental investments in India

Acoustic canopy - Nine of the twelve visited suppliers in India had to buy an acoustic canopy to reduce the noise level from the generator set since they implemented IWAY. All suppliers in India have recurring breakdowns in the power mains supplied by the state forcing them to keep diesel fired generator sets for backup. The average cost for investing in the acoustic arrangement is 13 000 €. The reduction of noise pollution has been a benefit to the surrounding areas as well as to the working conditions inside the factory.

Storage for chemical substances - Nine of the visited suppliers in India could show that they have made investments in improved chemical storage. One large Indian suppliers showed that they faced 20 000 € in costs from building storage for chemicals including storage for chemical waste. The average cost facing the supplier when investing in chemical storage in India is 1400 €. The IKEA suppliers in India are often doing washing, bleaching and coloring of yarn. These are chemical intensive processes. The difference in cost between the two countries are caused by the price difference between the two regions. The size and design of the storage facilities are similar.

Effluent treatment plant - More than half of the suppliers have invested in effluent treatment plants (ETP) since they started to implement IWAY. Not all suppliers need to have an ETP. Each supplier is classified depending on if it is in a polluting industry or not. All the polluting industries that have to have an ETP have had costs from installing or modifying the ETP while implementing IWAY. The cost for the ETP is dependent on the water treatment capacity. One IKEA supplier built a high capacity ETP and then invited two other factories in the area to use the plant. Sharing an ETP is a cost efficient solution. The average cost that the polluting suppliers have faced from installing an ETP is 14 000 €. The yearly running cost is in average 2 400 €.

Boiler - Many suppliers have chosen to change their boiler system since IWAY was introduced. In India the boiler is mostly used for heating water that is used when washing fabric. The new boiler systems have lower running costs and are more environmental friendly. The boilers at the suppliers chosen in this study range from 1 200 € to 52 000 € depending on chosen technique and capacity. The new boilers are often using husk from the nearby farmers instead of coal or oil and savings on running cost can be between 25% and 50%. One supplier also invested in an automatic supply belt for husk. This resulted in increased efficiency in the use of husk, safer work environment and yearly savings on 2 200 €.

Power factor - The supply of electricity is unpredictable in India. The electricity supplied by the state is fluctuating in India and energy can be saved by using a power factor. By installing a power factor the incoming electrical current is treated to make it more consistent. A power factor with enough capacity for an average size Indian supplier cost 4 000 €. The yearly savings are estimated to 550 €.

Cyclone – A cyclone is used to clean the emissions from e.g. a boiler before emitting it to the air. The two examples of suppliers which have invested in cyclone filter faced very different costs. The two cyclones are using different techniques depending on the type of the boiler. The initial cost for the more expensive multi cyclone used for boiler fueled with husk cost 5600 €. The yearly running cost is 200 €. The other cyclone that is used for a boiler fueled with fossil fuel cost 1300 € and has negligible running costs.

Rain water harvest - In some regions in India the ground water level is very low. Therefore some suppliers have decided to invest in rain water harvests. The harvest helps the water to reach the level of the ground water and costs about 1000 €.

Classification - Many of the environmental investments found in India were put into one of four categories listed below.

1. Required by law and enforced by law
2. Required by law but not enforced by law. Enforced by IKEA.
3. Not required by law but enforced by IKEA.
4. Voluntary, possibly inspired by IKEA.

Dhiraj Manhas and Sangeeta Bahl, both auditors at the Trading Service Office in New Delhi assisted me in completing Table 2.

Category	Investment / Actions
1	Environmental plan study
1/2	Cyclone filter for boiler chimney
1/2	Suction system for control of air pollution
1/2	Acoustic canopy for generator set
1/2	Effluent treatment plant/Sewage treatment plant
1/2	Permissions/licenses for keeping the factory
1/2	Consents for emission, storing gas/oil, renewing licenses, noise and air tests
2	Storage for non/hazardous waste
2	Storage room for chemicals
2	Heat sucking fans
4	Solar heating system
4	Generator
4	Boiler
4	Computerized energy saving machines
4	Lush green gardens
4	Push type taps to avoid water waste
4	Rain water harvest
4	Safe electric wiring
4	Power factor (Energy saving, smoothing incoming electrical current)
4	Electronic blaster tube lights (Energy saving)
4	Water tank
4	Chimney for boilers
4	Running/maintenance costs for boiler and generator

Table 2. Classification of environmental investments in India

11.2.3 Environment – Poland

The cost from investments that is a benefit to the outside environment in Poland is a close mix of results from their own economical interests, polish law, IWAY and in many cases ISO standards. Often the investments are specialized machines which make the production more efficient at the same time as they are more environmental friendly. Examples includes cutting machines for leather and wood producing less waste, more efficient lacquering machines reducing waste, effective systems to segregate and reuse wooden waste.

Wooden waste and sawdust are in some factories reused in machines producing fuel used in the boiler. The most common investments since starting to work with IWAY in Poland are listed in Table 3.

Number of examples found	Investments and actions	Average cost
9	Boiler. Change to environmental friendly fuel.	35 000 €
5	Storage for chemical substances.	10 000 €
3	Machine compressing waste.	7 000 €

Table 3. Common environmental investments in Poland

Boiler - The cost for implementing a boiler system at a factory with 300 workers was 21 000 €. In a factory half the size, with 160 employees the cost for the new boiler was 12 000 €. Both suppliers are in wood industry and other suppliers within the same branch are showing the same relation between size of factory and cost for the boiler.

In Poland the boiler is mostly used for heating the facilities and drying of wood. Most of the old boiler systems were fueled with coal. One relatively small supplier changed into using sawdust from his own sawing unit instead of buying coal. This supplier is saving 12 000 € yearly. The environmental development plan, often discussed with visiting IKEA staff was a leading factor in this investment.

Storage for chemical substances - Many suppliers have invested in storage rooms for chemicals as well as for chemical waste. One large wooden supplier faced 120 000 € in costs from building safe warehouse for chemicals including storage for their chemical waste. (Picture 4.) The supplier has an IKEA turnover of 60M €. This is a highly automated and very efficient factory in the wood

industry. In a more average size factory the cost for two new storage rooms is in average 10 000 €. Suppliers in metal and glass industry can often modify storage rooms already in place to store the smaller volumes of chemicals they use.



Picture 4. Equipment to collect spilled chemicals

Waste handling - No common system to record the cost for waste handling is used in Poland. Only during the last three years suppliers have slowly started to monitor the costs. Some suppliers have installed machines to compress the waste. (Picture 5.) The machine reduces the volume to 1/8 and leads to cost savings in storage and transport.



Picture 5. Machine for compressing waste

The cost for waste handling differs a lot when comparing different techniques and materials used in the production. Below are two examples from two different types of production.

In textile production, at a producer for quilts and covers the cost for waste handling was only applicable for taking care of used light bulbs.

The UV lacquer used at wooden suppliers dries faster than the lacquer used previously. This makes it not possible to wash the lacquer off from the wooden waste. Therefore it can not be burnt locally. Burning the waste together with the lacquer would result in pollutant emissions. The waste brings high costs because it has to be sent for special treatment.

One supplier has been able to increase the income from the selling of wooden waste with 400% by changing the buyer. Another supplier could increase the income from selling of leather waste by selling it to China at 1/14 of the purchased price.

The income from selling of waste is in most cases enough to cover the cost from transport of the material to the buyer.

Emissions - The cost for emissions to air and water in Poland is proportional to size of the emissions. If a supplier doubles the emissions the fee will also be doubled. At one supplier the production has increased by over 300%, from 7M € to 24M € but the emissions from the factory have stayed on the same level, costing them 1800 € yearly in fees. At another supplier the fees for emission to air changed from 7500 € to 2900 € while the production increased from 40M € to 88M €. There are many examples of suppliers who has grown in turnover and shown more efficient pollution control. Also suppliers with more stable turnovers have showed good pollution control and reduced fees for emission. The three main reasons for the positive development are mentioned below.

- Change of boiler system.
- Improved filter systems and better ventilation.
- Changed into using water based lacquer

The attractive cost savings as well as the increased attention on environmental issues have been motivating these investments. The costs for contamination to water and ground were negligible.

Other examples - Many examples of smaller investments and inventions beneficial to the environment were found in Poland. The actions include:

- Cleaning and recycling of heated air. Hot air from the production is filtered and used for heating of the facilities.
- Using organic oil instead of oil from refinery. Cut the cost for lubricant by half.

- Change lacquer so they do not need to use protective masks. Saving the cost of replacing the masks. Price on lacquer is the same.
- Installing briquetting machine to produce fuel for the boiler.

Many suppliers explained that the actions were taken as a result of their increased attention on environmental issues.

11.2.4 Working conditions - India

Significant improvements have been done in the working conditions by investing in Personal Protective Equipment, ventilation and safety guards in India. The actions are often also required by law but have not been enforced previously. Most of the improvements have been done during the past four years.

The most common investments which benefit to a better working environment since starting to work with IWAY in India are listed in Table 4.

Number of examples found	Investments and actions	Average cost
12	Exit signs and floor markings.	600 €
12	Training programs. First aid training, fire drill and chemical training.	700 €
11	Drinking water. Equipment to provide safe drinking water to the employees.	6 000 €
11	Safety guards. Machines with moving parts do sometimes need to be covered to prevent injuries.	100 – 4 000 €
9	Personal protective equipment. Includes gloves, boots, masks, ear protection etc.	140 € - 12 000 €
9	Lighting. Appropriate lighting to secure good visibility in the production halls.	500 €
9	First aid equipment. Includes first aid kits and in some cases also first aid room.	230 €
8	Fire safety equipment. Includes fire extinguishers and alarm systems.	900 €
4	Ventilation. Systems for ventilation secure the air quality in production halls.	1 200 €
3	Canteen.	0 – 64 000 €

Table 4. Common investments in working conditions in India

Exit signs - All Indian suppliers in the analysis have faced some costs for implementing the requirements on exit illuminated exit signs and exit markings on the floor. (Picture 6.) The average cost is 600 €.



Picture 6. Different buyers have different requirements on EXIT signs

Training programs - All the Indian suppliers have faced costs from conducting training programs. The requirements on first aid training, fire drill and chemical training is giving the suppliers a average yearly cost on 700 €. The average cost, 2.3 € / employee per year is approximately the same as in Poland. Two suppliers have now educated members of its own staff to conduct the training and they are now only facing costs from stop in production due to the training programs.

Drinking water - Almost all Indian suppliers have faced costs from installing or modifying the systems providing the workers with safe drinking water. The cost is dependent on the water quality in the area of production. An Indian supplier with more then 400 workers in-hose invested 20 000 € in an advanced water treatment system to be able to supply the workers with good drinking water. The cost mentioned include setting up proper water dispensers placed in the production facilities. The average cost taken by the suppliers is just above 6 000 €. The yearly running cost is at most suppliers around 500 €.

Safety guards - Safety guards to protect the workers from getting injured by machines had to be installed at almost all Indian suppliers. (Picture 7.) The cost facing the suppliers are ranging from 100 € to 4000 € depending on the machine setup. The cost was the lowest at a plastic supplier performing molding in modern machines. The highest costs were found in a supplier producing woolen carpets.



Picture 7. Shielded machinery at an Indian carpet supplier

Personal protective equipment - The IWAY requirements on personal protective equipment (PPE) had affects on the Indian suppliers. Nine of the twelve suppliers visited had significant costs from purchasing PPE. One supplier showed that they have a yearly cost of over 12 000 € from replacing used PPE. The supplier is coloring and adding fragrance to wild flowers and herbs. (Picture 8.) A supplier buying knitted carpets from sub-suppliers were only paying 140 € yearly to provide adequate protection for the workers.



Picture 8. Flowers colored by workers wearing PPE

Lighting - Before starting to work with IWAY much of the production were performed under poor lighting conditions. The highest cost that one supplier had is 1 000 € and the average cost for installing sufficient lighting is 500 €.

First aid and fire fighting equipment - The requirements on first aid equipment affected most of the Indian suppliers. The average cost the suppliers is just above 230 € per year. The requirements on fire extinguishers and alarm systems have coasted the Indian suppliers in average 900 €. There is also a yearly cost of 400 € for replacing tested and used equipment.

Ventilation – The average costs amongst the four suppliers investing in a ventilation system that secures healthy air amongst is 1 200 €. The metal industries are likely to face higher costs. The highest cost faced by a supplier in India for ventilation is 4 000 €.

Canteen - Some suppliers have done big investments to provide workers with clean dining facilities. One supplier invested 64 000 € in a dining hall but most suppliers has chosen cheaper alternatives not resulting in any costs mentioned in their answers to my questionnaire.

Production performance - Significant improvements have been observed in the rejection rate of produced products in India. In average the suppliers which have relevant data can show a 6% decrease each year during the past 3 years. Just below 50% of the suppliers have numbers that can be used to calculate rejection rate over a period of time. All these suppliers say that the improved working conditions have contributed to this improvement. The remaining suppliers rework all rejected work and since the employees are on piece rate they do not make records on this.

Medical leave and accidents - The numbers for sick leave was available at one of the suppliers I visited in India. The suppliers explain that when an employee is on leave they usually take from earned leave and the reason for leaving is not recorded. Normally 10-20% of the staff is absent.

Every time a supplier files a report on an accident they must get in contact with governmental authorities. This is not necessary if the supplier files an incident. That is one of the reasons for the supplier to make a difference between accidents and incidents. Accidents are recorded when an employee has been permanently injured. An incident can be all milder injuries including small cuts, injuries caused by crushing etc.

The record from accidents and incidents in India is limited. Many suppliers just started the monitoring and do not have any historic records. The few suppliers that have kept the records for a longer time usually have one or two accidents recorded each year. The data is not sufficient to see any trend.

About half of the suppliers showed that they have kept records for incidents during the last three years. All of these suppliers have worked with IKEA since IWAY was introduced in the year 2000. The limited data that is available for incidents show a decreasing trend.

Many of the suppliers that have not kept any records could still explain that the number of incidents and accidents has decreased since they started to implement IWAY. Two suppliers pointed out that the improvements in work environment safety as well as the proper training has helped in reducing the number of severe accidents as well as incidents.

Misconduct - Half of the visited suppliers were keeping records of misconduct amongst the employees. Most of the cases of misconduct are taken care of verbally and no records are then made. Only one of the suppliers could show records from more than two years back. This supplier who has moved a lot of the carpet production in-house showed lists where the records for misconduct were split into three different categories. Insubordination is used to record employees who do not follow instructions. The record for inefficiency is used for workers with bad performance in production and a record for irregularity is used for employees that have been repeatedly absent or late for work. All categories show a decreasing trend.

Average total cost - The Indian suppliers listed in average investments worth 11 200 € as being from initially improving the working conditions after facing the requirements in IWAY. One supplier invested 90 000 € in the working conditions since starting to work with IWAY. This supplier where required to improve the drinking water treatment system as well as the dining facilities. The supplier chose costly options and the benefits to the employers where significant. This high cost is not representative for what investments are required by IWAY. Therefore it is not used when calculating the average cost for improving the working conditions in India. The lowest total cost any supplier mentioned was 4 500 €.

Classification - Many of the investments in working conditions found in India were put into one of four categories listed below.

1. Required by law and enforced by law
2. Required by law but not enforced by law. Enforced by IKEA.
3. Not required by law but enforced by IKEA.
4. Voluntary, possibly inspired by IKEA.

Dhiraj Manhas and Sangeeta Bahl, both auditors at the Trading Service Office in New Delhi assisted me in completing Table 5.

Category	Investment / Actions
1/2	Fire fighting equipment
1/2	Fire alarm
1/2	First aid equipment
2	PPE
2	Sufficient lighting
2	Safe drinking water
2	Safety guards
2	Safe electric wiring
2	First aid training
2	Fire drill
2	Fire fighting training
2	Clean and sufficient toilet/shower facilities
2	Ventilation
2	Dining hall
3	Exit signs, Exit signs with light
3	Exit lines on floor
3	Machine instructions
3	Material data sheet
3	Chemical training
4	Moving production in-house
4	First aid room
4	Ambulance
4	Water dispenser for drinking water
4	Rest room

Table 5. Classification of investments in working conditions in India

11.2.5 Working conditions - Poland

More than 75% of the suppliers in Poland answered that their cost for improving the working conditions according to IWAY requirements is negligible. Most of the requirements are already enforced by law or by requirements from other parties. Therefore no list of the most common investments is provided.

Fire extinguishers and first aid boxes - Four suppliers said that they had some costs from the above. These suppliers estimate the start up cost for purchasing fire extinguishers, first aid boxes and stations for drinking water to about 2 000

€. The cost for maintaining the level is negligible. Most of the fire fighting equipment was already in place before starting to implement IWAY. In some cases set off buttons for the fire alarm was installed during the implementation of IWAY. The cost for this was 1 500 €.

Personal protective equipment - The cost for personal protective equipment is considered to be negligible at almost all of the Polish suppliers. Often the suppliers do not have any records where these costs can be separated from other costs.

Production performance - Sufficient data on faulty products from the production is not available in Poland. Not enough historical records are kept. The number on faulty products is dependent on length of product cycle, production volumes, type of product and material used. Many of the rejected pieces can be corrected and they are not recorded as faulty products. Mistakes like faulty labeling that are being recorded together with quality problems with incoming goods make the number very unpredictable. The general impression at the suppliers is that the work with IWAY has had positive effects on the production performance.

Training - The costs for first aid training, fire drill as well as chemical training for staff in Poland comes to approximately 2 € / year per employee (excluding cost for stop in production). Altogether 30% of the Polish suppliers had staff educated to conduct the training within the organization. These suppliers do not have any extra costs, except for costs for production break from providing the training.

Medical leave and accidents - When analyzing the percentage of days taken as medical leave in Poland 30% of the suppliers could show a straight decreasing trend since the work with IWAY started in the year 2000. During the same time 10% of the suppliers showed an obvious increasing trend. The increasing trend was explained by an increasing number of pregnant women in the working force. About 50% of the suppliers showed volatile numbers for medical leave. The suppliers explain that the numbers for medical leave are dependent on epidemics and the outside weather condition. The reasons why the employees take medical leave are not recorded.

The number of accidents per employee follows no evident pattern in Poland. The average probability for an employee to have an accident has been between 4.2% and 3.5% the last three years. Suppliers explained that the staff has been more accurate on reporting more of the minor accidents. Therefore the increased safety

in the working environment does not show in the number for accidents in the production.

Misconduct - Very limited historical records of misconduct and poor performance amongst the employees are available at the visited suppliers in Poland. One large supplier could show drastically decreasing number of reports regarding poor performance in production since they started with IWAY in the year 2000. The records are not sufficient for an analysis.

Average total cost - During the supplier visits in Poland a vast majority of the suppliers were not able to share information on the costs they have had from implementing the requirements on working conditions from IWAY. They considered the costs to be negligible and strongly connected with their implementation of other standards. They also explained that the working conditions have been improved significantly since IWAY was introduced to them.

11.2.6 Social conditions – India

The social security benefits that are being enforced by IKEA are also required by the law. A remarkable hindrance in the implementation process is the weak enforcement of the country law. The change from paying the market rate salary to paying the minimum salary results in noteworthy economical effects to the supplier.

The list below shows the typical change facing the supplier when implementing the requirements on the social security benefits and minimum monthly salary for an unskilled worker.

Market rate monthly salary: 30 €

Minimum salary: 44 €

Including PF: 49 €

Including ESI: 51 €

Including bonus: 55 €

Including employee PF: 60 €

Including employee ESI: 61 €

Salary cost to the employer: 61 €

} Some suppliers say that the employer has to pay the employees' contribution to PF and ESI.

The contribution from each benefit to the total employer salary cost is illustrated in Chart 1.

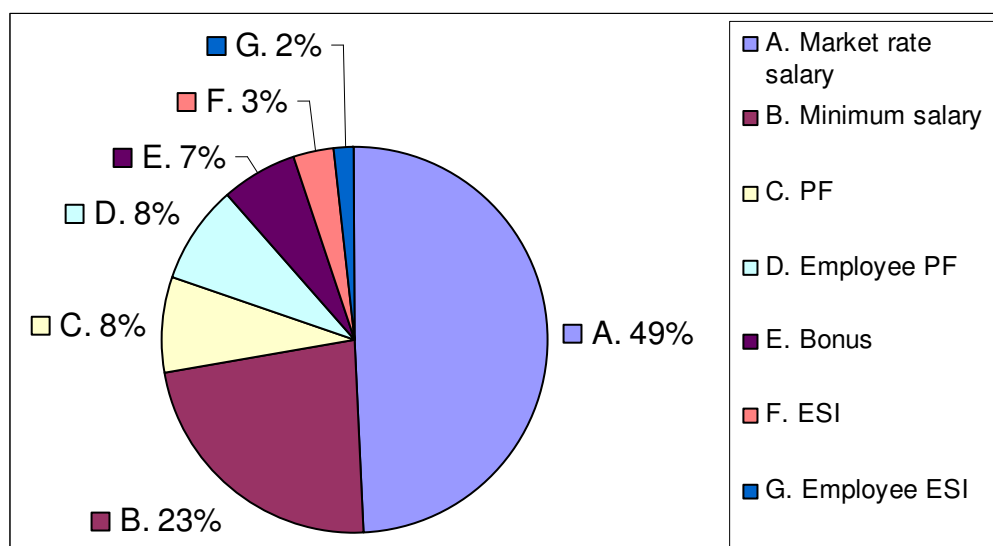


Chart 1. Employee's monthly salary cost for an unskilled worker

Additional minor costs will also come from payment of gratuity and paid leave. See the section 10.1.3 Country law in India.

The salary cost for the supplier is doubled by implementing the requirements on social security benefits and minimum salary for an unskilled worker. Since the change is less for employees doing more skilled work, the average increase on monthly cost per employee is less than double.

Three of the suppliers gave the information that they were paying all the social security benefits, including minimum wage before implementing IWAY. From the rest the increased costs could be estimated to between 12 € and 18 € per month for each worker. The number depends on the grade of implementation before starting to work with IWAY. The cost estimated to 18 € per month for each employee is the most representative number for the majority of the suppliers previously following the market rate on monthly salary. The yearly cost increase for an average size supplier implementing the requirements on the in-house workers can then be estimated to be between 40 000 € and 60 000 €.

After implementing the requirements on double compensation for overtime most of the suppliers have eliminated overtime. This has been done by hiring more staff and by adding additional shifts. The cost from this is included in the analysis above.

The investments in social conditions found in India were put into one of four categories listed below.

1. Required by law and enforced by law
2. Required by law but not enforced by law. Enforced by IKEA.
3. Not required by law but enforced by IKEA.
4. Voluntary, possibly inspired by IKEA.

Dhiraj Manhas and Sangeeta Bahl, both auditors at the Trading Service Office in New Delhi assisted me in completing Table 6.

Category	Investment / Actions
2	Employee state insurance, maternity leave, workmen compensation
2	Provident fund
2	Double overtime compensation
2	Bonus
2	Minimum wages
2	Paid leave
2	8 hour working days
2	Putting employees on pay roll
2	Hiring staff responsible for environment social and working conditions
4	Office for human resource department

Table 6. Classification of investments in social conditions in India

11.2.7 Other costs and benefits - India

Feedback - Feedback from workers to management has so far been very limited in India. Most of the suppliers have installed suggestion boxes but they are rarely used by workers. Some feedback is received verbally from workers to the middle managers. At most of the suppliers the workers have expressed happiness concerning the improvements in the facilities. The workers feel safer and appreciate the better order at their work place. They have also improved their working attitude. Many employees have showed frustration over having to wear personal protective equipment. According to the employers the workers have also been negative towards the implementation of the 8 hour working days. They would prefer to work more to earn more money. According to the supplier answers the workers prefer to not get the social security benefits as per law. Only two suppliers say that they have had positive feedback as a result from implementing the requirements affecting the workers salary.

Relation to other buyers - All the Indian suppliers agree on that the IWAY requirements are the toughest requirement that they have ever faced on

environment, social and working conditions. If they pass IWAY they can pass anything they say.

Two remotely located Indian suppliers in the analysis say that they never get visitors from the other buyers and therefore they do not benefit from their work with IWAY in other business relations. These buyers do not show any interests in their work with the environment, social and working conditions. The rest of the Indian suppliers said that they do benefit from the implementation of IWAY when introducing themselves to new buyers.

The fact that they work with IKEA is valuable when communicating with other buyers. Some buyers do not check the working conditions and their work with the environment after they have got to know that they are supplying products to IKEA. When new buyers visit the factories they get very impressed with the safe working conditions and the high legal compliance. The premises have at many suppliers got more neat and clean since the implementation of IWAY. All the above have generated more customers to the IKEA suppliers and orders from other buyers than IKEA.

Effects on sub-suppliers - The IWAY requirements are applicable also on sub-suppliers. This has led to that some Indian suppliers have quit sourcing products and material from some vendors. Three suppliers have cut the number of sub-suppliers by 75%. Many suppliers say that they have become more careful when choosing new sub-suppliers. The IWAY requirements have been easy to communicate when the sub-supplier have consistent orders. The suppliers explain that the investments can be hard for the sub-suppliers to finance when they cannot guarantee any continuous orders. According to the visited suppliers most of the sub-suppliers have reacted positively towards IWAY.

Housing for workers - Only one of the IKEA suppliers I visited in India is providing housing for the workers. This supplier had to invest 4000 € in the housing to meet the IWAY requirements. Another supplier decided to quit providing housing facilities to its workers when he was confronted with IWAY.

Legal papers - The IWAY requirements on having the legal papers, consents and permits in order have lead to work and some costs at the IKEA suppliers. Some suppliers did not have license to run the factory before starting to work with IKEA. The cost for getting this permission is in average 200 €. Other permissions that some suppliers got first after starting to work with IWAY includes permission and consents for emission to air and water as well as

permission and consents for emission of noise. The additional yearly cost for these licenses is 400 €.

Child labor - IWAY has motivated many suppliers to work more actively against child labor in India. Many suppliers have put up posters around the factory premises stating that no child labor is allowed.

Other costs - On the downside the suppliers feel that their prices are getting less competitive as a result of the increased costs. The difference in salary level makes the suppliers less popular amongst neighboring vendors and has in some cases lead to termination of co-operation.

The new costs are also an incentive for the suppliers to establish a workforce not known by IKEA to which they do not pay any social security benefits or minimum salary. External audits performed in weekends and during night are aimed to address this issue.

Employees' sometimes negative reactions that have come as a result from implementing the Code of Conduct can be read about in the section 10.2 India specific complications.

Other benefits - The benefit from the above actions has been more committed and happier employees. It has also made it easier for the suppliers to recruit new staff with the right competence.

In India the part of the production process made by machine shows big improvements in efficiency after implementing IWAY. At all the suppliers where they have systems to measure production efficiency over time they have been able to see significant improvements. Half of the suppliers have systems to monitor efficiency. The improvements are in average 16% per year the last two years. The improvements are explained by decreased breakdowns of production and increased efficiency. Safe wiring, more efficient generators and modern electric panels are securing the energy supply. By following the maintenance schedule and giving machine and material handling training to staff the machine breakdowns have been reduced. By renewing the machine park the efficiency of the use of yarn at some textile suppliers have been increased from 65% to 85%. Many of these investments are also benefiting to a safer and healthier work environment.

11.2.8 Other costs and benefits - Poland

Feedback - Almost all Polish suppliers have installed suggestion boxes to receive feedback from the workers. So far they have only received feedback through rumors and at production meetings. Most of the employees are positive towards the implementation. Some employees have communicated resistance to the requirements on personal protective equipment.

For example some employees do not feel comfortable wearing the big ear protectors required in some parts of the metal industry. They think that they look like “Mickey Mouse” and they do not feel comfortable in front of other workers. Some workers wearing the same ear protection in India felt proud to carry these quite costly earmuffs.

Other employees have seen their chance to influence on their working conditions and have contributed to the implementation process.

Relation to other buyers – Half of the Polish suppliers answer that other buyers consider their work with the environment, social and working conditions. They agree on that IWAY contains the most detailed requirements on the above issues. Therefore their work with IWAY is an advantage when doing business with other buyers.

More than half of the suppliers visited in Poland say that they can benefit from their work with IWAY when communicating with new customers. The improved cleanliness and the improvements in the production process are the most important aspects. The benefits are most significant amongst large buyers. However five of the Polish suppliers say that no other buyers care about their work with the environment, social and working conditions.

Effects on sub-suppliers - The reaction amongst sub-suppliers when communicating the requirements has been mixed. Most of the sub-suppliers accept the requirements without giving any feedback. Some suppliers in Poland have started to audit its suppliers on the three start-up requirements. There has not been any change in the structure or number of sub-suppliers in Poland since the implementation of IWAY.

Housing for workers – None of the Polish suppliers I visited is providing housing for their workers.

Legal papers – The IKEA requirements on permissions and certificated did not lead to any considerable costs at the Polish suppliers. The benefits can be seen in the orderliness in which the papers are kept.

Child labor – Child labor has not been an issue at the polish suppliers. According to the suppliers their workers were well aware of that child labor is not allowed before starting to work with IWAY.

12. Conclusions

12.1 Enforcement of country law

The globalization with big retailers searching worldwide for the most cost efficient production is a natural part of today's business.

Countries that are new to industrialization are copying the laws concerning production from already developed countries. Therefore the country laws on environment, social and working conditions are globally very much the same.

The IWAY requirements, as well as requirements in many other Codes of Conduct are based on requirements in the country law, as well as UN and ILO Conventions. Therefore the enforcement of the country law is the most significant factor that determines the costs and benefits that will face the supplier in the implementation process.

The two countries in the analysis have very different level of enforcement of the country law. The higher level of implementation in Poland is representative for most developed regions in Europe. The low level of enforcement in India is representative for many of the less developed purchasing countries in Asia.

12.2 Costs

The typical costs facing the average size suppliers in the two countries as a result from IWAY are presented in Table 7 and Table 8.

	Poland	India
Environment	10 000 €	32 100 € + 3000 € yearly
Working conditions	3 000 € + 1000 € yearly	12 100 € + 2500 € yearly
Social conditions	Negligible	50 000 € yearly

Table 7. Average costs from implementing IWAY

	Poland	India
Initial cost	0.052 % of turnover	2.4%
Yearly running cost	0.0040 % of turnover	1.4%

Table 8. Average cost in percentage of average turnover

The table includes only investments that were enforced by IWAY and not by country law. The production in Poland is more industrialized producing more expensive products and generating a higher turnover compared to the Indian suppliers.

The initial cost mentioned by the Polish suppliers is in average 0.052% of the supplier turnover. The yearly running cost in Poland is 0.0040% of the total turnover. The actions taken by the Polish suppliers can sometimes be many but the costs are small and tightly connected with the implementation of other requirements. Therefore the economical effects from implementing IWAY are in most cases negligible. Many suppliers have been able to show cost savings from their environmental investments.

The costs mentioned by the Indian suppliers are three times as high as the cost mentioned by the Polish suppliers. The turnover at the Indian suppliers (4 M €) is in average less then 1/5 compared to the turnover at the Polish suppliers.

The initial cost for implementing IWAY at the Indian suppliers can be estimated to 2.4% of the supplier turnover. The cost will increase dramatically when the implementation of the social security benefits proceeds down the supply chain to the sub-suppliers, maybe by moving more production in-house. See the section 10.1.2 Focus in India. The running cost from the implementation is in average 1.4% of the Indian supplier turnover.

A way of saving money has to be taken into account when estimating the economical effects of the implementation in India. When calculating the cost for producing a product, the cost for running the production with 100% compliance with IWAY can be used even though the requirements are not fully implemented. This type of calculation can be a way for the suppliers to earn "extra money". It can for example be done by having work force, not mentioned to the buyer, producing during night without social security benefits and minimum salary. Another way can be to save money by using a bypass in the water treatment plant to decreases the maintenance costs by letting out untreated water in the neighboring environment. This type of "new costs" surfacing during the implementation process has to be identified when negotiating the product

price. In most cases the costs for improving the environment, social and working conditions are new and they should be considered, together with the economical benefits when calculating the product price.

12.3 Benefits

It is clear that the workforce as well as the environment in the both countries have had, and will have a lot of benefits from the implementation process of IWAY. These benefits, not always possible to be measured are the most important benefits from the work with IWAY. The other benefits, including economical benefits are welcome effects of the process that both IKEA and the suppliers can gain market power from.

The most significant benefits amongst to the Indian suppliers are found in the production process. In average the suppliers could show a 16% increase in efficiency and a 6 % decrease in rejection of products after production. The implementation process also show significant advantages in contact with other buyers.

In Poland many benefits has come to the suppliers as a result of their work with the environment. Investments that where not required by IWAY, but in many cases inspired by IWAY, have lead to big cost savings. The most significant savings come from using more cost efficient fuel, reducing emissions and improving the waste management. Benefits can also be found when communicating with other buyers and when implementing requirements from other organizations.

The major benefits, including the benefits that can be used to motivate suppliers in the implementation process are listed below. For more examples and numbers see the section 11.2 Result of the analysis.

Both developed and less developed countries

- The implementation of the IWAY requirements is essential for doing business with IKEA. The business should be fruitful both for IKEA and for the supplier.
- New business opportunities - The work with IWAY gives many benefits in relations to other buyers. 50% of the Polish suppliers and 80% of the Indian suppliers state that they can benefit significantly from the work with IWAY in relations to other buyers. The suppliers feel more comfortable with the legal compliance and with the efficiency in the

production. The work with IWAY has the power to attract new buyers as well as generating more orders from existing buyers.

- Exchange of knowledge - The IKEA purchasers and auditors are sharing their knowledge and helping the suppliers with the best practice. There are many examples where qualified guidance has helped in making environmental investments that are also economically beneficial.
- Healthier staff - The good working environment results in healthier employees. The decreased number of sick leaves is also beneficial to the employer.
- More enthusiastic staff - Employees who see that their working environment is being invested in get more devoted to the employer. Devoted staff performs more efficient production with better accuracy. Enthusiastic staff is a valuable source of ideas for improvement.
- Positive rumors in neighboring area - The work with improving the environment sends positive signals to the surrounding areas creating a positive image of the production.
- Easier to find qualified employees - The good working environment and the well implemented social security benefits makes the supplier a sought after employer. This is more obvious in less developed countries.
- Better protected facilities and staff - The preparedness for fire and accidents can be invaluable. Suppliers have rescued their factories from being burned down thanks to installing proper fire fighting equipment.
- Easier to get certified by other standards - The IWAY requirements are similar to other well known international standards. Therefore the implementation will create opportunities to get certified by other well known standards.
- Protection of the brand - The supplier will protect its own brand as well as the IKEA brand by implementing the requirements. This is beneficial when meeting the increased attention from non governmental organizations reviewing the practice on issues regarding environment, social and working conditions in the industry.

Less developed countries - India

- Production performance - Suppliers in less developed countries have showed increased efficiency in machine made production since implementing IWAY. See Appendix 4. The improvements are most likely to come from the decrease in breakdown in production. The average improvement amongst suppliers who monitor efficiency in India is 16%.
- Legal compliance - The low level of legal compliance in many regions is a long term threat on the business. Governmental campaigns, strengthening of the governmental enforcement of the law as well as requirements from other buyers can be met with confidence after implementing the Code of Conduct.

Developed countries - Poland

- Lower fees for emissions - Environmental friendly investments leads to smaller fees for emissions and permits. The savings can be significant.
- Production performance - The work with issues regarding environment, social and working conditions has the power to provide new dimensions on investments. When starting to work with these issues more intensively many cost saving investments that lead to increased efficiency and waste reduction can be found.

12.4 Recommendations

12.4.1 Motivate the suppliers

The benefits that come from the implementation are now being discovered gradually by the IKEA suppliers. This report gives an indication on what can be found when analysing the costs and benefits from implementing a code of conduct in developed as well as less developed countries. The benefits from implementing the IKEA Code of Conduct, IWAY are according to my findings dominating the costs. By analyzing and presenting the likely costs and benefits to the new suppliers in each region the energy in the implementation process will be increased.

12.4.2 Increase the knowledge

The business teams have not had anything to refer to, except for their own experience when discussing the costs and benefits from the implementation process of IWAY with the suppliers. The increased knowledge in the purchasing teams from sharing this report, or by performing their own studies of the costs

and benefits could be used when planning and discussing the business and price development with new suppliers.

The valuable knowledge about the implementation process gained by the auditing and purchasing teams is today usually shared only within the specific team. Many of the actions taken by the suppliers are recurring at other suppliers, in other material areas as well as in other Trading Areas. A system where the teams can share their experience and knowledge about the best practice could make the implementation process more efficient.

12.4.3 Present detailed information prior to audits

The IWAY checklist is in some sections only presenting topics of what will be required and asked for at the audit. A complete list aimed to help the suppliers with breakdowns of all the points that may be checked during an audit would be valuable in the preparatory work done by the suppliers. The document would need to be designed locally in each Trading Area and updated according to the latest IWAY standard. It also has to be updated with the latest local issues. This will increase the transparency and clear some obstacles in the implementation process. More research needs to be done in order to clarify whether the benefits from such a list respond to the increased workload at the trading offices.

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Questionnaire

IMPORTANT:

We are now investigating the costs and the benefits from implementing IWAY. Your Company is chosen to be in this analysis because you have shown a lot of energy when implementing IWAY.

Thank you for helping us!

EMPLOYMENT

1. Before you started to do business with IKEA, did you have any staff responsible for Environmental, Social- & Working Conditions (fire, labor, health & safety)?
2. In percentage of full services, how many staff do you have (including outsourcing to consultants) responsible for the above issues? (e.g. 250% if you have two full time and one half time employees working on these questions)
3. How big is the total salary cost/fees for employees/consultants mentioned above (in rupees, brutto)?

STAFF REPORTS

4. How big percentage of your employees' working days was skipped due to medical leave each year, during the past 5 years? (Five numbers, one number for each year is requested.) If there has been a change, why has it changed?
5. How many accidents did you have each year, the past 5 years? (Five numbers, one number for each year is requested.) If there has been a change, why has it changed?
6. Have the type of the accidents changed during the past 5 years? If they have, how have they changed (e.g. more serious injuries, less serious injuries etc)?
7. How many reports regarding misconduct (violation of regulations within the company premises) amongst employees did you have each year, for the past 5 years? (Five numbers, one number for each year is requested.) If there has been a change, why has it changed?

PRODUCTION REPORTS

8. How many reports regarding poor performance amongst employees did you have each year, for the past 5 years? (Five numbers, one number for each year is requested.) If there has been a change, why has it changed?
9. How have your production capacity changed during the past 5 years? If it has changed, then why has it changed?
10. How big percentage of your products were faulty after production each year, for the past 5 years? (Five numbers, one number for each year is requested.) If there has been a change, why has it changed?

GENERAL COSTS

11. What actions have you taken that have been a benefit to the outside environment during the past 5 years? (Please provide a list of actions like implementing: New energy saving machinery, waste management systems, water treatment plant, components to reduce noise, air pollution control equipment, more environmental-efficient production hall, storage for chemicals, treatment of hazardous wastes - e.g. diesel in water)
12. What were the costs and benefits from the above actions (initial costs from investments, yearly costs and savings, change in productivity, environmental effects etc.)?
13. What actions have you taken that have been a benefit to the work environment during the past 5 years? (Please provide a list of actions like implementing: Sufficient lighting, safe drinking water facilities, machinery/machine safety guards, ventilation systems, personal protection equipment, fire safety equipment, first aid kits, exit signs etc.)
14. What were the costs and benefits from the above actions (initial costs from investments, yearly costs and savings, change in productivity, effects on work environment.)?
15. Do these actions result in benefits when doing marketing amongst new customers?
16. How big were the costs that you have faced from the training programs required by IWAY? (e.g. fire drill/training, first aid training, chemical handling training, hazardous waste training, introduction training etc)

17. What were the benefits from the above trainings?
18. What permissions/licenses did you have to get, as a result from implementing IWAY (excluding permissions for emissions)? (E.g. permissions/licenses for keeping the factory, storing gas/oil, renewing licenses)? What are the costs for each permission/license?

COSTS FROM POLLUTION, CONTROL AND PREVENTION

19. What was your yearly cost from air pollution each year, for the past 5 years? Split the costs into maintenance, monitoring, consents/permits and professionals salary. (Twenty numbers, four numbers for each year is requested.)
20. If your yearly cost for pollution to air has changed, then why has it changed?
21. What was your yearly cost from water pollution each year, for the past 5 years? Split the costs into maintenance, monitoring, consents/permits and professionals salary. (Twenty numbers, four numbers for each year is requested.)
22. If the yearly cost for emission to water has changed, then why has it changed?
23. What was your yearly cost for ground contamination each year, for the past 5 years? Split the costs into maintenance, monitoring, consents/permits and professionals salary. (Twenty numbers, four numbers for each year is requested.)
24. If the yearly cost for ground contamination has changed, then why has it changed?
25. What were your costs and savings from waste segregation (including storage) each year, for the past 5 years? (Five numbers, one number for each year is requested.)
26. If the yearly cost for waste handling has changed, then why has it changed?

SOCIAL CONDITIONS

27. Has there been any change in your payment of social security benefits (e.g. Provident Fund, Employee State Insurance) since you implemented IWAY? If yes, what has been the change and what has been the costs and benefits from this change?
28. Has there been a change in the way of compensating for overtime hours since you implemented IWAY? If yes, what has been the change and what has been the costs and benefits from this change?
29. What have been the consequences for your organization from implementing the requirements on minimum wages?
30. Has there been any change in the housing for workers provided by your company since you implemented IWAY? If yes, what has been the change and what has been the costs and benefits from this change?
31. Has there been any change in attitude towards child labor since you implemented IWAY? If yes, what has been the change and what has been the costs and benefits from this change?

RELATIONS

32. Has there been any change in your supplier structure as a result from implementing IWAY? If yes, what has been the change?
33. What has been the reaction amongst sub-suppliers when communicating IWAY demands (positive, negative or no reaction)?
34. Have you received any feedback from your workers related to the implementation of IWAY? If yes, how did you receive the feedback and what was the feedback?
35. Do any of your other customers have similar checklists like the IKEA's checklist for IWAY? If yes, how is their approach to the implementation process compared to the approach used by IKEA?
36. Has the implementation of IWAY been a benefit in your relations to other buyers? If yes, what was the benefit? (Please give examples)

OTHER COSTS AND BENEFITS

37. What other costs and benefits have you had from working with IWAY (improved attitude amongst management/workers, gained valuable knowledge, corporation with environmental organizations/Non Governmental Organizations, better order in production building, more confident with your legal documents, payrolls etc.)?

Warsaw, 13th September 2005

Appendix 2

Supplier profile

Supplier Name:

Year Established:

Contact for questions regarding IWAY:

Year turning IKEA supplier:

Type of products:

Number of employees each year, the past 5 years:

Turnover each year, the past 5 years:

Turnover IKEA each year, the past 5 years:

Owner structure:

Year for first IWAY audit:

Rates for converting local currency

1 USD (American Dollar) = 0.74 €

1 INR (Indian Rupees) = 0.020 €

1 PLN (Polish Zloty) = 0.24 €

1 SEK (Swedish Krona) = 0.11 €

Efficiency increase - Example

These numbers are from a carpet supplier in India with a yearly turnover of 7M €. The numbers indicates the yearly savings in the dyeing unit.

Savings on	Yearly amount
Fixed over head- and running expenses	10 000€
Production cost	8 000€
Repair costs	2 000€
Workers wages	1 300€
Total yearly savings	21 300 €

The numbers can be compared to the costs for the investments mentioned in the section 11.2.4 Working conditions - India and 11.2.2 Environment – India.