



Institutionen för skogens produkter

Organizational exposure to risk of unethical behaviour – In Eastern European timber purchasing organizations

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Abstract

Title: Organizational exposure to risk of unethical behaviour - in Eastern European timber purchasing organizations

Issues: The issues Swedwood asked us to explore in their Eastern European timber purchasing organizations were:

- Have clear directives been given to each purchasing unit regarding the purpose and scope of its activities?
- If so, what do these directives contain?
- If so, how are these directives followed?
- How are purchasing transactions planned and carried out?
- What roles are involved in the purchasing process, and what are the responsibilities and authorities of each role?
- Can the purchasing process, or parts of the process, be improved?
- Can the company organize its purchasing units more effectively to ensure best practices?

Purpose: The overall approach we took was to assess Swedwood's potential exposure to low levels of legal or ethical practices by benchmarking its actual practices, using the concept of best purchasing practices described in the literature.

Method: To collected data using qualitative methods, since this is an appropriate way of raising the sensitive issues that needed to be addressed. This involved interviewing local purchasing organisations about their local market conditions, organisational structure and purchasing processes.

Conclusion: The study has shown that organisations' purchasing managers are exposed to considerable risks of low levels of ethical practices. While most local organisations have policies to prevent corruption, there is rarely a working manual to provide people with guidelines to achieve this. Support for ethical practices could probably be improved.

Key terms: Corruption, Purchasing, Forestry, Organization, Timber

Summary

Swedwood is a subsidiary of IKEA and was established in 1991. Swedwood International AB's main task is to secure production capacity in areas where IKEA has procurement difficulties, thus securing products flows at required price levels. Swedwood facilities includes sawmills, wood-component factories and furniture factories. Swedwood has invested in countries which have a low ranking in the Transparency International's corruption index. So Swedwood are concerned that they can potentially be exposed to low levels of legal and ethical practices. Since the risk of unethical behaviour increases in businesses where there are significant sums of money involved, timber purchasing is a particularly risky area. With the intent to act ethically and prevent corruption, Swedwood therefore commissioned this independent dissertation work.

The purpose of this study is to map Swedwood's purchasing organizations and practices in six eastern European countries, assessing potential exposure to low levels of ethical practices.

Our literature study comprises conventional purchasing theories as well as organizational theories about organisational approaches to secure high levels of ethical practices in challenging cultural situations. We used a qualitative research approach to collect data about the organisations and their purchasing practices, interviewing purchasing personnel in their daily working environment. We also made observations of sites where purchased timber is located.

Our main empirical findings are that timber purchasing policies as well as jobs descriptions in the areas of purchasing, measurement and auditing are often poorly described. So there are two key issues: people do not have clear guidelines for ethical practices; and, auditing of actual practices is problematic since there is no clear benchmark to assess behaviours.

In the analysis, using the theory as an analysis framework, we highlight the potential organisational risks at each six of Swedwood's purchasing unit. In some units, timber measurement trustworthiness is an issue due to the position of the measuring department in the organisational structure and lack of systematic approaches to measurements.

In the discussion section, the three main issues we address concern the importance of clearly defined policies, issues in organisational structures and the low levels of transparency purchasing work. Synthesising the literature and our empirical data, we make recommendations about organisational structures and practices that should reduce exposure to low levels of ethical practise. Here key suggestions include creating a purchasing manual, highlighting ethical policies, systematic ethics training, and ideas to enhance organisational learning on ethical-security issues.

Sammanfattning

Swedwood är ett dotterbolag till IKEA som grundades 1991. Deras huvuduppgift är att säkra produktionskapacitet på trä möbler där IKEA haft svårigheter att anskaffa rätt produkter till rätt pris. Deras anläggningar består av sågverk, träkomponent- och möbelfabriker.

Många av de länder Swedwood investerar i är i Transparency Internationals Corruption index lågt rankade, och företaget är därför oroat över dess utsatthet i inköpsarbetet. Riskerna är alltid större då stora summor är inblandade, och timmerinköp är ett sådant område.

Syftet med denna studie var att kartlägga företagets organisation och arbetsrutinerna vid timmerinköp i 6 Östeuropeiska länder. Målet är att därigenom fastställa den potentiella utsattheten och vad man kan förbättra.

Vår litteraturstudie innefattar såväl konventionell inköpsteori som organisationsteori och inköpsetik. Genom att använda teorin som referensram belyste vi i analysen den potentiella organisatoriska risken vid varje enhet. Vi har använt oss av en kvalitativ forskningsansats vid insamlandet av data.

I diskussionen berörs de huvudsakliga problemen som är: vikten av en tydlig policy, problematiken med organisationsutformningen, samt insyn och transparens. Genom att belysa empirin med litteraturen, föreslår vi rekommendationer för organisationsstruktur och arbetsutförande vilket syftar till att reducera riskerna och företagets utsatthet. Förslagen innefattar skapandet av en inköpsmanual, regelbunden träning inom etik och idéer för att höja den organisatoriska förmågan att lära i etiska och säkerhetsmässiga frågor.

Vår slutsats är att policys för inköp, mätning, samt arbetsinstruktioner för dessa områden kan förstärkas. Riktlinjer är viktiga som målsättning och som referens i organisationer. Lika viktigt är att budskapet når ut.

Vi fann att det fanns risker i inköpsorganisationen. Vi drar också slutsatsen att lösningen och problematiken är en kombination av metodik, teknik och kultur.

Abbreviation

Russia

BUM	Business Unit Manager
WPM	Wood Procurement Manager
WML	Wood measurement leader

Latvia

MD	Managing Director
LPM	Log Procurement Manager
RP	Regional purchaser

Poland

SM	Sawmill Manager
RMM	Raw Material Manager
PrM	Project Manager
PM	Purchase Manager

Slovakia

MD	Managing Director
CM	Commercial Manager
PM	Purchase Manager

Ukraine

CM	Country Manager
BM	Branch Manager
FS	Forest Supervisor
MD	Managing Director
PMS	Production Manager Sawmill
LYS	Log Yard Supervisor

Rumania

MD	Managing Director
LM	Logistic Manager

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1 Introduction

1.1 Background

IKEA was created six decades ago by one man in a small village in southern Sweden. Now they are working in more than 30 different countries all over the world and haven't stopped growing¹. IKEA expands 20 % each year, doubling its sales every five years.

IKEA established its Swedwood subsidiary in 1991. Swedwood was originally formed as a result of the economic and political upheaval that occurred immediately after the fall of the Berlin wall. Swedwood's initial role was to safeguard IKEA against loss of vital suppliers and to participate in the privatisation of firms were potential IKEA suppliers.

Today, in areas where IKEA has difficulties to procure their products, Swedwood International AB's main task is to secure production capacity, producing and delivering products at required price levels. Swedwood's activities span many roles in the supply chain, from the forest to the IKEA store. In some countries, Swedwood manage forestry as well as buy logs for their production. Swedwood facilities include sawmills, wood component factories and furniture factories. Swedwood today has 35 production units, mostly in Eastern Europe. It is intended that Swedwood should grow in pace with IKEA.²

The initiative for this study comes from Olle Axelsson and Linus Paulsson who work at Swedwood's head office in Ängelholm, Sweden. They gave us the task to describe how purchases are made and investigate the possibility of unethical business behaviour within their purchasing organisations. They wanted to make a risk assessment of the current organization as a basis for assessing improvements. They personally share Swedwood's perspective that using the company's resources for personal gain is unacceptable. They are concerned not only concerned about potential financial losses but also the risk to Swedwood's good reputation.

Since Swedwood is a multinational company, working mostly in Eastern Europe, Swedwood has to deal with different cultures and different ways of doing business. This includes addressing low levels of ethical and legal practices, including corruption. Governmental organisations, firms and society are concerned about corruption and it is seen as an obstacle to development. IKEA and Swedwood, who wish to operate with social responsibility and contribute to social well-being, share this concern. Since the countries where Swedwood has invested in often are low-ranked on Transparency International's corruption index, ensuring best practice is a practical operational concern.

Transparency International rates countries on a scale from 0-10, where 10 are least corrupt. Sweden has a reference CPI score of 9.2. Countries where Swedwood is active are Russia with the lowest rating of 2.5 points, Ukraine 2.8, Romania 3.1, Poland 3.7, Slovakia 4.7, and Latvia 4.7.³

Swedwood is concerned that it can potentially be exposed to low levels of legal and ethical practices. Robert Björk, Security manager at Swedwood, is concerned that people who may be interested in taking advantage of the system, and are willing to take bribes or in another way act unethically, tend to be drawn to business and units where significant sums of money are

¹ IKEA (2007) [Internet]

² Swedwood (2007) [Internet]

³ Tansparancy International (2006) [Internet]

involved.⁴ And, purchasing is potentially such an area due to the sums of money involved. For example a Swedwood sawmill in Poland purchases 250 000 m³ of timber each year for an average price of 54 Euro per m³.⁵ This means that this unit spends 13.5 millions Euros and could thereby be classified as a unit with a high risk unit of exposure to corruption. Swedwood cannot accept people in their organisation using the company's assets for private benefits. Christer van der Kwast (2007), chief of Sweden's new anti-corruption bureau, says "The world is shrinking, and our big companies will face this problem more and more. They will have to learn deal with it". According to Brand channel, IKEA is the 8th most well known brand in the world⁶. The IKEA brand is more valuable than Coca Cola's and so protecting the IKEA brand such an asset is vital.

More generally, the significance of purchasing in the forestry sector has increased during the last decades. The cost of timber as a raw material has increased from around 40% of a sawmill's total operating costs in the 1970s to almost 70 % today. In an article in *Dagens Industri* the 23rd of February 2007 Roger Stokkedal emphasised: "*An efficient purchasing unit becomes more and more important as a competitive advantage in a global economy*". He considered companies need to make an inventory and map their purchasing organization's practices, in order to develop the right competences and use these as an asset in the future⁷.

IKEA has profiled themselves as a company that takes responsibility for social and environmental questions. They guarantee all timber is harvested according to FSC rules for Chain of Custody (FSC-STD-30-010). Such pureness is important when selling furniture with Scandinavian design, and you can't afford getting your brand to be dragged through the mire.⁸ And as Ingar Kamprad said in an interview in *Dagens Industri*: "*it is dangerous to get satisfied, you can always improve and in every problem there is a possibility to change it and turn it into an advantage*".⁹

1.2 Research questions when mapping purchasing practices

Since purchasing is a process, it potentially involves several roles in the organisation. Based on the above content, and using the literature as a framework, the natural research questions that arise when assessing actual purchasing practices are:

- Have clear directives been given to the purchasing unit regarding the purpose and scope of its activities?
- If so, what do these directives contain?
- If so, how are these directives followed?
- How are purchasing transactions planned and carried out?
- What roles are involved in the purchasing process, and what are the responsibilities and authorities of each role?
- Can the purchasing process, or parts of the process, be improved?
- Can the company organize its purchasing units more effectively to ensure best practices?

⁴ Robert Björk (2007)

⁵ Maciej Remuszko (2007)

⁶ E24 Näringsliv (2007)

⁷ Stokkedal, R (2007)

⁸ Hildingsson, H-J (2007)

⁹ Ingvar Kamprad (2007)

1.3 The commission of this study

Swedwood intend to act ethically and prevent corruption. With the aim of gaining a strong foundation for strengthening their purchasing organisation and its practices, Swedwood have commissioned this dissertation work to gain an independent assessment of their actual performance in organising for best practice.

Our overall approach is to assess Swedwood's potential exposure to low levels of legal or ethical practices by benchmarking its actual practices, using the concept of best purchasing practices described in the literature. Note. Assessing potential exposure does not indicate that any wrongdoing has actually taken place.

1.4 Purpose

By mapping Swedwood's purchasing organizations and practices in Russia, Poland, Latvia, Rumania, Slovakia and Ukraine, the purpose of this study is to assess Swedwood's potential exposure to low levels of ethical and legal practices.

1.5 Focus and constraints

This study will focus on the purchasing organisation and its process for procuring timber. It will not consider any other Swedwood units or purchases.

The purchasing organisations that we will assess are located in Latvia, Poland, Romania, Russia, Slovakia and Ukraine. Due to time constraints, we will visit one unit in each country and assume its practices are representative of other units in that country. The exception is Poland where we will visit 3 units.

The notion of risk exposure was to be assessed by benchmarking actual organisational charts and processes against best practice purchasing notions recommended in the literature. Thus, the focus of the study is an assessment of the roles involved in the process, the authority particular roles have, and the risks the literature considers would be associated with that type of role.

Illegal logging is a major problem in several of the countries we visited. However, given the complexity of this issue it is outside the scope of this study. Nonetheless, since the practice of illegal logging is of concern in purchasing processes, it is discussed in the purchasing context.

2 Research approach

The intention behind this section is to convey the author's theoretical and scientific base for their work. The reason for this is that approaches may vary on the type of study and also between researchers. In this section the methodological approach we have is describes and also how the actual work was carried out. This section will also help the reader to form their own opinion about the reliability and validity of this study.

2.1 Objectivism or constructivism

The definitions of objectivism and constructivism are the two main perspectives in ontology with regard to organization. Objectivism means that social phenomenon is seen to be independent from the actors involved. The social phenomena and their existences are also seen to be independent from the people in it. So, regarding an organization objectivism would consider: standardized procedures are being generated, job descriptions are being clearly defined and followed, there is a strong hierarchy - it is not possible for people to affect it.¹⁰ We do not concur with this perspective of the organization an object since it considers the organisation to be independent and beyond people's control.

Constructivism means that social phenomenon is something that actors and people within it continually create and recreate. People and actors are very much a part on how the social phenomenon is shaped and structured. Constructivism considers people within an organization can affect the way the organisation is formed, and so people can thereby control both the organization and its culture. Constructivism also considers that organisations, since they are a social phenomenon, are also continually changing.¹¹ We believe that looking at an organization from this perspective will help us understand what the organisation does, why it is working in the way it does, and how different organisational structures and behaviours can affect different people within the organization.

2.3 Qualitative or quantitative methods

There are basically two different types of methodology for gathering information, quantitative and qualitative. When using a qualitative methodology, the typical focus is on "words", not "numbers". Quantitative studies focus on collecting facts and study the relationship between them and typical questions that are about to be answered is "how much" and "how many". Qualitative studies focus on explaining for example how people experience their surrounding, how organizations are organized etc. A qualitative studies seek to find answers to questions like "how" and "why" rather than "how much" and "how many" as in quantitative studies¹².

But explaining the difference between these two type of research methodology is not just as simple as looking at what types of questions that is about to be answered. One reason is that the qualitative research methodology contains several types of methods such as participant observations, qualitative interviews, focus groups etc.¹³ According to Gubrium & Haolstein (2007) there is not only several ways of doing qualitative research, there are also many different types of traditions within qualitative research which makes it even more difficult to distinguish and separate these two.¹⁴ Another difference between qualitative and quantitative

¹⁰ Bryman, A. Bell E (2005)

¹¹ Bryman, A. Bell E (2005)

¹² Bryman, A. Bell E (2005)

¹³ Bryman, A. Bell E (2005)

¹⁴ Gubirium, J.F. & Haolstein, J.A. (1997)

research methodology is that in a qualitative research the investigators are present during the process where as in a quantitative research the investigators most often do not meet the respondent in person. A quantitative research is often more structured than a qualitative research. The reason is that in qualitative research the investigators seek to find out not just how things are but why things are they way they are.¹⁵

We will in this study use a qualitative method since it is a more appropriate way to address the issues involved in this work. We are not interested in just a broad picture of the purchasing organizations' work. We also want to gain a deeper insight to the organization as a social phenomenon, which wouldn't be feasible with qualitative approaches. To investigate our issues we need to make interviews, mostly semi-structured, which mean that we have to use a qualitative method. To pursue relevant issues, where necessary, we need to be able to diverge from a strict interview guide to get responses to our questions.

2.4 Choice of method

As mentioned above, there are many ways that a qualitative research can be done. Since the purpose of this study is to map the purchasing organization and assess Swedwood's potential exposure to low levels of ethical and legal practices, our intent is to explain and describe actual cases. According to Yin, case study approaches are preferable when you are studying a phenomenon that has a real live context, and *how* and *why* are typical questions that are being posed. Case studies are also a good way of collecting and analyzing data when you are dealing with individuals, groups and organizations¹⁶.

When using a quantitative method, the intention is to draw general conclusions of companies/units by using statistics and mathematics.¹⁷ However, with the scope of this study we intent to gain a deeper and more detailed view of each case and unit to be able to explain and clarify the problems and risk that are present. As the intention of this study is to describe and gain an insight into the problem, the research will have a qualitative approach.

2.5 Case study as method

There are many ways of performing a case analysis. The same case study can include data collection from one or several units. When the study focuses on one unit, the method is called holistic study. When the study focuses on two or more units within the same organisation, the method is called embedded study.¹⁸ In this study, we will be focusing on several units that are within the same organization and so the study is classified as an embedded study.

There are two different kinds of data: primary data and secondary data. Primary data is collected by the author of the study with a specific purpose. Secondary data has been collected by some other, often with a different purpose.¹⁹ In this study, interviews are the main source of data, with direct observations complementing the interviews. So our data is classified as primary data.

Interviews are the most common way of collecting data in a qualitative research. The main reason is the flexibility that an interview provides. There are many types of interviews such as

¹⁵ Bryman, A. Bell E (2005)

¹⁶ Yin, R (2002)

¹⁷ Andersen, Ib (1998)

¹⁸ Yin, R (2002)

¹⁹ Yin, R (2002)

structured interview, standardised interview, semi-structured interview, unstructured interview etc.²⁰ We have chosen, in this study, to work with a semi-structured interview.

2.5.1 Semi-structured interviews

In a semi-structured interview, the researcher compiles a list of specific themes that are of relevance to the particular research topic. This is the basis for the interview guide. The people that participate in a semi-structured interview have, in contrast to a questionnaire study, a free choice in how they choose to formulate their answers. The researcher is also allowed to ask complementary questions that many not be included in the interview-guide. Questions in a semi-structured interview are often of a general nature, and are not as specific as the questions in a structured interview.²¹ In our work, we consider it is important for us to be able to ask questions that are not originally included in the interview-guide. One reason is that each unit will be unique and are organized in different ways and therefore the interview has to be flexible. This means that depending on particular unit and its specific circumstances and environment, we need to be able to be flexible e.g. we may have to focus on particular themes and some complementary questions may be required to explore a given theme in depth.

The flexibility of semi-structured interview approaches will help us in gain both a broad understanding of each organisational unit and its purchasing practices, as well as a deeper understanding of each unit's unique context and organisational form. We consider this important since the task of this study is not just to determine how purchasing is performed today but also to create knowledge about how purchasing organisations and processes can be enhanced in the future.

2.6 Selections of units

Together with our supervisors, we decided to work with nine different units, in six different countries. We wanted to be able to compare how these units worked, but also get an as broad picture as possible. All the units that were contacted agreed to be part of this study.

2.7 Selection of people to interview

In total 22 different respondents contributed primary data to this study. The two main job roles of people we interviewed were Managers of purchasing units and purchasing managers. We also interviewed the people who reported directly to the manager of purchasing units. The job roles were people from the measurement department and project managers. To understand the document flow, in some instances we also talked to people in financial departments.

2.8 Interviews

Based on the theory and issues we were concerned with, we created a semi-structured interview guide. Appendix 1 contains the questions and our motives for asking them. Our university supervisor assisted in refining our original questions. With assess opened by our supervisors at Swedwood, we interviewed respondents and collected our primary data. During the process we learned more and therefore complemented the guide.

Interviews varied. Most were several hours in duration. A few complementary interviews were just 20 minutes. Sometime we spent a whole day with one single respondent. We recorded the formal interviews. However since some interviews/discussion took place during observations e.g. in the sawmill, close to production, it was not possible to record these because of the

²⁰ Bryman, A & Bell, E (2005)

²¹ Bryman, A & Bell, E (2005)

noise. When recording was not possible we made written notes. After the interviews we summarized responses. When we didn't have a recording, we compiled our respective notes together so we could ensure the accuracy of our observations.

At the beginning of each formal interview, we informed respondents about the purpose of the study. We let them describe their background and work. It was very important to create reliance in the conversation.

2.9 Reliability

Reliability is about the trustworthiness and usefulness of the sources²². In technical focused studies it refers to the consistency of the measure, the degree of which a measure is consistent over time. For example: If you weigh a bag of flour many times and get the same result, than the external reliability is high²³.

In social phenomenon, when looking for 'facts', it is important to assess the perspective of the respondent and their perceptions of reality. The purpose is to determinate if the source is valid, reliable and essential for the issues. There is no perfect method for determining whether a source is trustful or not. What the scientist has to do is to determinate what level of truth the source has. According to Ejvegård (1993) it is also important to use modern sources. The older they are - the less is the probability that they are valuable today²⁴.

The reliability of the results can however be reinforced by four points according to Merriam, these are:

1. The use of triangulation. This means using more than one source for gathering information about the task.
2. The clarification of one's origin and the theoretical framework that has directed the study.
3. Give a detailed description about how the study was performed.
4. Give detailed description about how conclusions were drawn from the available information.²⁵

We believe, because of our subject, triangulation is of particular importance. We therefore used more than one source when collecting data so we could compare different responses and so assess the trustworthiness of each participant's answers. Our main method of determining reliability was to use the theoretical framework to assess responses.

2.10 Validity

Validity is about whether the concept the researchers' claimed to measure was actually measured. For example when someone doubts whether IQ tests really measure intelligence, they essentially doubt the validity of the concept of IQ tests. In a qualitative study, validity addresses how well the researcher's conclusions conform to his observations. This is a matter of judgement and judgements can be wrong²⁶.

There are two different types of validity: internal and external. Internal validity is the extent to which the result corresponds with the reality. That is, do the researchers really study or

²² Ejvegård, R (1993)

²³ Bryman, A (1989)

²⁴ Ejvegård, R (1993)

²⁵ Merriam, S.B. (1994)

²⁶ Bryman, Al (1989)

measure the object that they intend to study? External validity is the extent to which the researcher is able to make generalisations about a population from his statistical (sub) sample of the population²⁷. Since we are doing a qualitative study, this definition may not be useful. According to Merriam, external validity can also be defined as to which extent the result from a certain study is applicable on other similar situations.²⁸ So, our external validity issue is whether we have really measured the risks of low level practice. Is there a correspondence between the measure and the concept in question? Because of the illegality of these activities we are not able to assess whether risks will materialise. We can only use the theory as a guide to assess whether there is a low, medium or high risk. So, by validity what we intent to do is assess the exposure of organisational roles to risk of low practice levels.

2.11 Our practical approach

2.11.1 Phase one

In January 2007, on Ikea's homepage, Swedwood advertised a dissertation to map their purchase their purchasing organization and evaluate it from a security aspect. We contacted our future supervisor and agreed to carry out the project. During this phase, to establish a firm foundation for our work, we theoretically studied the subject, planned the project and made interviews with two veterans in the company.

2.11.2 Phase two

During this phase, we visited the different units in Eastern Europe to collect our data. As our empirical understanding grew, we iterated our understanding of the theory. Before each visit, our Swedwood supervisor sent an e-mail to introduce us to our respondents and exhort local managers to support us. After this formal introduction, we also contacted the respondents, to inform them of our purpose and book interviews. We stated our purpose was to map the organisational structure and procurement process. We also sent the questions in our semi-structure interview guide.

2.11.3 Phase three

During this phase, we worked intensively with the empirical results, analyzing and discussing the data we had collected. We also formalised our understanding by writing this dissertation.

²⁷ Merriam, S.B. (1994)

²⁸ Merriam, S.B. (1994)

3 Theoretical frame or reference

This section covers the topics of interest in this study. The main topics are Corruption, Organization, and Purchasing. (The purchasing theory in this study is mainly discussed from a western legal context). The purpose of this section is to give the readers some background information about different types of purchasing organisations and also the risk and cause of corruption. This latter theory in particular was used to guide our analysis of our data.

3.1 What is purchasing

There are different definitions of purchasing. Farmer, David and Jessop describe purchasing as a way to procure the right quantity and quality, in the right time, and from the right source to the right price²⁹. According to Skoog and Wiklund the definition of purchasing is to provide the company with material/goods or services that makes it possible for the company to run their business and to meet the costumers and their needs in a desirable way³⁰. Put into an organizational perspective, purchasing may be defined as the function that is responsible for materials, equipment or service that is required for the production³¹.

The initiation of a purchase activity is often the recognition of a need. Purchasing concludes with the fulfilment of this need. Many purchases are however done in order to fulfil continuous needs; every transaction is therefore a part of series. There are many ways of describing a purchasing cycle; the following is one we think fit the purpose of this study³²:

1. Recognition of need
2. Specification of need
3. (Make or buy decision)
4. Identification of supplier
5. Selection of supplier
6. Negotiation of contract
7. Contract management
8. Receiving delivery and invoice
9. Control of delivery and invoice
10. Payment (and evaluation)
11. Fulfilment of need

3.1.1 The importance of purchasing

The importance of purchasing has increased rapidly over the last decades and is crucial for most of today's companies in order to succeed or not. Despite this it wasn't until the late of the 20th century as companies started to recognize the importance of an efficient purchasing. There are, however, three developing factors that have enhanced the status of purchasing within companies:

1. the contribution of purchasing to profitability and added value
2. the evolution of professional purchase
3. the recognition of the strategic importance of purchasing³³

The average cost of materials and components for manufacturing company was in 1979 about 40% of the total cost, in 1994 the cost of materials and components had increased to over 60%

²⁹ Farmer, D. & Jessop, D. (2005)

³⁰ Skoog, U. & Wiklund, C. (2001)

³¹ Lysons, K. (1996)

³² Farmer, D. & Jessop, D. (2005)

³³ Lysons, K (1996)

of the total cost. The cost of raw material for sawmills are today often as high as 70% of the total cost³⁴. Materials can be classified into three categories:

1. raw material
2. semi-finished goods and process materials
3. component parts and assemblies

In this study we are focusing on timber purchasing and its organization i.e. raw materials. Raw materials are characterized by being often sensitive commodities, frequently dealt with in recognized commodity markets and safeguard in many organizations by backward integration strategies.³⁵

For the purchasing process the price is, of course, an important factor and therefore the purchaser must cooperate with both co-workers and suppliers. But a low price is not the same as a low cost since price is only one part of the total cost. Transportation cost, cost of delays, support, cost of stock, cost of administrative etc is also included in the total cost.³⁶

3.1.2 Timber purchasing from a sawmill perspective

According to Helstad there are six major origins to procure timber from, these are:

- timber harvested in own forest
- timber traded with other sawmills or forest companies
- import
- delivery timber
- standing timber for sale
- and cutting commissions

The main objective in timber procurement, according to Klara Helstad, is price, quality and the ability to quickly react to changes. Other things that effect the procurement of timber is capacity of each unit/sawmill, the wood resources in the area, access to harvesting machines, forwarders and trucks.

The procurement process of timber can be divided into two parts; the order cycle-process and the purchasing-process. The order-process refers to fulfilment of costumers needs, such as payment, service etc. The purchasing process can be described as the purchasing process above where the objective is to fulfil sawmills need of raw material. Due to long lead time timber procurement is often done on basis of prognosis. Therefore it can be difficult to react to sudden changes in volume and quality.³⁷

3.2 Purchasing and fraud

The purchasing function is particularly vulnerable for fraud. This doesn't just include those people working within the purchasing organization but everyone that are in with contact suppliers. There are many examples of supplier-related fraud. The following are the ones we find interesting and relevant for this study:³⁸

- Presentation of a false invoice.
- Buyer/supplier collusion leading to approval for a payment of charge that doesn't exist.

³⁴ Helstad, K (2006)

³⁵ Lysons, K (1996)

³⁶ Gadde, L E. & Håkansson, H. (1998)

³⁷ Helstad, K (2006)

³⁸ Lysons, K (1996)

- Arranging so that the lowest tender come from desired source. That is to say, choosing supplier is done order to favour personal interest rather based on which supplier who has the best offering.
- Ignoring bad delivery/allow bad delivery from a supplier in return for a kickback.
- Omissions of credit notes for goods returned to the supplier.

The prevention of fraud depends on three different things; internal control, external and internal audit and last, the detection of “give away” signs. One aim of internal control is to increase the difficulties for persons who are planning and preparing a fraud. One way of increase this difficulties is to organize so that one person haven’t all relevant matters under their control and they have to cooperate and seek collusion with others. The internal control refers to the whole system and such controls can include for example: only specified employees should have the authority and power to requisition goods and only up to a given limit. Goods should be received and controlled at a certain location and the receipt of all goods should be recorded. Invoices and other measuring of received goods should be randomly and systematically controlled.³⁹

Such internal control is complemented by an external control. The aim with the external control is not to prevent fraud but to make an independent control of books, accounts etc. and there by make sure that this gives a correct and true picture of the business and its profit or loss and how well the system/organization is working.⁴⁰

According to Lysons the most common way of detecting fraud is via outside information. Give away signs includes: too many order to one suppliers, loss of supporting documents, sudden unexpected affluence and last unwillingness for employees to take holidays or to accept promotions to a work and work task.⁴¹

3.3 Causes of corruption

The United Nations Development Programme (UNDP) has defined corruption as “the misuse of public power, office or authority for private benefit – through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement”.⁴²

The countries we have been working in are all low-ranked on the Transparency International’s corruption index. Sweden is used as reference.

Table 1. Transparency International’s corruption index

Country	CPI Ranking	CPI Score
Sweden	6	9.2
Latvia	49	4.7
Slovakia	50	4.7
Poland	62	3.7
Romania	88	3.1
Ukraine	104	2.8
Russia	127	2.5

³⁹ Lysons, K (1996)

⁴⁰ Lysons, K (1996)

⁴¹ Lysons, K (1996)

⁴² Quah, J (2003)

The CPI score is a 1-10 scale, where 10 are least corrupt.⁴³

The Asian professor Quah has studied corruption and identified three factors as important causes of corruption: opportunity (which depends on insight and control of the lucrative activities), salaries and policing (the probability of detection and punishment). The hypothesis is that corruption depends not on any of those three factors identified, but rather on the balance between them. Thus, following this hypothesis, an effective anti-corruption strategy should reduce or remove the opportunities for corruption, raise the salaries and ensure high degree of policing.⁴⁴

3.3.1 Salaries

Low salaries are one important cause of corruption. A recent survey on corruption in Indonesia of 2300 respondents found that low salaries were identified as the most important cause of corruption. If people are paid enough wage the incentive for corruption decrease. Conversely, if the real salary decreases “even the most rigidly honest will be tempted to go beyond the law to preserve their standard of living”. Examples show that corruption in the Philippines increase when salaries were low and vice versa.⁴⁵ According to Robert Björk the salary has less importance for corruption, it’s a matter of culture and systems to control that matters. In countries where there is a social acceptance to corruption, companies must build a system that prevents this kind of behaviour.⁴⁶

3.3.2 Ample opportunities for corruption

With opportunities means either control of resources or that they are very exposed to possibilities of corruption. Quah calls the organisations with lots of money for “wet” organisation, and the corruption exists in form of “rents” from civil servants for choosing their company or their service.

The other type is “dry” organisations. They haven’t got much money and corruption is earned through delays which provide the clients to pay “speed money” to expedite the processing of their application or to waive the requirements. This is often caused by lack of insight and information. The authority is mostly given to a single person and he can decide in the way that gives him most benefits. The absence of strict rules and control provides him space for a personal interpretation.⁴⁷

3.3.3 Low risk of detection and punishment

As corruption is an illegal activity in all countries those individuals found guilty of corrupt offences should be punished. However, in reality, the probability of detection is low and corruption is considered to be a “low risk, high reward activity”. In many countries there is no possibility to live of your job, and your employment is a position to earn bribes. So apart from the lack of incentives for correct behaviour, sanctions are rarely applied to those who are under performing as “cultural norms effectively preclude punitive denial of the perquisites that attend each position”. It’s “the way of life”. When the politics, which are responsible, are corrupt all the way to the top, it is impossible to strive against the society and you have to accept the system. For example in Indonesia the corruption was rampant because it was tolerated as corrupt officials were seldom punished. The risk of detection is in many ways a

⁴³ Transparency International (2006) [Internet]

⁴⁴ Quah, J (2003)

⁴⁵ Quah, J (2003)

⁴⁶ Robert Björk (2007) [Oral]

⁴⁷ Quah, J (2003)

question of culture, coloured by history and mentality. So the lack of punishment combined with a social acceptance for corruption decreases the probability to get detected and the risk with corrupt actions is considered low.⁴⁸

3.4 Purchasing ethics

Definition: "Ethics is concerned with the moral principles and values which govern our beliefs, actions and decisions"⁴⁹. The ethics within the purchasing organization is extremely important since they are the one who are in contact with the suppliers and are thereby represents the organization. A sound ethical conduct is of great importance to be able to build long term relationships and since people who is working in purchasing units often are the one who is exposed and under temptation of taking bribes, makes it even more important of a sound ethical conduct. There is very hard to say how a person will react to an ethical dilemma. According to Lysons it depends on many factors, this is a list of the most importance ones from this study aspect/object:

- Family and cultural influence
- Religious or humanistic values
- The behaviour of superiors
- The behaviour of peers
- The behaviour of co-workers
- Norms and values of society⁵⁰

3.5 Risk of unethical behaviour

Byers who practise unethical behaviour subject themselves and their firm to increased risk. There are three categories of risks: legal, personal and company risk. A buyer who makes an illegal act is probably breaking the law as well and risks a penalty defined by the law. At a minimum the buyer will lose his job. The next category is personal risk. One of the biggest assets for a buyer is his professional reputation. Sellers quickly get aware of buyers who are open to outside offers, and this reputation will be carried through his entire carrier. The third risk of unethical behaviour is the risk to the firm's reputation. A buyer who makes purchase decisions based on other than legitimate business reasons risks the entire firms reputation, because he represent them. A buyer's behaviour influences the opinions other firm's has about the buying company. Since the buyer has such a great position of power it is important that suppliers feel trust for him. After all he can jeopardize the livelihood of the suppliers. If they cannot trust the company they will not provide any extra effort to help, or develop any closer relation with them. Another typical effect of bribes is a deteriorated quality. A seller who must practice unethical sales tactics sales tactics probably does not have a product worth purchasing. It probably has poor quality, is illegal or produced with unethical methods.⁵¹

3.5.1 Professional code of ethics

The National Association of Purchasing Management (NAPM) is the largest association representing the purchasing profession. In 1959, they adopted its initial Standard of Conduct. The purpose was to establish the principles and standard of purchasing practise (the Code of Ethics), along with standards of ethics for buying and selling. The document serve as a guide for purchasers, and has three guiding principles for purchasing practice – loyalty to company,

⁴⁸ Quah, J (2006)

⁴⁹ Lysons, K (1996)

⁵⁰ Lysons, K (1996)

⁵¹ Monczka, Trent, Handfield (1998)

justice to those with whom buyer deals, and faith in the purchasing profession. From these principles NAPM derived its Code of Ethics.⁵²

ISM (Institute for Supply Management) has a similar but more modern code of ethics (from 2005):

1. Avoid the intent and appearance of unethical or compromising practice in relationships, actions and communications.
2. Demonstrate loyalty to the employer by diligently following the lawful instructions of the employer, using reasonable care and granted authority.
3. Avoid any personal business or professional activity that would create a conflict between personal interests and the interests of the employer.
4. Avoid soliciting or accepting money, loans, credits or preferential discounts and the acceptance of gifts, entertainment, favours or services from present or potential suppliers that might influence, or appear to influence, supply management decisions.
5. Handle confidential or proprietary information with due care and proper consideration of ethical and legal ramifications and governmental regulations.
6. Promote positive supplier relationships through courtesy and impartiality.
7. Avoid improper reciprocal agreements.
8. Know and obey the letter and spirit of laws applicable to supply management.
9. Encourage support for socially diverse practices.
10. Conduct supply management activities in accordance with national and international laws, customs and practices, your organization's policies and these ethical principles and standards of conduct.
11. Develop and maintain professional competence.
12. Enhance the stature of the supply management profession.⁵³

3.6 The organization

The idée with a separate and professional purchasing unit is, according to Gadde & Håkansson, to make it more profitable and rational⁵⁴. The structure of the organization is determined by the strategy. There are a number of factors that influence the structure of the purchasing organizations such as need for integrated decision making related to supply chain activities, the importance of coordination and communication, what to be purchased and what to be produced etc⁵⁵.

A purchasing organization can be analyzed by a centralized / decentralized perspective. The benefit of having a purchasing organization centralized is that it increases the bargaining power and a better overview of total stock for the whole organization. But centralized purchasing organization can also mean that the contact with each unit decreases. The benefits of having a decentralized purchasing organization are: the purchaser has a better knowledge about the unit, local suppliers, transport and transport conditions. It also allows the purchasing organization to react more quickly to changes because of shorter way of decisions and better

⁵² Monczka, Trent, Handfield (1998)

⁵³ Institute for supply management (2005) [Internet]

⁵⁴ Gadde, L E. & Håkansson, H. (1998)

⁵⁵ Lysons, K (1996)

knowledge about the local circumstances. An organizations structure should however be organized so it can meet the specific demands that this particular organization have. Due to the fact that each and every organization and its environment are unique it has to be structured according to given circumstances.⁵⁶

The result is often, however a compromise between centralized and decentralized for the purpose of gaining benefits from both structures. One example of doing this is to have a centralized purchasing staff and decentralized purchaser at each unit. This means that the organization will be operative decentralized and strategic centralized. If the raw material is critical for the production the purchasing should be decentralized and located close to the production unit and the manager of production.⁵⁷ This is the case in timber procurement and sawmills production and therefore it should be taken into considerations when planning the structure of organizations.

It is important that each role within the purchasing organizations is clearly defined and described. If its not, the purchase is likely to be inefficient and there is a risk of sub optimization.⁵⁸

3.6.1 To whom does purchasing report?

The reporting level to which purchasing reports indicates a great deal about the importance of purchasing. The more important a function is, the higher it's reporting level becomes. When purchasing reports directly to the president this indicates it is a critical function. A clear trend during the last 25 years is that the level of executive to whom purchasing reports has increased. This shows the growing importance of purchase within a firm. The lower in the organization structure that purchasing is placed, the less influence it can have on the firm-strategy⁵⁹.

3.6.2 Placement of purchasing authority

The placement of purchasing authority shows how an organization structures its decision-making authority. The focus is usual whether it should be a centralized or decentralized function. Of course the physical nature of the task is important for how to decide authority. If the headquarter must approve a decision, then the firm maintain a centralised authority. If purchasing authority for different levels of decision exists at the divisional then a firm has various levels of decision-making authority.

Most firms today use a combination of centralized and decentralized purchasing authority depending on the task. Certain tasks might be centralized and other decentralized. For instance evaluation of supplier may be centralized while the local buyers have the authority to order from them. Another example that is very usual is that firms might centralize the authority for capital investments over a specified cash amount while allowing decentralized authority to do purchases for lower amounts. Each firm has its own reasons for how it structures its purchasing and decision making process⁶⁰.

⁵⁶ Farmer, D & Jessop, D (2005)

⁵⁷ Gadde, L E. & Håkansson, H (1998)

⁵⁸ Gadde, L E. & Håkansson, H (1998)

⁵⁹ Monczka, Trent, Handfield (1998)

⁶⁰ Monczka, Trent, Handfield (1998)

3.6.3 How to control and audit the purchasing function

The purchasing management audit serves four main purposes. The first one is to control if the purchasing policies that are laid down by senior management are adhered to. The second one is to ensure that the organization is using desired modern and correct techniques, procedures methods. Third one is to control and measure the extent to which resources are used effectively. The fourth and last purpose of purchasing management audit is to prevent and detect fraud and malpractice.⁶¹

3.7 Payment

Normally, a term of credits is allowed so that the buyer can control that the product is correct and in order to handle all the paperwork that are followed by a delivery. The term of credit is positive for the buyer's cash-flow but is done at the expense of the suppliers. The buyer can improve its cash-flow even more by stretching the terms of credit beyond the agreement.⁶² From an ethical aspect this is not defensible. Kenneth Lysons highlight the importance of paying invoices in time, ensuring that both finance and purchasing department are aware of the policies.⁶³

3.8 Supporting ethical behaviour

A firm can take many actions to make sure its employees conduct business in an ethical manner. The following summarizes the actions a firm can take to increase the probability of ethical behaviour of its purchasing personnel⁶⁴.

3.8.1 Develop a statement of ethics

Most research on purchasing ethics concludes that adopting a formal ethics policy helps to define and deter personnel from unethical purchasing. It sets the boundaries of ethical behaviour. The presence of a formal policy provides the foundation, from which the firm can evaluate the behaviour⁶⁵.

3.8.2 Top management commitment

Executive manager sets the ethical code of behaviour within a firm. Not always through the Code of Ethics but through their behaviour, which sends signals about what is tolerated and what is not. Lower levels of manager quickly recognize the top management's commitment of ethical behaviour and imitate. Studies made show:

“Without top management support for ethical behaviour, the probability of ethical behaviour throughout the organization decreases”⁶⁶.

3.8.3 Closer buyer-seller relationships

Dealing with a smaller base of suppliers will probably be the most powerful tool for ethical behaviour. Firms are also increasingly using buying teams to evaluate potential supplier which limits the opportunity for unethical behaviour. A reduced supply base presents fewer opportunities to practise unethical behaviour for the buyers. Also the amount of contracts and bids effect the opportunity. Now a day it's more common with closer buyer-seller

⁶¹ Lysons, K (1996)

⁶² Farmer, D & Jessop, D (2005)

⁶³ Lysons, K (1996)

⁶⁴ Monczka, Trent, Handfield (1998)

⁶⁵ Monczka, Trent, Handfield (1998)

⁶⁶ Monczka, Trent, Handfield (1998)

relationships which don't demand re bidding. The price is usual set through joint cost-based information sharing between a buyer and seller⁶⁷.

3.8.4 Ethical training and education

New buyers usually enter a training program before actually starting their real work. One part of the education deals with purchasing ethics, and how to deal with it. The training reinforces a firm's commitment to a high ethical standard⁶⁸.

There are lots of benefits of having the purchasing staff in an ethical training session. This kind of training reinforces the organizations ethical codes and policies. It also reminds the persons who are working with purchase that the top management expects them to consider ethical issues in making purchasing decisions. It will clarify what is and what is not acceptable within their organization. This type of training can include⁶⁹:

- Factors to be considered when receiving a gift
- The field of ethics
- The feasibility of ethical business
- What are the possible penalties for unethical behaviour
- What a person should do if he discover that a colleagues, superior or any other co-workers are acting contrary to the company ethical code

3.8.5 Internal reporting of unethical behaviour

Executive manager should create an atmosphere that supports the reporting of unethical behaviour. A buyer should be able to approach management about an ethical impropriety with confidence that manager will correct the problem.

Management must also deal with their personnel. A firm should encourage suppliers to report instances of unethical behaviour by anyone within the firm. This practice notifies suppliers that a buying firm commits itself to ethical business. It also gives signals to the buyers that management will not tolerate certain types of behaviour⁷⁰.

3.9 A purchasing manual

In an organization where the raw material represents a large part of total cost it could be a reason to have a mutual purchasing strategy. The strategy should support and guide the purchasing unit and the people working within it. Once the organization has established the strategy it must be concretized to fit the operative level in order to guide the people in the purchasing unit in concrete situations. These guidelines should contain information about prioritizations, time limits, restrictions, responsibility etc.⁷¹

A way of making strategy more understandable and useful for people within the purchasing unit and in order to optimize the purchase and minimize the risk is to create a purchasing handbook. According to Gadde & Håkansson, a purchasing handbook should contain:

- responsibilities
- supplier market
- rules of deals/contract
- evaluation of the offer

⁶⁷ Monczka, Trent, Handfield (1998)

⁶⁸ Monczka, Trent, Handfield (1998)

⁶⁹ Lysons, K (1996)

⁷⁰ Monczka, Trent, Handfield (1998)

⁷¹ Skoog, U & Wiklund, C (2001)

- order
- order acknowledgment
- condoling of the order and the delivery⁷²

Kenneth Lysons take this one step further and suggest that organizations should create purchasing manuals. He means that this is a way of communicate information regarding policies, procedures, instructions and regulations. Policies can be either general or consequential. The difference between those two is that general policies state in broad terms the object and responsibility of the purchasing function while the consequential policies state more exactly how these general policies can, and should be, applied in specific activities and situations. Procedures prescribes the sequence of the action by which policies are implemented, this could be for example receipt of bought out goods. Instructions should work as guidance for those who are responsible for carrying out the policies or procedures, for example the number of copies order that are required and their distribution. Regulations include information and detailed rules regarding the conduct of purchasing. This should guide the staff within the purchasing organization in the various situations that can occur. This could for example clarify rules concerning the receipt of gifts from suppliers.⁷³

The advantages of using a purchasing manual are many. For example, when preparing a purchasing manual it provides a great opportunity for people both within the purchasing organization and other departments look critically at the existing policies, rules and procedures. The idea is to, when necessary, change them in order to improve the organizations purchasing activity. Using a purchasing manual is also a good way of guiding the staff and useful aid in training them as well as coordinate policies and procedures. A purchasing manual can work as a reference against which such principles and practice can be evaluated. Finally and last purchasing manual can help the annual audit.⁷⁴

The disadvantages with purchasing manuals are: they are costly to prepare, a manual results in a more bureaucracy organization and purchasing procedure and tend to stifle initiatives. Since the conditions for purchasing is continually changing the policies and especially the procedures most change with them and the manual must be updated continually.⁷⁵

A purchasing manual may be divided into three main sections dealing with organization, policy and procedures. The organization part should contain:

- Information about how the purchasing unit is organized, both centrally and locally
- Information about job description for all of those who are involved in purchasing including limitations of authority to commit the undertaken.⁷⁶

The policy section should contain:

- Statement of policy setting out the objectives, responsibilities and authority of the purchasing function
- Statement of general principles relating to price, quality, etc.
- Terms and condition of purchasing
- Reports to management
- Relationships with suppliers, including rules regarding gifts from suppliers⁷⁷

⁷² Gadde, L E & Håkansson, H (1998)

⁷³ Lysons, K (1996)

⁷⁴ Lysons, K (1996)

⁷⁵ Lysons, K (1996)

⁷⁶ Lysons, K (1996)

The procedures section should contain:

- A description and flowcharts of procedures relating to requisitioning, ordering, receiving, inspecting, storing and payment for goods
- Rules and procedures relating rejections of goods
- Illustrations of all documents used within purchasing activities and a description about their use and circulation
- Reference to purchase records and their maintenance⁷⁸

Once the manual is designed and finished it should be sent to the board of directors, the chief executive of the undertaking, heads of department with whom purchasing has functional contacts and members of purchasing staff both centrally and locally.⁷⁹

According Farmer and Jessop there is no single best practice for purchasing especially not the way the organization should be structured. Best practice is affected by the fact that the environment is constantly changing and there by the organization must change as well. Changes and improvement can be suggested but not a single best practice.⁸⁰ The purchasing unit should be organized by given directives and current routines in order to achieve as high efficiency for purchasing as possible. Since every purchase is unique a successful purchasing unit requires active co workers⁸¹.

3.10 FSC certification

3.10.1 What is FSC?

The Forest Stewardship Council (FSC) is an international organisation that promotes responsible management of the world's forests. Over 84 million hectares in 82 countries have been certified the last 12 years they have been active.

Through a consultative process it sets international standards for responsible forest management. It accredits independent third party organizations that can certify forest managers and forest products producers to their standard. The brand allows consumers to recognize organisations (and products) who takes responsible for their forest management.

There are two types of FSC certificates available: Forest Management (FM) Certificate and Chain of Custody (CoC) Certificate⁸².

3.10.2 Forest management certificate

Forest management certification involves an inspection to check the forest management by an independent FSC accredited organisation. Every country has their own possibilities and conditions, which together with FSC's internationally agreed principles for responsible forest management, determine the national standard.

If the forest complies with FSC-standards, then the FSC accredited certification body issues a certificate for the operation. Certified forest operations can claim the forest products they produce come from a responsibly managed forest⁸³.

⁷⁷ Lysons, K (1996)

⁷⁸ Lysons, K (1996)

⁷⁹ Lysons, K (1996)

⁸⁰ Farmer, D & Jessop, D (2005)

⁸¹ Gadde, L E & Håkansson, H (1998)

⁸² FSC - Forest Stewardship Council (2003) [Internet]

⁸³ FSC - Forest Stewardship Council (2003) [Internet]

3.10.3 Chain of custody

Chain of custody certification provides a guarantee about the production of FSC-certified products. Chain-of-custody is the path taken by raw materials from the forest to the consumer.

From a customer perspective the FSC label represent a responsible forestry, and chain of custody standards are the mechanism to control and assure the purchase is correct made.

Operations that have been independently verified for FSC chain of custody certification have the right to label their products with the FSC logotype⁸⁴.

3.10.4 What demands for responsible purchase?

A company that has decided to start making responsible purchase needs to acquire all parts of a program for responsible purchase, to be able to create their own program according to their possibilities.

The most important parts of a program for responsible purchase are:

- An analyse of which state the company is dealing with in the present situation
- Support from the management directors
- Formulate a policy for responsible purchase
- Communicate the policy and values to all important target groups
- A analyse of where the wood comes from, and how it agrees with the policy
- A decision of how the work shall carry on, which is described in a plan with measurable goals

According to this, in reality, you don't need a perfect system to get a Chain of custody Certificate. You need a plan and goals to strive against. The ultimate objective to strive against should be that all wood comes from FSC certificated forests, but it is not a demand yet. The demands are traceability of the source, the forest isn't illegally harvested or finance any armed conflict.⁸⁵

The FSC standard used by Swedwood is FSC-STD-30-010 (*FSC standard for forest managers supplying controlled wood*). On the operative level the standard requires companies to keep an up-to-date list of all incoming wood and record origin of the wood to country and district level.

High risk forest areas are identified and the source in question is verified as having been controlled either through independent verification by an FSC accredited certification body or through the company programme of verification, approved by an FSC accredited certification body⁸⁶.

⁸⁴ FSC - Forest Stewardship Council (2003) [Internet]

⁸⁵ Herbert, A & Dahl, L (2004)

⁸⁶ FSC - Forest Stewardship Council (2003) [Internet]

4 The empirical results

This section contains the empirical data we have collected. Each country is separately presented. The first part under each country contains general information about the country and forest industry. Then the result from our interviews and observations are presented. These observations are typically presented in terms of policies and directives, organisational maps, transparency, responsibility etc.

4.1 Empirical results Russia

4.1.2 Forest policy

Russia has a new forestry code from 2007. From an investor's point of view, the major interest is focused on ownership, rights and permissions for logging and what kind of responsibilities will be given to the forest users. In the new forest code Forest management has been decentralized from a Federal to a Regional level. The forest code also allows privatisation of forests. In many ways it is focused on direct stimulation of industrial exploration and expanded forest use. Notably absent are the obligations related to biodiversity protection or solving social issues. Limitations on logging in protected forests have been greatly reduced, and existing protected areas have either been abolished or degraded to a lower level of protection by the re-classification of forest types. There are still regulations guaranteeing citizen's to harvest wild fruit, berries, nuts, mushrooms and other products from the forest⁸⁷.

4.1.3 Ownership

In Russia the state owns all forest, and to harvest the forest you need to rent the land. It is an old system from the Tsar's time which has survived the Soviet period. Canada has a similar system. The rent gives you the right to clear cut a certain volume. The annual allowing cut represents the growth of forest. The State forest department "Les Khoz" has the right and duty to do all the thinning⁸⁸. The state can lease the forest for periods of 10 – 49 years⁸⁹.

4.1.4 Species and volume

Russia has about one fifth (22 %) of the world's forests, and almost one fourth of the world's wood stock. You can find 85 millions hectares of forest in the European part of Russia, mostly boreal forest with conifers like pine, spruce and larch. The annual cut is almost 125 million cubic meters. According to calculations the annual cut could have been 550 million cubic meters, but only 1/3 of this is cut⁹⁰.

Almost 80 % of the timber is located in the Siberia, but the biggest demand is in the western part. If Russians had the ambition they would have been a major player in the global timber trade⁹¹. Exports of softwood logs, lumber and hardwood plywood are increasing to China, Japan and Finland as the major destinations. The continued growth of the Russian economy also leads to an expansion in domestic demands for wood and wood products. This need primarily comes from the furniture, construction and pulp sector. The output of softwood logs and softwood are expected to increase by 7 and 10 percent in 2007 and 2008, and the total export of forest products in 2006 are estimated at a record with a value of 6.6 \$ billion⁹².

⁸⁷ Taiga Rescue Network (2007) [Internet]

⁸⁸ Nordberg, M (2007) [Oral]

⁸⁹ Taiga Rescue Network (2007) [Internet]

⁹⁰ Wilhelmsson, Erik (2005) [Oral]

⁹¹ United States Department of Agriculture (2007)

⁹² IHB (2007)

4.1.5 Market conditions

Because of the big political issue it has become, we have chosen to add a part where we explain about illegal timber in Russia. The term illegal comes from the definition in the Russian Criminal Code, where all kind of illegality is mentioned. According to NGO's (Non Governmental Organisations such as WWF and Greenpeace) and Federal forest agency of Russia 15-25 % of the timber is harvested illegally. It is a big uncertainty in these numbers and most probably they are too low⁹³. Other sources estimate the illegal timber to represent between 20 and 50 % of the total volume⁹⁴. The major amount of illegal timber is cut by fully legal big and medium sized forest companies, and only 5-7 % of the illegal timber comes from illegal cuttings. This is due to poor inventory of forests, poor practice of state forest management units who do not control the situation. They are supposed to measure the amount of timber before and after harvest, but normally don't⁹⁵. According to Kauko Parviainen, head of wood imports at Stora Enso, the problem is that the timber received by the buyer usually comes from the area agreed on, but that often more trees are cut the licence calls for⁹⁶.

Another problem is the society and the problem with corruption. Harvesting tickets can probably be bought illegally. The government must work harder to control harvesting, otherwise the system risks to become a paper tiger⁹⁷. Lars Hedman, scientist and specialist on FSC in Russia, has the same opinion⁹⁸. Even the Russian deputy minister for Industry and Energy admits that the Russian system of authenticating the origins of sawn timber does not work properly. He also admits that it is not the buyer's fault that more timber is cut than is authorised⁹⁹. FSC or other certification system itself cannot not for 100 % verify that the timber isn't illegal timber, but it increases the probability¹⁰⁰. The new Forest code is believed, as well as the decentralized governance, will foster an environment where illegal harvesting and trade will increase. This negative opinion is according to critical organizations¹⁰¹.

4.1.6 General information about the unit

This study includes one of the 3 units in Russia, the one in Tikhvin. The sawmill was built in 2002 and is Swedwoods biggest unit in Russia so far. It was meant to produce 50 000 cubic meters, but today it uses about 175 000 cubic meters of logs. Swedwood has also built a glue board factory, which delivers to the furniture factory on the site. It's a big industry and the company has 1300 employed in Tikhvin. The rest products are sold to a German briquette factory close to the factory.

⁹³ Ptichnikow, A (2007) [E-mail]

⁹⁴ United States Department of Agriculture (2007)

⁹⁵ Ptichnikow, A (2007) [E-mail]

⁹⁶ Sanomat, H (2007)

⁹⁷ Villen, P (2007) [Oral]

⁹⁸ Hedman, L (2007) [Oral]

⁹⁹ Sanomat, H (2007)

¹⁰⁰ Ptichnikow, A (2007) [E-mail]

¹⁰¹ Taiga Rescue Network (2007) [Internet]

4.1.7 Organization map

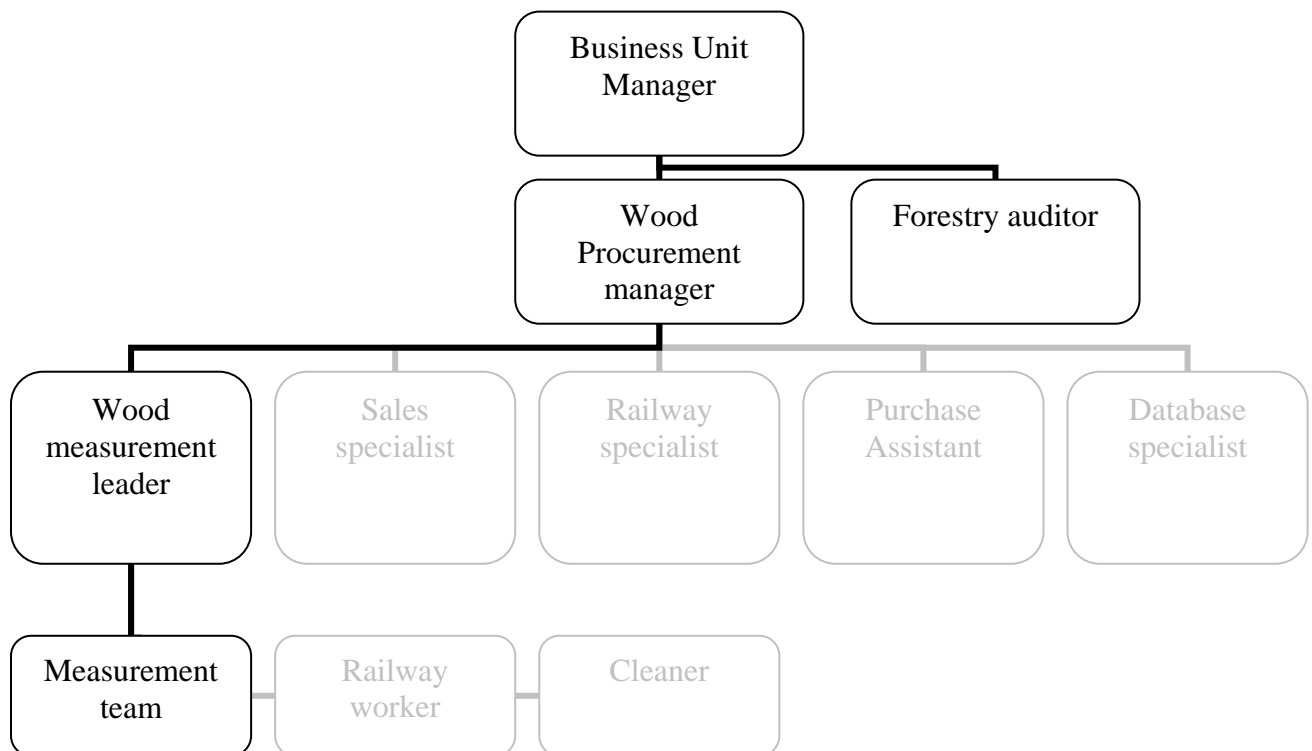


Fig. 1. Organisation map of the purchase organisation in Tikhvin.

4.1.8 Policies and directives

The wood procurement manager (WPM) in Tikhvin has not been informed about any policies or directives regarding ethical behaviour. They work according to state rules, company rules, chain of custody, and Ikeas harvesting demands. The company rules declare clearly that no misuse of their position is accepted.

4.1.9 Purchasing process- roles and responsibilities

Document flow

Document flow for purchase of logs

1. The truck comes to the site. Guards check the way-bill, and the controls it is an approved supplier.
2. The truck is measured on the measurement bridge (more than 30 % of pulpwood = rejected). The data is registered in a database. The supplier gets one copy of the measurement. The truck is unloaded and a possible quality control is made.
3. Invoice comes from the supplier, based on the measurement.
4. The invoice is checked against the database by the measurement department, and if it's approved it is stamped and sent to the controller.
5. The controller checks it.
6. The invoice is signed and sent to account department.
7. The invoice is paid. Credit is time 7 days.

Improvement has been made and mostly the payment is made in time. Now a day all serious companies pay in time and therefore it is not a competitive advantage, it's a demand to become an attractive business partner.

Purchase roles and procurement activities

The forest auditor

He controls if the supplier fulfils the demands from FSC and Ikea.

Purchasing assistant

Helps the PM and prepares all contracts.

Sales specialist

Sells all pulpwood and other assortments they don't need from their own harvesting.

Wood measurement leader

She is responsible for organizing the measurement, and controlling quality

Railway specialist

Organizes all railway transportations. All pulpwood and assortments they don't need are sold on railway wagons. All long distance timber is also transported on the railway.

Wood procurement manager

Every year they make a consumption budget. The budget is normally up to 10 % then actual need because of incoming deliveries consists of pulp- and firewood. Then they work according to this budget and consumption plan. About 70-90 % of needed volume comes from old contracted suppliers, the rest are from new. The volume in the contract is decided in 1, 3 and 6 months. He makes a forecast and procures the needed volumes. He also keeps in contact with the suppliers. He is also responsible for the measurement team, railway transports, sales and log yard. In Russia the suppliers traditionally deliver the timber to the site. WP manager is responsible for the timber from when it comes through the gate, until it goes into sawmill or is sold.

Job descriptions

The WPM hasn't seen any kind of written job description. His responsibility is to make sure there is timber enough on the log yard for a reasonable price harvested according to Swedwood principles. Forest auditor hasn't got any description either. Before they had one, but after the reorganization this was not updated.

Supplier Selection

The total amount of suppliers differs from 15 to 30. There are two types of suppliers: harvesting companies and trading companies. They prefer to work with harvesting companies because it is easier to control their chain of custody. Before a new supplier can start to deliver he must be approved by Business unit manager (further BUM), WPM and Financial manager. After improvement the supplier got permission to enter through the gate. WPM has almost all contact with the suppliers and evaluates which ones are advantageous to have as a business partner. Mostly he finds new supplier through recommendations or contacts, and sometimes they contact him. They prefer to work with well known and serious companies they can trust.

Contracts and Legal authorisation

The contract are prepared and negotiated by WPM, but can only be signed by BUM. He approves and signs the contract, but WPM has most of the contacts with them. The contract specifies the rules about chain of custody, logs classification etc which always are stable. Price and volumes can be increased or decreased, depending on the situation. They always use the same contract for all suppliers.

Pricing setting

The price is set through a discussion between the WPM and the BUM. The BUM makes a forecast and proposes a price, but cannot take the decision himself. It is the same price for all

suppliers, and highly depends on the season. Sometimes it could change every week and sometimes only once a month depending on how turbulent the market is.

Auditing the supplier

The forest auditor controls the supplier. He investigates if they fulfil the contract. He visits them in field, and controls harvesting tickets and way-bills in the office. The way-bill is filled in by the truck driver. To know where they are he announces them before he comes. New suppliers must be visited within the first 30 days and older once a year. According to the Forest auditor the biggest problems are how they store fuel and handle waste. If there are problems with needed permissions they prepare an act and make a later control to see if they have improved. The system allows them to control 100 % of the wood bought.

The trader's sub-suppliers are also visited. 70 % of the volume comes from traders, which normally got 2-4 sub-suppliers. They demand they work is carried out according to FSC and the demands from IKEA. They need to show harvesting ticket when they sign contract and when they are visited in field. A big problem is Les Khoz (State Forest) who doesn't control the harvesting enough, and don't deliver harvesting ticket in time.

Measurement

They measure the volume, and normally make a 2 % depart for pulpwood. In reality the amount of pulpwood is 6-9 % of the volume. These data comes from the sawmill scanner which gives them high reliability. According to WPM they are aware of the problem and always buys 10 % extra volume every month, to compensate the lost.

According to WPM, the box measurement method gives 10 % to less volume.

4.1.10 Transparency and auditing of activities

WPMs superior is the BUM. His organizational role includes controlling the WPM. According to WPM he works very independent. According to BUM you have to trust your co-workers and you cannot work without them. They haven't got any real system to control people but they believe that if someone misbehaves they believe they will find out about it sooner or later. WPM reports price and volume to sawmill controller, since they owns the logs. The sold pulp he reports to the forest controller and the pulpwood belongs to them and should therefore reflect their results. To control the measurement department they use the sawmill scanner, which indicates improvements need to be carried through. There is no regular or random auditing of their work.

4.2 Empirical results Latvia

4.2.1 Forest policy

The Latvian Forest Policy, approved by the Cabinet of Ministers in April 1998, has the main aim to ensure sustainable management of forest and forest land. The other objects are: to ensure that the forest area will not decrease, to ensure sustainable development and profitability in the forest sector, fulfilling ecological and social commitments, to preserve and maintain the present level of biological diversity and to balance the interest of both public and private forest owners. The state has four basic functions in the forest sector: regulation, supervision, ownership and support¹⁰².

¹⁰² Latvian Industry Federation (2006)

4.2.3 Ownership

45% of the total land area in Latvia is covered by forest. The structure of the forest ownership underwent major changes following the restoration of independent statehood in 1990. The land reform was carried through and properties were redistributed to former land owners. At the beginning of 2006 the state managed 53 % (1.48 million hectares) of the total forest area. 45 % belongs to other owners such as private parties, companies etc. The rest, 2 %, is owned by community. Over the last 70 years both the forest area and the stock has increased in Latvia. The forest area has increased by 1.7 times and the stock by 3.3 times.¹⁰³

4.2.4 Species and volumes

The dominating tree species in Latvia is conifers, they represent 59% of the total standing volume in Latvia. The main conifer species is Pine (*Pinus Radiata*) and Spruce (*Picea Abies*). The total volume of spruce in Latvia is 245.5 million m³ and the volume of pine is 87.3 million m³. The most common species among broad leaves is birch (158.4 million m³) followed by Grey alder (31.3 million m³) and Aspen (24.2 million m³).

Between 11-12 million m³ of wood are harvested in Latvia each year. In 2005 the harvested volume from private owners was 6.49 million m³, and from the state 4.80 million m³. There is a big difference between state owned forest and forest that is owned by private owners in how regeneration of forest is made. In state owned forest 69 % were artificially regenerated while forest belonging to private owners only 18 % was regenerated artificially. The rest was naturally regenerated.¹⁰⁴

4.2.5 Market conditions

The state sells timber in three ways. By long term leasing, auctions on stands or delivered directly to the sawmill. They make 3 years contract where volume is fixed and price is changed within every 6 month period.

When the Soviet Union was dissolved many Nordic, but also German and Scottish, forestry companies invested in the country. During the second part of the last decade lots of sawmills were built and today the capacity widely exceeds the harvesting capacity. The country needs to import logs to supply the industry, and this will probably increase in the future. The conditions are the same for Swedwood, which will need imported volumes in the future.

4.2.6 General information about the unit

In Incukalns Swedwood runs a pine sawmill and glue board factory. It produces glue board for Swedwoods furniture factories. Last year the sawmill used 300 000 cubic meters of logs, and this year they will according to the budget saw 360 000 cubic meters.

After the dissolution of the Soviet union in 1991, when the state still owned all the forest and didn't know what to do with it Incukalns Timber (IT) was created. It was easy to get long term supplying contracts and they were guaranteed 45 000 cubic meters every year. Later the sawmill was bought by Swedwood (owns 50 %) and Incukalns Timber (50 %).

The main focus for IT was redefined and they are now a harvesting company, selling pine to Swedwood and spruce to a German company, which also has a sawmill on the site. IT are

¹⁰³ Latvian Industry Federation (2006)

¹⁰⁴ Latvian Industry Federation (2006)

responsible for the property where they are located, the log yard (also log sorting) and measurement, to buy stands, the forestry leasing, harvesting activities and security on the site. IT has divided the country in six harvesting districts. For each district there is one forest manager. They own 2 forwarder, 3 trucks and will invest in a harvester. IT has divided the country in six harvesting districts. For each district there is one forest manager. They own 2 forwarder, 3 trucks and will invest in a harvester.

4.2.7 Organization map

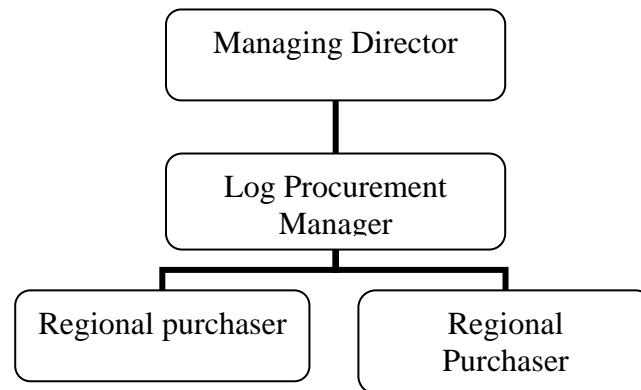


Fig. 2. Organisation map of the purchase organisation in Incukalns.

4.2.8 Policy's and directives

They have a routine document that shows how the document flow should work. There is also a business plan with a strategy of how they should work with every supplier group. The routine for payment is new, and derives from an internal revision that was made in the beginning of 2007. It specifies signing authorities and rights to approve invoices. According to the document a special purchase policy will be developed by Managing director (further MD). Now they follow Ikeas general guidelines, regarding illegal timber and corruption.

4.2.9 Purchase roles and responsibilities

Document flows

The document flow for wood purchase

1. The truck comes into the site and is registered. The truck driver signs that he has entered.
2. The truck is unloaded and measured directly.
3. Measurement report is send to supplier and purchaser.
4. Invoice comes based on the measurement.
5. The invoice is sent further to counters in the economic department together with a copy of the measurement report. It is approved by Measurer / Regional purchaser (further RP) and LPM. Normal credit time is 7 days.

Purchase roles and activities

Log Procurement manager

Log Procurement Manager (further LPM) works with the state, IT, harvesting companies and local private supplier. He is also responsible for organising the import from Russia and Lithuania, representing 5 % of the volume. The harvesting companies deliver 1/5 of the pine

logs, from about 25 suppliers. The state delivers about 35 %, and IT 20 % of needed volume. The rest is bought by Regional purchaser from private forest owners.

Regional purchaser

They work in two regions, one north and one south of the industry. They work through a network to find roadside logs from private owners, and spend most of their time in the field. Because of the small volumes every deal gives they have over 100 suppliers. Their work gives 1/5 of the volume needed.

Job descriptions

No formal job description.

Supplier Selection

LPM has almost all contact with the suppliers and evaluates which are advantageous to have as business partners.

Contracts and Legal authorisation

The Procurement manager has the right to sign all contracts for purchase of logs and contracts for transportation of logs, under 200 000 LVL. For contracts over 200 000 or longer than 3 months he needs MD signature. The contracts from the state auction are signed both by LPM and MD. All contracts are supposed to be saved in a database, called SLIP.

Price setting

The price of the state owned forest they have a leasing contract on has this year been decided by the state, and impossible to affect. On the state auctions LPM needs to agree with MD before taking part on the highest bidding price.

The company's pricelist is decided together with the manager. This list is usually based on the lists of competitors. Change is made in 1-6 months intervals, and MD signs it.

They pay extra for long distance logs, because of the extra transport cost. This price is decided and controlled by LPM.

Auditing the supplier

Every stand demands a cutting ticket. All owners have made an inventory, which the cutting tickets data is based on. On the inventory map you can see which stands are allowed to cut. On the invoice the harvesting ticket and stand is specified and it is easy to control. In Latvia illegal cutting are normally no problem. All supplier signs paper and admits to harvest according to FSC rules. Sometimes they check harvesting ticket but normally don't. The state service controls the cuttings, and it is considered a low risk country. The State forest is FSC certified.

Measurement

Swedwood only pays according to the measurement on the sorting line, made by IT. They have a scanner open 24 hours a day. Every log is saved in a database, and the scanner is controlled by VMF-Latvia. The measuring worker makes a judgement of which logs to reject, which then becomes pulpwood instead. They cannot control if they put on extra logs to measure them twice.

Incukalns Timber

The 6 forest managers look for stands offered on the market. Then he goes to see it and describes it in a excel file. The program counts out how much you can pay for it. If he wants to bid a higher price (only on big stands) he needs approval from Director of board.

When the stand is finished they do after calculations. These are important for controlling how well the calculation was made by the forest manager. On bigger stands a second Forest manager is send to control the first. The Forest manager then arranges the harvesting and sells the other assortments.

The Director of board needs to approve every contract, to avoid pressure from corruption. He believes his organisation is more or less under this pressure. There are two main problems of this kind in IT. The first is stealing logs from the roadside. The second possibility is if the Forest manager calculates some extra volume in return for compensation. A bad measurement is easy to control afterwards.

4.2.10 Transparency and auditing of activities

The log procurement manager supervisor is the MD. He is supposed to control him, but he works very independent. You have to trust your co-worker and you cannot work without them. They haven't got any real system to control people but they believe that if someone misbehaves they will find out about it sooner or later. There is no regular auditing of their work.

4.3 Empirical results Poland

4.3.1 Forest policy

A new forest policy was approved by the Parliament in 1996. This policy declares that in 2015 the state forest will own 7 470 000 ha (76 %); the community 120 000 ha (1 %); private 2 104 000 ha (21%); private groups 70 000 ha (0.7 %); private business 100 000 ha (1.0 %); and others 16 000 ha (0.2). Totally Poland would have of 9.8 million hectares of forest.

In 1995 The National Forestation Programme was adopted by the government. The object of this program was to increase the present forest cover from 28 % to 30 % by the year 2020. This means the forest area will increase with nearly 700 000 ha.

The management of the state owned forest is performed by State Forest Enterprise. The country is divided in 17 regions; every region is then divided into 12-30 districts. Every district is then divided into sub-district, the average sub-district is between 18 000- 20 000 ha. Forest managing in each district is pursued in accordance with 10-years management plan. All forests that are managed by the state are FSC-certified.¹⁰⁵

4.3.2 Ownership

The state is the biggest forest owner in Poland today. It owns about 7.1 millions ha which is 82 % of the total forest in Poland. Other owners are: private owners (16 %), cooperative farms (0.3 %), community (0.9 %) and private groups (0.9 %). Most of the private forest is located in the southern part of Poland. There is also a substantial difference between the average state forest and the average private forest. The average age in state forest is 55 years and have an

¹⁰⁵ The state forest information center, *Forest in Poland*, 2006

annual increment of 3.6 m³/year and ha. The average age in private forest is 37 years and has an annual increment of 2.7 m³/year and ha.¹⁰⁶

4.3.3 Species and volumes

Forest covers 8.6 million ha, about 28 % of Poland total territory. It is dominated by coniferous; mainly Scottish Pine (*Pinus Sylvestris*) although spruce is the dominating specie in the mountains. Conifers cover 75.6 % of the forest area. In 1993 the average stand had a volume of 172 m³/ha. Presently only 61 % of the forest increment is harvested. The total logs volume from final harvest in Poland was in 2005 26.7 millions m³.

The forest has to be reforested in 2 years after harvest. Artificial generation is the most common way of reforest. When using artificial regeneration they plant between 8000-10 000 plants/ha.¹⁰⁷

4.3.4 Different ways of purchasing timber in Poland

There are three possible way of purchasing timber on the domestic market in Poland.

1. State forest internet-auction
2. E-drewno
3. Purchasing from other sawmills

1. This auction is arranged by State forest once a year, in December, although it is more a kind of internet negotiation. At a State forest auction every Sate forest district presents a list over what volumes they will harvest. This is however not organised as a true auction since there are a mini- and maximum level for bids you are allowed to give. This results in an auction where two or more company can place the same bid at a specific volume at a specific district. There are therefore a number of factors/criteria that are put in to a grade-system to determine who will get the volume.

These criteria are:

- Price 40 %
- Payment history 40 %
- Valuation 20 %, which consists of
 - o For how long the company has been cooperating with State forest, purchasing timber in the same region as previously, purchasing the same volume as previous year (a sawmill is allowed to increase the purchased volume from State forest with 10 % /year), capacity of the sawmill and if the sawmill has a long-term agreement with State forest that guarantee them to get a certain volume each year.

A program summarize all these criteria's/factors and then randomly selects which company get what volume and from where. According to this it is not only the price that affects, it only affects 40 % of the evaluation, the payment history and valuation is important as well.

2. E-drewno is also arranged by State forest. This kind of internet-auction takes place more than once. The wood that are for sale here are timber that they call "accidental wood", for example wood that comes from snow-damaged areas, storm-damaged or timber that other sawmills have bought in the yearly auction but haven't paid for. The difference from the other state forest auction is that in here it is only the price that matters; the highest bid gets the volume.

¹⁰⁶ The state forest information center, *Forest in Poland*, 2006

¹⁰⁷ The state forest information center, *Forest in Poland*, 2006

3. Purchasing from other sawmill is also a way of procure timber. Sawmills that have bought too much timer compared to their capacity can sell it to other companies.

4.3.5 General info about Stepnica and Chociwel.

These sawmills are located in the western part of Poland. These two sawmill together have a total need of 270 000 – 280 000 m³ of logs each year. Most of the timber is today bought from the State forests; the rest is imported from Germany.

They have a long-term agreement with State forest that guarantee them to 180 000 m³ each.

4.3.6 Organization map

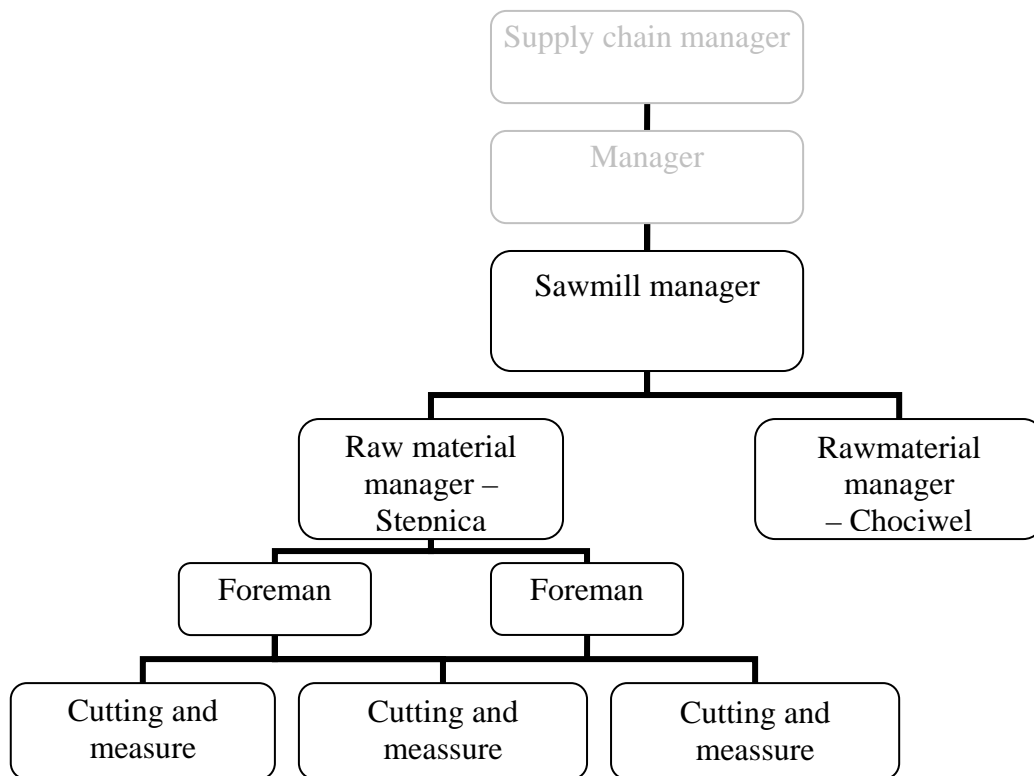


Fig. 3. Organisation map of the purchase organisation in Stepnica.

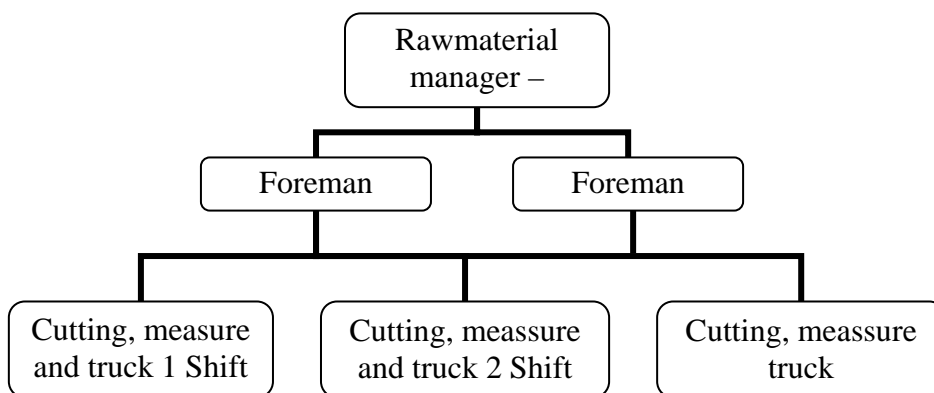


Fig. 4. Organisation map of the purchase organisation in Chociwel.

4.3.7 Policy's and directives

According to the Raw material manager (further RMM) in Chociwel there is a manual regarding purchasing. It contains information about wood-quality, how to detect failures in the log and, what to look for and what kind of quality that should be preferred. There is according to him, however, no guidelines regarding any general policies and areas of responsibility. The policies and rules that they have to follow are the policies that are included in FSC. The RMM in Stepnica is on the other hand not aware of any manual regarding purchasing or any other form of general guidelines or policies that should be followed.

4.3.10 Purchase roles and responsibilities

Document flow

Document flow chart from arrival of truck to payment

1. Logging truck arrives to site with list of logs (volume and stems)
2. Measurement (by scanner) and quality control (by RMM)
 - Not OK → Rejected and sent back to supplier
3. Measurement report sent to supplier
4. Invoice based on measurement report is sent by supplier to Swedwood
5. Invoice is signed by Raw material manager, and Sawmill manager (further SM) or Main account.

Sent account department and paid, terms of credit 30 days.

Purchase and procurement activities

Every year contract is signed with each State forest Region which are complemented with separate contract with each district. These contracts are valid for one year and include laws, harvested volumes and delivery schedules. The contract is prepared by the RMM but it is the SM who submits and signs the contract. It is then the RMM responsibility to take care of the internet auction the State forest arranges each year. The SM sets the price limit interval the RMM must follow. The RMM also has a monthly budget that he has to follow.

After contract is signed it is the PM task to procure and collect the timber. All timber that is bought from State forest is harvested by State forest and Swedwood buys the timber at road site. The RMM is responsible for auditing quality on incoming deliveries, controlling of measuring and the measuring-frame. He is also responsible for controlling whether the invoices that comes with each delivery is correct; that the stands that the timber comes from are the same stand they bought and that the volume is correct (the same volume on the invoice as measured with the scanner).

Since it is the Raw material managers responsible to control and check the quality on the deliveries he tries to control as many deliveries as possible. If there is a problem with the quality he contacts the forest manager and he is invited for a discussion regarding if there should be a rejection of the delivery or not. Most of the time the quality of deliveries are just measured roughly but on some delivery he is measuring every log.

If the invoice is ok it is sent to the finance department. Each single invoice has to be approved and signed by on superior. Sawmill Manger, Main Account or Financial Manager has the authority to sign. Term of credit is 30 days.

The RMM has to, each month, create documents that show how much timber he has bought, what quality and whether it is FSC-certified or not. He also has to present documents on which suppliers they have cooperated with and what price they've paid.

He is also responsible for arranging transports, and evaluating the transport companies. In Stepnica and Chociwel they have 12 transport companies. The most important factors concerning transport companies are price, equipment, service level and experience.

Job descriptions

According to the RMM in Chociwel he has a no separate written job description. There are however written in his contract what his duties are, what he are supposed to do and what kind of documents he is responsible for and to who each document/report should be sent. The RMM in Stepnica is, on the other hand, not aware of any written job description.

Supplier Selection

Since they buy all of their wood from State forest (except the imported and volumes bought from other sawmills) and since all harvesting teams are owned by State forest it is not possible to choose which one to cooperate with. They can however choose which transport company and other sawmills to cooperate with. It is the SM who decides and signs contract with these companies and it is he who handles all the contact with all the bigger supplier/transport companies and the sawmills they cooperate with. It is also he who is exclusively handling all the contact and negotiations regarding import i.e. the German companies.

It is the Raw material managers who prepare contracts with transporting companies although it has to be approved and signed by the SM. It is also the Raw material managers who are mainly in charge of evaluation of each supplier. The factors that are important when choosing and evaluating suppliers and the factors he has to present to the SM are price, quality and delivery reliance.

4.3.11 Transparency and auditing of activities

The Raw materials managers are audited by SM. The audit consists of controlling that the Raw material managers are purchasing timber according to the budget that is set by SM. There is however no audit regarding evaluation of suppliers except of the documents that Raw material managers presents to SM.

The operator who is doing the measuring and log-optimisation are audited by their Forman which in it turn are audited and controlled by the Raw material managers. The Raw material managers are also responsible for controlling the measuring frame so that it measuring correct.

The audit and controls that exist is not done systematically or on regular basis, nor is they compared and evaluated with previous audit.

4.3.12 General info about Wielbark sawmill

The sawmill in Wielbark has a total capacity of 250 000 m³/year, i.e. about 1000 m³/day. Since the sawmill recently was built and just have started to produce they haven't reached full capacity. They are, in spite of that, purchasing approximately 1000 m³ of timber each day since they have a long-term agreement with State forest for 250 000 m³/year. The volumes that they cannot put in their own production is transported to Swedwoods sawmills in Stepnica and Chociwel. They will hopefully reach full capacity next year and the regulations with Sate forest only allows them to increase the total procured volume with 10 %/year from State

forest. They are purchasing timber from about 35 districts. This means that the purchasing manager is dealing with 200-300 suppliers (one supplier from every sub-district).

4.3.13 Organization map

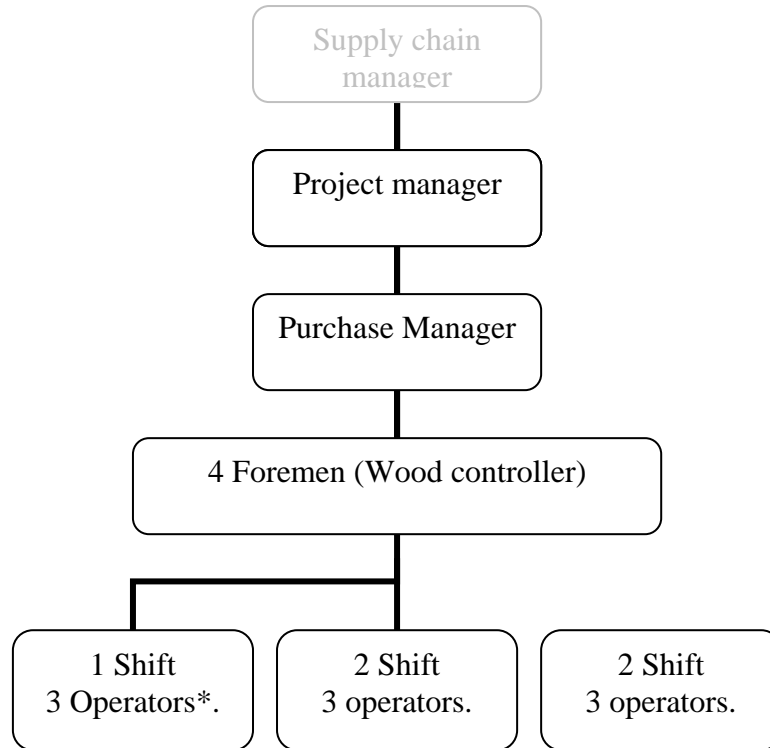


Fig. 5. Organization map of the purchase organisation in Wielbark.

4.3.14 Policy's and directives

The purchasing manager in Wielbark hasn't been informed about any policies and directive regarding purchase or/and ethical behaviour. According to him it is only common sense that guides him when it comes to what is accepted and what is not in his work. Nor has he been informed about what policies that should be followed for people that are working as a supplier to IKEA other than that they only are allowed to cooperate with companies and supplier that are FSC-certified. The persons working as foreman hasn't been informed about any policies. There are also no recommendation or rules regarding gifts or other offerings from suppliers and nor has he had any ethical training. The PM said during one of the interview that he had been offered gifts from a transport company that they where about to initiate cooperation with, although he hadn't accepted the gifts.

4.3.15 Purchasing process- roles and responsibilities

Document flow

Document flow for purchase of logs

1. Timber comes in with the truck + 2 similar lists of the logs, which the truck driver gets from the forester who has measured all the logs.
2. The timber specification is stamped and approved by foreman, the logs possibly measured. One copy of the list is stamped and sent back to the supplier.

3. The logs are registered in a database by foreman (quality, logs-ID, volume, source, supplier, transporting company, transport distance etc.)
4. An invoice is sent to Swedwood by each supplier and transport company
5. The invoice is checked against the database by foreman, and approved by PM.
6. A report is made for the main account. It contains the approved invoices from each supplier and transport.
7. The invoices are paid by the finance department.

Purchase and procurement activities

Every year contract is signed with each State forest Region which are complemented with separate contract to each district. These contracts are valid for one year and include laws, how much that should be harvested and when it should be delivered. It is the Project Manager (further PrM), Economic director and the Production manager who has the authority to sign these contracts although it is the Purchasing manager who is doing the negotiations and formulate the contract. The long-term contract with State forest is valid for 10 years and its sign by the Supply chain manager.

After contract is signed it is the Purchasing managers task to procure and collect the timber. All timber that is bought from State forest is harvested by State forest and Swedwood buys the timber at road site.

The Purchasing manager creates two different kind of documents which are sent to his superior; the PrM. The first one is a document showing how much timber he has bought this month, how much has gone in to their production and how much they have delivered to Stepnica and Chociwel. The other one is a document describes status of the stock at the end of each month.

Once the timber arrives at the site it is measured by a measuring-frame who is operated by wood-controllers. They control that the delivery has the right timber and volumes. As is showed above, payment is based on the list they get from the forest manager (State forest). It is, how ever, possible to control whether the measuring is done correctly since every log has its own ID-number.

The foremen organize the work and audit the shift workers. They register the invoices and transport invoices in the database.

Job descriptions

The Purchasing manager hasn't been given any kind of written job description. It is his responsibility to make sure that the sawmill has the volumes that they need and it is up to him to organise purchase in a way he believes is best. Although he do believes that a job description would help him in his daily work and it would have been a help and support when started working as a Purchasing manager since he had no previously experience of timber purchasing.

Nor has the persons working as foremen been given any written job description or guidelines for their work.

Supplier Selection

They are today working with approximately 15 suppliers. It varies but the typical number of trucks in each company lies between 1 and 7. The total amount of trucks working for the sawmill is around 40.

It is the Purchasing manager who chooses what transport company to cooperate with, although the contract has to be approved and signed by the PrM.

It is not necessary for the Purchasing manager to create any document that shows how the cooperation is working. Nor is it any written or unwritten rules how the evaluation of supplier should be done or what factors that should be evaluated.

Payment to a transport company is based on the transport distance, although they can however be compensated if they are for example flexible. This compensation is done by adding extra kilometre on the invoice. There are, however, no written rules or guidelines about what is needed to be performed by the transport company in order to be compensated and the level of compensation (except for loading on train wagons where it is an extra compensation of 10 km added on the invoice). The level of compensation is set by the Foreman and it is not needed any approval from superior for this.

4.3.16 Transparency and auditing of activities

The Purchasing manager is supposed to be controlled and audit by the PrM. According to PM Chociwel, he doesn't feel that this audit is enough or if it actually exists. And as he says " *if you are an unethical person and would like to take advantage of the system, this would be the perfect position*".

The operator who is doing the measuring and log-optimisation are audit by their Forman which in it turn are audit and controlled by the Purchasing manager. Most of the contact with the transport companies is handled by the Purchasing manager but also the Foreman's have some contact with those when it comes to checking the transport invoices.

The audit and controls that exist is not done systematically and on regular basis, nor is they book kept and compared and evaluated with the last audit.

4.4 Empirical results Slovakia

4.4.1 Forest policy

The Ministry of Agriculture of the Slovak Republic is the general organisation of administration of forestry. The Forest Section is responsible for carrying out the forest policy. The forest lands owned by stated is managed by National State Forest Enterprise, Forest and Agricultural Estate, and State forest of National parks.

There are plenty of laws regulating the management of the forest. The new act No. 326/2005 defines forest functions as benefits and a service to the society. It categories the forest functions into two basic categories; non-production and production ones. The non-production services are soil protection, water management and climate moderation. There are also social benefits like health and wellness, nature protection, biodiversity conservation, water purification and recreation. The production functions are of course primarily production of timber.¹⁰⁸

¹⁰⁸ National Forest Centre – Forest Research Institute Zvolen (2007)

The process of creation of National FSC standard had started in 2005.

4.4.2 Ownership

Of the 1.9 million hectares of forest in Slovakia the state owns 41.8 %, the community 24.9 %, the municipal 9.7 %, private owners 14.2 %, the church 3.4 % and the rest is other forms of ownership.

4.4.3 Species and volume

41 % of the forest land is covered by conifers, mostly spruce (26 %), pine (7 %), fir (4 %), larch (2 %) and dwarf pine (1 %). The rest of the forest consists of broadleaf. The most usual species are beech (31 %), oak (11 %) and hornbeam (6 %). Slovakia has a total stock of 438.9 million cubic meters of timber with a top diameter greater than 7 cm under bark. The average stock per hectare was in 2005 229 cubic meters. They annually cut almost 90 % of their growth¹⁰⁹.

4.4.4 General info about the unit

Swedwood has had running business activities in Slovakia for a long time. Here the long term goal with domestic management is fulfilled and the managers are Slovakian all the way to the top. They buy sawed spruce and produce glue board, which delivers to the furniture factory at the same site. Transports are normally arranged by the supplier.

4.4.5 Organization map

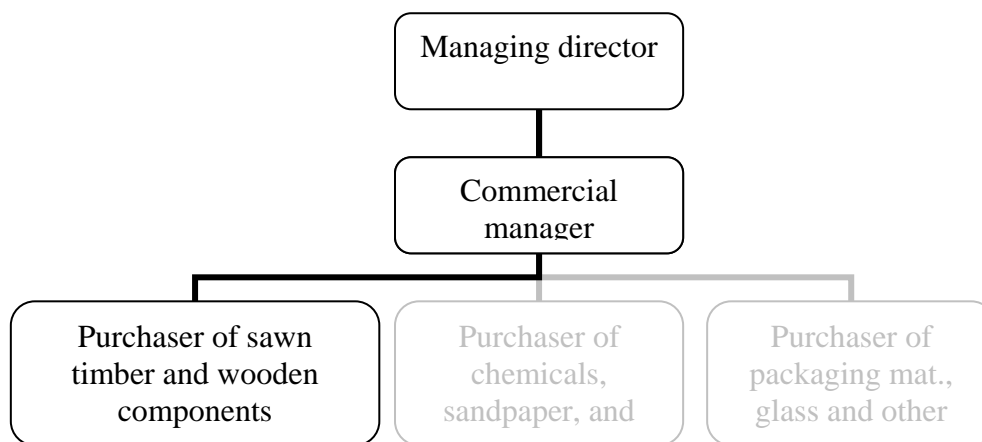


Fig. 6. Organisation map of the purchase organisation in Jasna.

4.4.6 Policy's and directives

According to Purchase manager in Jasna, guidelines exist regarding volume, price and stock level. There is as far as he knows no any written policies or directives that specify areas of responsibility. They work according to state rules, company rules and chain of custody. There is one the other hand written in their contract that they have to sign before they start working that they are not allowed to accept gives or money from their suppliers or future possible suppliers, although they are allowed to accept smaller gifts during special occasions such as a

¹⁰⁹ National Forest Centre – Forest Research Institute Zvolen (2007)

smaller Christmas gift. He hasn't got any education regarding purchase. They've got training in FSC certification and Chain of Custody.

4.4.7 Purchasing process- roles and responsibilities

Document flow for timber

(Contract is written, volume, price and delivery date are specified)

1. Truck comes to the guards. He got 3 copies of a delivery note.
 - The first one is leaved to the guard (so that production cannot manipulate it).
 - The second one goes to the unloading/incoming inspection.
 - The last one is signed and goes back to the supplier
2. The wood is measured by measurement specialists. This data is registered in a database, where every registration is signed digitally and it is easy to control who has made what.
3. The measurement report is sent back to the supplier, and is the base for his invoice.
4. The invoice comes from the supplier to a secretary. It is sent to the financial department which put it in to a database. Then it is sent back to purchaser, which checks and takes to the Commercial manager, and hopefully he approves.
5. Sent to main account, which has 30 days to pay the invoice. To the big supplier which have long-term agreement they pay in 10-14 days after delivery. For payments over 100 000 Skr need the MDs approval. All paid invoices are saved in the system.

Paying in time can sometimes be a problem. According to the financial department the problem is signature from manager and purchaser. They blame quality problems they need to handle with the supplier.

Purchase roles and procurement activities

Purchasing manager

The Purchasing manager main object/task is to purchase fresh spruce sawn timber and wood components. They have an annual production plan, which are based on orders from IKEA, are combined with a quarter based production plan.

The Purchasing manager is responsible for the stock and stock planning. He is also responsible for controlling each supplier's quality. Information about quality is reported from people in the production that are responsible for controlling incoming deliveries. Since the PM handles most of the contacts with suppliers it is he who is responsible for controlling that each delivery is delivered on time. The PM is responsible for creating quality reports and also evaluates each supplier.

Every month the Purchasing manger creates a document containing delivered volume, stock level, and production consumption. Every quarter he makes a report on how the coming quarter purchase will be. He also creates a purchase order each month for every suppliers containing how much they have delivery date, price and volume. This is however only for internal use.

Job descriptions

According to Purchasing manager a job description exists but he has never seen it. This job description written to suit all different countries and is therefore in general terms.

Supplier Selection

They are today working with 12-15 different sawmills, 2 trading companies and circus 10 different wood component suppliers. They have a long term agreement with every supplier. They are mainly working with larger sawmills. 20 % comes from State forest who has their own sawmills.

It is the Purchasing manager who is mainly doing the evaluation of existent and future possible suppliers to see which are advantageous to have as business partner. Before a new supplier can start delivering it has to be approved by the MD (see Contracts and Legal authorisation). The most important factors when choosing a supplier to cooperate with is quality and delivery security.

Contracts and Legal authorisation

The Purchaser manager handles most of the contact with the suppliers. Contracts with suppliers are prepared by the PM together with the Commercial manager although it is only the MD who has the authority to sign contracts. With every supplier they have an agreement for one year.

Pricing setting

The price of sawn wood is set in consultation with the suppliers, this negotiation is done by the Purchasing manager together with the Commercial manager. The price on sawn goods are mostly based the timber price. The reason why they can set the price based on price of timber is depends on two factors:

1. Good relationship with the suppliers and therefore a good insight in their business and what they pay for raw material.
2. State forest has pricelist for timber that are open to the public.

Given the price that their suppliers, i.e. sawmills, pays for raw material the Purchasing manager and the Commercial manager calculates what a reasonable price they can offer their supplier for saw timber. They estimate that the suppliers must have a profit of about 5 %. This calculated and recommended price must be approved by the MD.

Auditing the supplier

As described above it is the Purchasing managers responsibility to audit the suppliers. He is responsible for controlling that delivery is made in time and also for controlling quality. If there is a problem with quality from a certain supplier he either contacts them by phone or visits them in person. Contact with bigger suppliers is also done by the Commercial manager.

Measurement

The measuring is performed by staff working in the production. They measure every delivery and make sure it contains the right amount/volumes of pieces or components. They also do test samples where they measuring every piece in a delivery in order to control quality more exactly. They know which supplier they have to check more often due to the fact that they have lower quality but a cheaper price.

The person who is measuring the quality of each delivery is reporting to their boss, i.e. the Production manager, but also to the Purchasing manager. He says that if the measuring of quality is not done correct it will be detected later in the production and it is easy to trace back to who has done the quality check and which supplier who has delivered these planks or

components. This is possible since every piece is marked with a specific ID. There is a measuring frame on the line into the factory measuring volume.

4.4.8 Transparency and auditing of activities

They always tries to have a cross control within their unit. This means for example that the person who is measuring the quality is first reporting to his boss, the Production manager, and second to the Purchase manger. Since they are reporting to two different persons they are also audit by two. This also means that the persons who are doing the measuring of deliveries have less contact with the suppliers.

The Purchasing manager is audited both by the Commercial manager and the MD. The audit consist of comparing the documents that the Purchasing manager prepares with invoices from the finance department an also reports from the production of incoming deliveries. Since the Commercial director also handles some of the contact with their suppliers this is also a kind of audit.

4.5 Empirical results Ukraine

4.5.1 Ukrainian forest policy

The Forest Code in Ukraine was approved in 1994. The guidelines in forest management are: to increase the forest cover, to improve productivity and quality in the forest, to enhance nature-protective functions of forest and conserve biological diversity, to improve the resistance of forest ecosystem against climate change, to encourage the introduction of sustainable forest management, to intensify the state control in re forestation and forest agro melioration, and improve social protection of forestry workers. The forest performs valuable environmental functions, therefore their exploitation is restricted.

Historically Ukrainian lands belonged to different countries, which generated considerable distinctions between legal regulation and management. Over a century until 1917 the forest was private owned. During the first part of the communistic period the forest was badly managed and the regeneration put aside. In 1966 the government realized that forest potential reduced, and created Ministry of Forestry Management, responsible for all forestry.

Source: Ukrainian forest, State committee of forestry, Ukraine. Publishing House EKO-inform, 2004

Currently, the State Forest Committee of Ukraine consists of 25 regional management units, which in turn cover 244 state forest enterprises, 48 state hunting and 20 forest hunting enterprises, five natural reserves, and 15 wood industries, road building etc¹¹⁰.

4.5.2 Ownership

The total area of forest is 10.8 million hectares, which is 15.7 % of the Ukrainian territory¹¹¹. The Forest State Committee owns 66 %, and the Ministry of Agro-Industry 26 %¹¹².

¹¹⁰ Food and agriculture organization of the United Nations (2007)

¹¹¹ State committee of forestry (2004)

¹¹² Food and agriculture organization of the United Nations (2007)

4.5.3 Species and volume

The total stock is 1.8 billion cubic meter. Average wood stock is 185 cubic meters per hectare. The medium growth in forest managed by the state is four cubic meter per hectare. Coniferous forests occupy 42 % of the total territory, mostly Pine (*Pinus Sylvestris*). 43 % is covered by hardwood forests, of which 32 % is oak and beech forests¹¹³.

Massive felling during World War 2 and intensive planting after that has led to a prevalence of middle-aged plantations. The average age of Ukrainian forest is 51 years¹¹⁴.

4.5.4 Market conditions

According to the financial controller the Ukrainian State Forest, like many other governmental agencies, has found a way to milk the own authority. This is made by underestimating the quality in the forest and selling this underestimated timber to companies owned by their relatives. The private company can then easily sell this high quality timber to sawmills and the quality difference is for free. It is very difficult to control this system everyone all the way to the top approves to. The government tries to introduce timber auctions to earn more money and create a more open environment, and we will probably see more of this in the future. According to United Nations homepage “Ukrainian State Forest Protection Service” has been created to prevent illegal harvesting and timber trade¹¹⁵. Official figures shows that the volume of illegal harvested wood was about 30-40 000 cubic meters. However local experts (according to Profor, a World Bank organization) suggest that the amount of illegal harvested wood may be as high as 1.2 million cubic meters each year. At average domestic prices this would have a value of US\$ 27.4 million, although the value is probably many times greater as illegal loggers generally harvest close to road and only takes the best steams. This reports points out the State Forest Committee as responsible for the poor control of harvesting¹¹⁶.

4.5.5 General information about the unit

The unit got its name from the mountains around the city. It is here the beech grows they use to make furniture. It is the only unit in the company who are using beech as raw material. They have three units in Ukraine, located in the same village. A harvesting company, a sawmill and a furniture factory the sawmill delivers to. The factory was bought 12 years ago from the state, and was originally built to saw spruce. They saw about 50 000 cubic meters every year. Partly they harvest their own timber and partly they buy from the state and from private companies. Together the factories have about 830 employed, 350 works at the sawmill. The harvesting company has a contract with the state guaranteeing annual volume. They need two types of contracts, one harvesting contract and one buying contract. They get paid from State forest for their harvesting and then buy the wood. The assortments they don't need, like pulpwood, firewood and wrong quality classes, are sold to other companies. Some of the firewood is sold local to people in the village. To be able to plan purchase activities for the future they have a plan for production stretching until 2012.

¹¹³ Food and agriculture organization of the United Nations (2007)

¹¹⁴ Food and agriculture organization of the United Nations (2007)

¹¹⁵ United Nations (2003)

¹¹⁶ Profor (2006)

4.5.6 Organization map Swedwood Harvesting

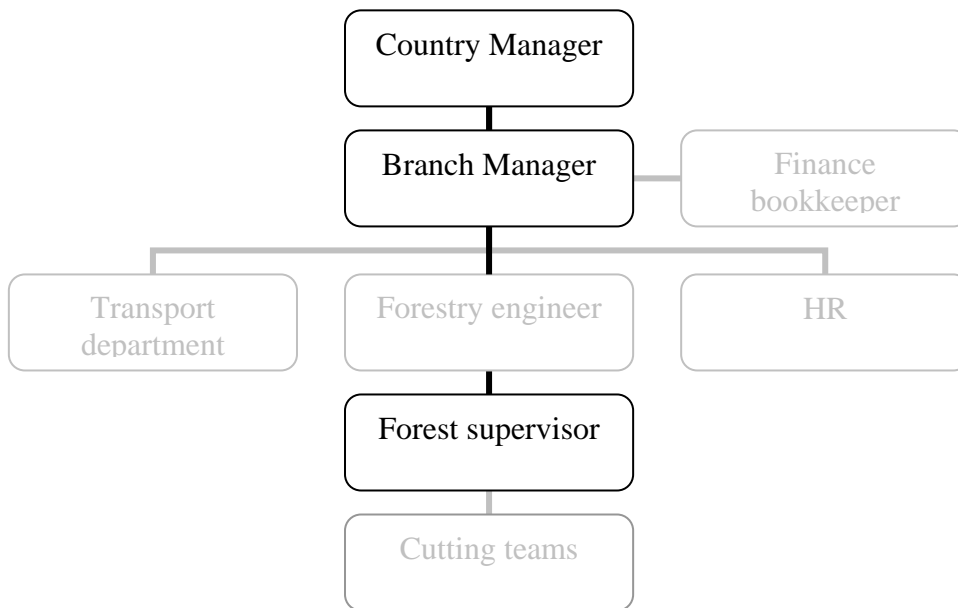


Fig. 7. Organisation map of the purchase organisation in the harvesting company.

Swedwood Karpaty

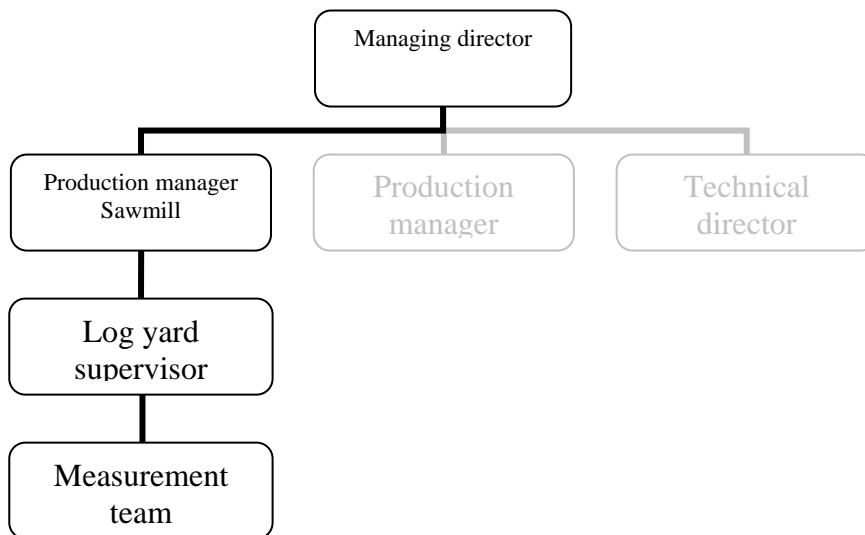


Fig. 8. Organisation map of the purchase organisation in Karpaty.

4.5.7 Policy's and directives

They work according to Ikea's policies, which means no bribes, environmental care and no illegal timber in the factory. All these matters are specified in the contract they sign with every supplier. All employees have also signed a contract with a Code of Conduct. This includes

personal rules regarding gifts and other ethical behaviour. The Branch managers (further BM) handling purchase has not taking part of any ethical training before starting at Swedwood.

4.5.8 Purchasing process- roles and responsibilities

Swedwood Harvesting works with two different kinds of external suppliers; State forest and private forest harvesting company. They have also got their own harvesting department. Approximately 25 % of the total volume comes from their harvesting team, 50 % from private harvesting company and the rest from State forest.

Swedwood gets paid from State forest to harvest the wood since State forest hasn't got enough capacity to harvesting it all by them self. Swedwood then pays for the logs that they buy. Swedwood in Karpaty has their own trucks for transport logs from their own harvesting. When working with external suppliers they sometimes handles the transport and sometimes it is done by the harvesting company.

Branch manager

The BM coordinates his own harvesting team. He is responsible both for own forest and for purchasing from external supplier, i.e. as State forest and private harvesting company. It is also his is responsible for preparing contract both with State forest and with private harvesting companies BM evaluates each supplier. Since he is main responsible for procurement of timber he is thereby also responsible for arranging transport although some of this planning and coordinating is done by the Forest engineer who works as an assistant. His responsibility ends when the truck comes into the site.

Forest engineer

Helps the Brach manager to arrange and coordinate transport of deliveries that is not done by the supplier. It is the Forest engineer who is communicating with State forest regarding contract and whether they for fill it or not.

Forest Supervisor

He is responsible for the cutting process, cutting team, loading and delivering. He also manages material, fuel and other things that is required for harvesting.

Finance controller

Works as an assistant to BM. Responsible for payment to suppliers

Log yard supervisor

He is responsible for the log yard and the timber as soon as it comes through the gate. Also supervisor of the measuring team, which means that he controls the measurement and approves the volume report from suppliers.

Measuring team

Measures the deliveries that arrive to the site.

Document flow

The document flow for the log procurement process

1. Logging trucks arrives to the site with a list of the delivery including which supplier, volume and quality (volume and quality according supplier measuring).
2. Measurement is done by people at the measuring unit at Swedwood.

3. If measurement is ok and according to the suppliers measuring, a report is sent to book keeping department and to the supplier.
 - If not a discussion is held with the supplier whether he accept the measuring or not.
 - If the supplier doesn't accept he can go to the site to control it him self, or take back the logs.
4. Invoice comes in from supplier.
5. Payment is done based on invoices from the supplier that has been approved by log yard supervisor (further LYS) and stored in the data base.

The term of credit is 10 bank days. According to BM it is very important to pay in time for the suppliers to be an attractive business partner. If you are a stable and reliable buyer you can pay a lower price and still get the needed timber. However, payment is often delayed. Approximately 70 % of the payment is made in time, and the rest is delayed in average 5-6 days. The reason is a lack of funds in the company and they are dependent on payment from the furniture factory. They have a list of witch supplier to premiere and which is less important. It is based on how important they are as supplier.

Job descriptions

The BM has a job description as a complement to the contract, including policies etc. that he has signed. The job description includes responsibilities, rights and authority.

It is not included in the job description how his daily works should be organised and preceded.

Supplier Selection

The timber they harvest themselves which gives approximately 25 % of their need. The rest is bought externally from State Forest and private harvesting companies. They have 3 State Forest enterprises delivering to them, and almost 20 private suppliers, i.e. private harvesting team. The private suppliers all have harvesting contracts and contracts to buy the timber from the state. They prefer to work with large companies that can deliver a large volume with high delivery reliance. Although it is the MD who approves each contract it is the BM who is choosing which company to cooperate with. The BM evaluates each possible supplier before choosing which one to start cooperate with. There is no system or guidelines regarding how this evaluation should be done and he does not need to create any document that shows how the cooperation is working. The demands are specified in the contract and most important is that they work according to these. One important factor when selecting a supplier is his possibility to deliver a stabile flow during the year. They make one year contracts.

Contracts and Legal authorisation

The BM doesn't have the authority to sign contracts himself. He must get it approved, by the MD at Swedwood Karpaty. It is however the BM who prepares the contract and is negotiating with the Forest enterprises. The MD admits that the insight in these negotiation and preparation of these contracts is poor.

Pricing setting

The price is the same for all suppliers. It is decided through a discussion between BM and his superior, the Country Manager (further CM). BM hasn't permission to change it without his approving. The turbulence of the timber market decides how often the price is changed. When contract is signed they set a price they try to stick to the whole year.

They also have a bonus system for the best suppliers. It works automatically and is based on how correct the delivered volume and quality is and if it is on time. The BM and his assistant are responsible for this system.

Measurement

Their own harvesting

First trees are cut and the stems dragged through the forest to the road. Here the Forestry supervisor is waiting together with the cutter. The logs length is decided by the Forestry supervisor and the stem cut by the cutter. The logs volume is measured by Forestry supervisor and controlled by a State Forest representative. A copy of the measured volume is sent to Forest engineer, to control the delivered volume is correct. The logs are then transported with a truck to a stock where they can be picked up by a conventional truck.

On the site

Timber from external suppliers goes directly to the site. Every timber log is measured on the site. The measurement department is responsible for the timber as soon as it has passed through the gate. The measurement is made manually by women working there. They use very simple tools and the measure tape wasn't even long enough.

4.5.9 Auditing suppliers

Every year they sign a new contract with their suppliers. To sign a contract they demand (from private companies) a harvesting contract and a buying contract. This contract will assure that logs that pass through production are legally harvested (although this is very difficult to control). The state is FSC certified.

4.5.10 Transparency and auditing of activities

According to the BU manager the insight in the work is poor. He trusts his co-worker and believes, until anything else is proved, he is a trustworthy employed. There is no system to catch up signals regarding corruption or some other kind of unethical behaviour. It is CM who is responsible for auditing the Brach manager. According to BM the audit of him self is poor. He says that his work is flexible and very independent. The audit that exists is through meetings and the reports that he creates; harvesting report and delivery reports.

4.6 Empirical results Rumania

4.6.1 Forest policy

The main goal of the present-day management is a natural composition, this as result from the 1960th when exotic species was planted in Romania and resulting in ecological problems in artificial forest stands and low wood quality. Under the general plan the main goal of 44 % of the forest (Group 1) is to protect different ecosystem from erosion, pollution and to create watershed protection. The main function of 54 % of the forest (Group 2) is to produce biomass. This plan is renewed every 10 years.

The policy statement regarding forest ownership is to maintain current forest ownership patterns, assure the integrity of present-day private forest areas and to form owners of small forest properties into associations.

4.6.2 Ownership

In 1946 the state owned 24 % of the forest in Romania but only to years later the state had taken control of all the forests. Under the law 18/1990 the private ex-owners of forest received

1 ha per person. This is still an ongoing process, today 60.2 % is owned by the state. The private owned part is still increasing. The state owned forest is managed by the National Forest Administration. 24 % of the forest area is owned by various entities/institutions, including local public administration and managed by private and public forest district or contracted under the management of National Forest Administration

4.6.3 Species and volumes

Today, forest is covering 27 % of the Romanian territory, i.e. 6.3 millions ha. Most of the forest is located in the mountains, more exactly 66% of Romanian forest. Forest is very varied where conifers make up about 30 %, beech 30 %, oak species 19 % various hard broad-leaves 14% and soft broad-leaves 6 %.

The average growing stock is today 217m³/ha. The average harvested volume is in Romania about 14.8 million m³. It is the Parliament who sets the maximum level of harvesting for each year¹¹⁷.

4.6.4 General information about the country and unit

In 1999 Swedwood built the factory in Siret, located in the north east part of Rumania. It consists of a glue board and furniture factory which delivers to IKEA. It is a big factory with almost 400 employed, which soon will be 450. They buy sawed spruce timber from local supplier. They buy approximately 55 000 m³ every year. An Austrian sawmill invests heavily in the area and they will probably beat the local sawmills and deliver a bigger part in the future. The sawmills are responsible for all transports.

4.6.5 Organization map

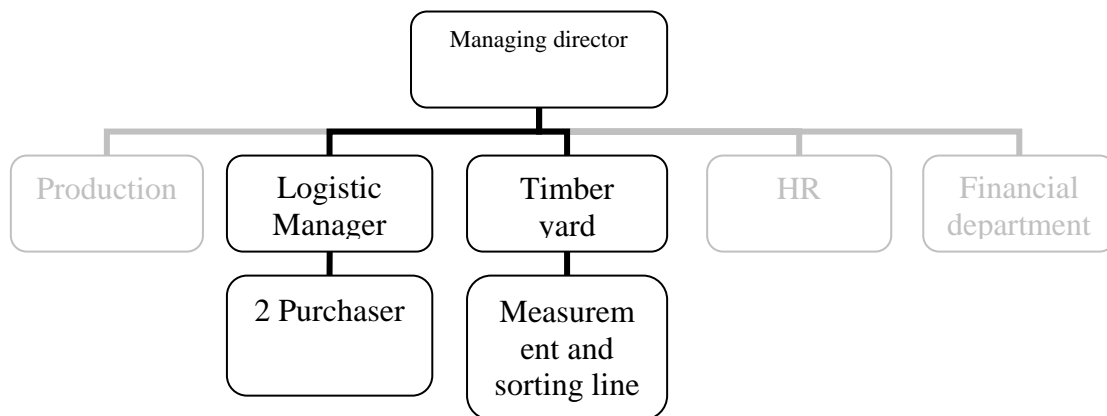


Fig. 9. Organisation map of the purchase organisation in Siret.

4.6.7 Policy's and directives

Before they start working they have to sign a Code of conduct. This regulates gifts and behaviour. They also work according the IKEA rules of social responsibility regarding illegal timber, child labour and following the laws in the specific country. This is specified in the standard contracts they use for all suppliers.

¹¹⁷ Food and agriculture organization of the United Nations (1997)

4.6.8 Purchasing process- roles and responsibilities

Logistic manager

He runs the planning of all purchase and also develops the products.

Purchasers

They haven't divided their responsibilities and work as a team with purchasing. They handle the contacts with the supplier, negotiate the price and evaluate the suppliers. Normally a purchaser doesn't have the right to negotiate price but there is an exception for timber purchase.

Timber yard supervisor

He is responsible for organizing the work. He controls the measuring and quality control of all incoming raw material.

Measurement, sorting line and fork lift team

They work operative on the timber yard with the production process.

Document flow

1. The truck enters the site, with timber and invoice.
2. Measurement and sorting is made. If there are problems the whole deliver is measured and partly rejected.
3. The measurement report and invoice is sent to the purchaser.
4. He goes to the financial department and the invoice is paid. The term of credit is 3 days. The payment is mostly made in time.

Job instruction

The have job instruction regarding purchase. This is just general and is not specific for purchasing of timber. The Purchaser says that he hasn't red it. This job instruction includes obligations, tasks, competence limitations and responsibilities. However, this job description is not updated and therefore not used.

Supplier Selection

They are today working with approximately between 30-40 different suppliers. The three biggest supplier stands for about 30 % of their total purchased volume. It is the Purchaser who handles all of the contact with the supplier. When they start to cooperate with a new supplier it is the Purchaser who prepares the contract, handling the negotiation and sets the price. The most important thing when preparing a contract and evaluating a new supplier is to secure the quality they can deliver. Although it is the Purchaser who prepares the contract and negotiating with suppliers it is only the MD who has the authority to sign contracts. Contract normally includes terms of payment, quality demands, quantity demands, delivery dates and other specifications from IKEA such as no illegal timber, no child labour and that they are following Rumanian law. With smaller supplier who can't deliver continually to the Swedwood factory they don't sign any contract. They only make an agreement, normally for one month.

The Purchaser is responsible for evaluating each supplier. He decides and has the authority to choose which to continue to cooperative with. All supplier, amount of rejection and their delivered volume is registered in a excel file. This document is created by the Purchasers and together with the Timber yard responsible (further TMR). The document is produced every month. The purchasers don't have to send this evaluating to their superior since it is a document that is open for everyone on the internal net. This file is used to evaluate suppliers. What's important is how much volume they have delivered, how much was rejected and

reliance of delivering. For the biggest four companies they use the IWAY-evaluation every six month. This IWAY –evaluation is send to IKEA and is a demand from them.

Contracts and Legal authorisation

The Purchaser prepares and negotiates but it is the MD who approves and signs the contract (see further information under supplier selection).

Pricing setting

The price is, according to the purchaser, set by him and the supplier. He negotiates and sets the price according to his judgement of the quality. They get better paid if they have modern equipment which ensures god quality. The area they operate in also affects the price since it affects the transport costs. New suppliers are visited before they can start delivering, to ensure they've got the possibility to produce with good quality. They also prefer to work with bigger companies which can deliver larger quantities. Information about suppliers are saved in a excel file where you can evaluate the supplier regarding delivered volume and quality. They try to follow the price changes on the market by keeping an eye on timber auctions and international price development. How often the price is changed depends on how turbulent the market is.

Measurement

The measurement of deliveries is done by staff in measuring team. They are measuring a sample (normally 100 pieces) from every delivery if it is from a problematic supplier. If the quality is not satisfying they measure the whole delivery and put a side every piece that doesn't fill the quality demand. The supplier is then contacted and informed about the rejection and it the suppliers responsible to pick up these pieces. Sawmills they know always deliver the right goods the only check from time to time. They are measuring thickness and width. After the manual measurement the timber is put on the line and goes through the quality control. Big knots and high amount of bark means rejection. This amount of volume is saved in the database. Approximately 7% of the delivered volume is rejected.

The system they are working according to is created by Swedwood and is for internal use. Every delivery is marked with which name of supplier, volume, quality and who has measured the delivery. The measuring team is audit by the TYR. They say, however, that the audit of the measuring is poor since they feel that it is working satisfying and the measuring is simple. If the measuring is done correctly it will be showed later in the production.

Ethical training

He has not taking part of any ethical training.

Auditing supplier

According to the Logistic Manager (further LM) there is a big black market of timber in Rumania. This caused by poor control from the State Forest or corrupt activities. The illegal timber often has better quality and better price than the legal. This is because they take from areas not permitted or only taking the best stems. When they make business with the sawmills they have to sign a contract. Here the sawmills themselves takes responsible for that the logs are legal.

4.6.9 Transparency and auditing of activities

The transparency of the purchasing activities is, according to the MD, poor. It is the PM who is negotiating the price with each supplier and the MD approves it and signs the contract. The MD can see the price for each supplier and compare. He is not participating in the negotiations. Every supplier has a separate price (see further information under price setting) but the underlying factors about the price is a matter of negotiation.

5 Analyses

In this section each the empirical results are analysed, using the theory as a reference frame. Each country is analysed and presented separately. The analysis of each country is divided into three main sections: Support for ethical practices, Auditing of suppliers, and Exposure to risk of low practice levels. When assessing the exposure to risk of low practice levels, each position on the country has been ranked and summarised in a table. To visualise the risk of exposure of low levels of practice for each country, a figure with a colour codes is presented. This illustrates how the organisational structure contributes to risk.

5.1 Analysis of Russia

In the empirical results, the organisational structure of wood purchasing in Russia was determined. This was illustrated in Fig 1. This chapter assesses these and other findings determine to determine Swedwoods exposure risk to low levels of legal and ethical practices.

5.1.2 Support for ethical practice

Policies

Regarding policies, the empirical results show that the purchasing unit works according to state rules, company rules, chain of custody and Ikea's harvesting demands. There are however no written policies, guidelines or documents regarding ethical purchasing procedures that the PM is aware of.

According to Lysons, one way to highlight policies regarding ethical purchasing procedures is to create a purchase manual, containing policies, instructions and regulations, processes etc. Lysons (1999) considers there are many advantages in using a purchasing manual. When creating the purchasing manual, it is an opportunity to look critically at the existing policies, rules and procedures. This is very important since the environment and thereby purchasing is continuously changing the policies, rules and procedures most continually be renewed to account for local situations and contemporary developments. Using a purchasing manual is also a good way of guiding the staff and also a useful aid in training them as well as coordinate policies and procedures. A purchasing manual can also work as a reference against which such principles and practice can be evaluated. Finally and last purchasing manual can help the annual audit.

Given existing purchasing practices are informal, since the benefits of purchasing manual are both to provide support to people so they can perform their duties ethically and be a benchmark when auditing, we therefore conclude that it is advisable to formalize purchasing processes and practices through developing a purchasing manual.

Job instructions

The empirical results show that the WP manager and the Forest auditor do not have a formal documented job description. There is however "unwritten" rules that state his obligations and responsibilities, with his main object/task is to make sure that there is enough timber at the log yard, obtained at a reasonable price and harvesting according to Ikeas' principles. According to Gadde and Håkansson (1998), it is important that each roll within the purchasing organizations is clearly defined and described. If its not, the purchase is likely to be inefficient and there is a risk of sub optimization. A clearly defined job description also helps the organization to highlight and clarify policies. Furthermore, according to World Wide Foundation, one important aspect of responsible purchasing is a clearly defined definition of

how the work shall be performed, described in a plan with measurable goals.

Consequently, we consider it advisable to formalise all roles, particularly purchasing management and auditing given their key responsibilities, and be more specific and detailed than the current informal understanding.

Ethical training

The empirical results show that people in the purchasing unit have not undertaken an ethical training program. According to Lysons, ethics within the purchasing organization is extremely important since they are the ones who are in contact with suppliers and are thereby representing the organization. A criterion for assessing high levels of ethical practices is to benchmark actual behaviours against formal policies. Unfortunately, formal policies are not yet in place. Clear policies create a fundament for evaluating unethical decisions. This highlights the importance and need of having clearly defined policies regarding purchase and its performance.

5.1.3 Auditing of suppliers

Swedwood has a system to control the supplier's source, which is based on harvesting tickets and way-bills. We observed that both of these are controlled by Swedwood systematically.

The way-bill is filled in by the truck driver, and he could potentially be motivated by over stating the distance he drove. Thus, there is a need to work with data concerning routing to ensure high levels of trust in these; otherwise the system might become a paper tiger. The present system with way-bills is an official national system for all transports.

If something is incorrect Swedwood do not have any formal authority to act since Les Khoz (State Forest) is not obligated to validate to Swedwood whether harvesting tickets are valid. Thus, there is a lack of transparency regarding harvesting tickets. Since an ecological control audit of the supplier is only carried out once a year, by Forest auditor, and they are given advance warning of this, the control may be ineffective.

5.1.4 Exposure to risk of low practice levels

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 2.

Motives for low level practice

According to Quah (2003), understanding the underlying issues that may prompt low ethical practices is important. Here a fundamental issue is related to salary, with the lower salary the higher the likelihood of low practices. Salaries levels are viewed by the BUM to be slightly higher than medium. However, employees perceive their remuneration for work with log procurement to be sufficient. This part is less interesting because the salary always is adapted to the normal salary in the region and the workers in Swedwoods factories are well paid. According to Robert Björk (2007) the system and culture determinates the level of practice, not the amount of money you earn. He says many big leaders I the world has more money than they ever can spend, but still they can't get enough.

Opportunities to carry out low ethical practices

According to Monczka & Trent (1998), the number of suppliers is an important factor influencing the opportunity for low ethical practices to be carried out. Large numbers of

contracts and bids also affect the opportunity for low ethical practices to occur. The empirical results show a broad supplier base with up to 30 different suppliers. Contracts are also short term and renegotiated frequently. It's a turbulent and insecure market with many new suppliers coming in. Thus, both the large number of suppliers and contract churn may increase the risk of low levels of ethical behaviour occurring.

It is therefore considered advisable to change practices so that purchases deals with a smaller base of suppliers, with this considered a particularly powerful mechanism for promoting higher levels of ethical behaviour since a reduced supplier base presents fewer opportunities for buyers to practise unethical behaviour for the buyers.

Organisational obstacles to prevent low ethical practices

Lysons (1999) research shows fraud prevention depends on three different things: internal control, external and internal audit, and the detection of "give away" signs. One aim of internal control is to place obstacles for people who may be motivated to plan a fraud. A key obstacle is to organize so that one person does not have all relevant matters under their control, since this would force them to risk collusion with others.

The empirical results show that in the current organization the role of WP manager has a diverse range of issues under his control. He is responsible for evaluating suppliers; handles most of the contacts with suppliers; prepares all the contracts and negotiates, even if the BU manager formally signs and approves; is the informal leader of the forest auditor work; and, has wood measurement as a sub-department. Given Lyson's results, this is therefore considered to place the organization in a vulnerable position, particularly since the lack of formal guidelines for supplier evaluation and selection criterion also leads to poor levels of transparency.

We consider it advisable to therefore make an organisational change so that the Forest auditor is formally allocated a clear control function, as well as given actual organizational independence from the current organization role of WP organisation to enhance the independency of the auditing work – and hence external confidence and commitment on the reliability of audits to effectively enhance high levels of ethical and legal practices.

In contrast to Sweden, where measurement is carried out by an independent organization, in Russia measurement is carried out by the buying firm.

The empirical results show that the BU manager considers the most important thing for the supplier is the price and measurement. To be an attractive business partner you must pay in time and measure correctly. Since the WP manager is concerned about his relationship with the suppliers, there are incentives for the purchase department to lower the quality demands to please the supplier. Consequently, we it advisable to make an organisational change so that the Wood measurement department is also given organisational independence from the purchasing organisation since this would further enhance auditing credibility.

According to the Peter Villen, responsible for harvesting, which has worked with measuring in Sweden for many years there have no standardized method of measuring in Russia. Our own observations indicate that practices for measuring the actual load of each truck where neither rigorous nor systematic. Therefore, this could be misused. When timber enters the saw line, it is measured by a measuring frame. The data indicates there is a systematic discrepancy between actual saw line volume and data reported by measurement unit. Saw line measuring

gets higher volume of pulp wood, 6-9 % than the visual inspection, which is 2 %. The difference is systematically in range 4-7 %. We therefore advice that a formal measurement approach is introduced, and the measurement department staff are re-trained.

An organisational obstacle to prevent collusion in the wood measurement area is the presence of guards. According to Clas Boström it is important that guards circulate in the area where the timber is measured, otherwise the supplier has the possibility to affect the measurement staff. During our visit we couldn't see any guards patrolling the site. Additionally, there were only two cameras put up on the measurement bridge to control the activities. Thus, it is proposed that both levels of remote observation are increased by installing more surveillance cameras as well as more frequent security patrols.

Regarding the communication of “give away” signs, Monczka & Trent (1998) propose firms should encourage their suppliers to report instances of unethical behaviour by anyone within the firm and it is made clear to suppliers that the buying firms commits itself to ethical business. However, in practice, such a signal system for is based on people's willingness to inform when issues arise. Cultural obstacles may prevent this occurring in Russia (Quah 2003) due to social acceptance of low levels of practice, which decrease the probability of detection and perceived risk of detection. According to Transparency International, corruption in Russia is widespread through out all levels in society. On their corruption index from 1 – 10, where 10 is least corrupt, Russia was scored to 2.5 which is considerably low. Nonetheless, managers have an ethical duty to encourage detection. Given management cannot personally control all activities and interaction within firms, they must create an atmosphere that supports the reporting of unethical behaviour. A supplier should be able to approach management about an ethical impropriety with confidence that manager will correct the problem. According to Robert Björk 70 % of the security system is signals.

Regarding audits, Lysons highlights 4 main purposes the purchasing management audit serves. These are to ensure:

1. purchasing policies are adhered to
2. the organization is using desired modern and correct techniques, procedures methods
3. control and measurement of the extent to which resources are used effectively
4. Auditing takes place to prevent and detect fraud and malpractice.
- 5.

Since there are no clearly defined criteria to evaluate whether the WP managers acts appropriately, with the credibility of auditing taking place is questionable due to the organization dependencies discussed above, we consider that there are issues regarding auditing practices 1 and 4. This strengthens our conclusion that there is a need for both an organizational change and introduction of a purchasing manual.

Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, this table summarises our analysis and presents an overall risk factor. 1 is low, and 3 are high.

Table 2. Summary of the exposure to risk of low level practice in Tikhvin

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Wood Procurement Manager	While the existing manager earns considerably more than a worker and personally considers is salary to be satisfactory, it is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.	Large number of suppliers and many renegotiations combined with a short sighted and turbulent market.	The audit is poor and his influence is huge. He evaluates suppliers and selection criterions are poor. The signal system could be affected by cultural obstacles.	
	2	3	3	8
Forestry auditor	The salary is enough living on but is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.	He is independently responsible for auditing the suppliers.	Good transparency of his results and placed under Business unit manager.	
	2	2	1	5
Wood measurement leader	The salary is enough living on. Poor observation in areas where suppliers could influence. The system is not good enough to fully support ethical behaviour and prevent corruption.	Lack or organisational independence from purchasing. Use of subjective visual inspection methods. Poor insight.	Lack of organisational independence. Cultural obstacles may prevent insight.	
	2	3	2	7
Measurement team	The salary is enough to live on but low compared to others. The system is not good enough to fully support ethical behaviour and prevent corruption.	Frequent contact with suppliers. Use of subjective visual inspection methods.	Sample test are rarely performed. Lack of organisational independence and cultural obstacles.	
	2	2	2	6

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

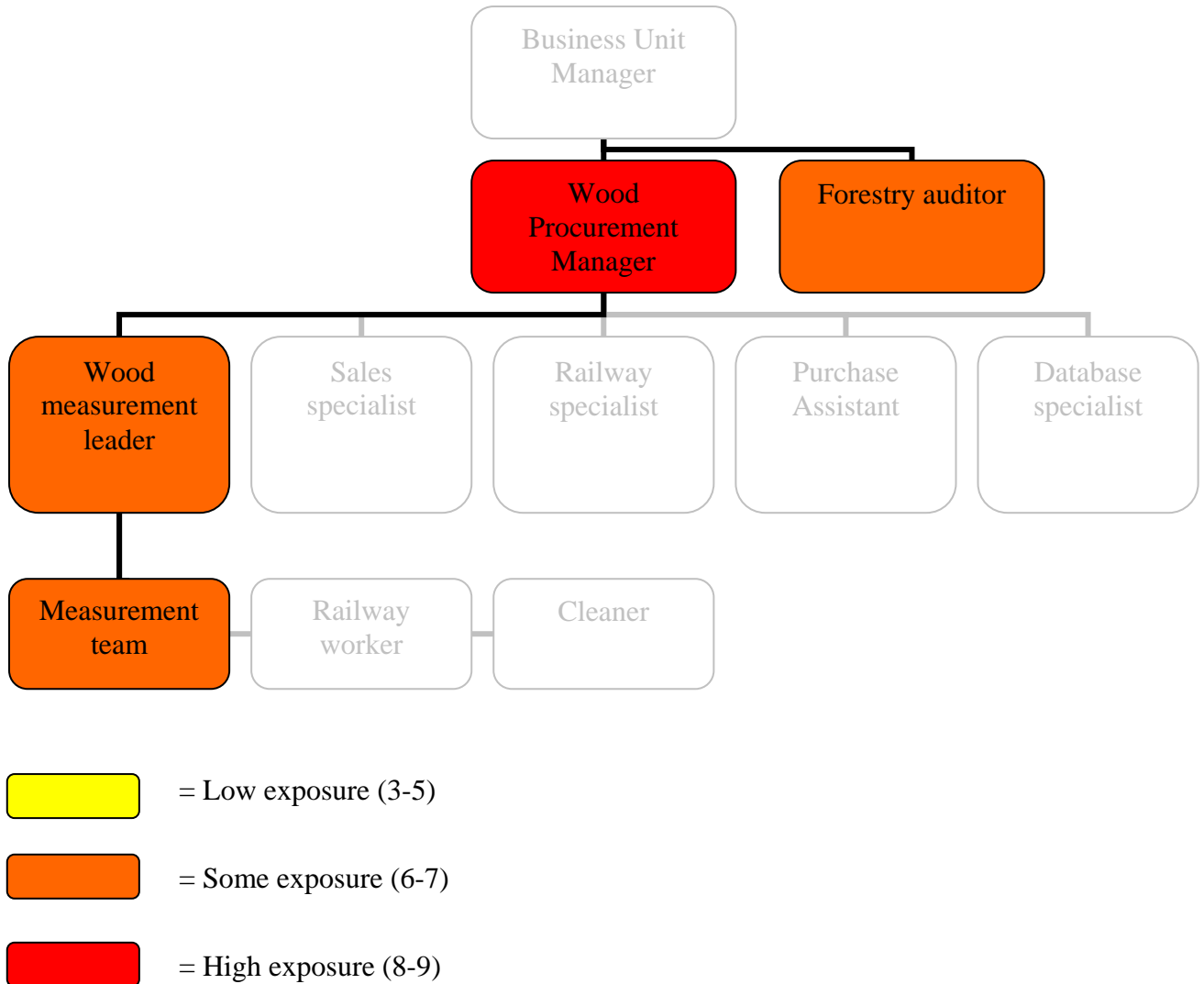


Fig. 10. The risk of exposure of low levels of practice for the purchase organisation at Tikhvin.

5.2 Analysis of Latvia

5.2.3 Support for ethical practice

Policy

As is shown in the empirical data, both the LPM and RP have a business plan regarding how they should work with every supplier group. They have also documented payment and authority practices. Regarding practices to avoid illegal timber and corruption, today they follow Ikea's general policy guidelines. They have however no written policies that specifically address ethical purchasing policies and practices. Based on Lysons, it is therefore suggested they create a purchasing manual to enhance the scope of existing formalised ethical practices.

Job instructions

As the empirical data shows, neither the LPM nor the RP has a job description. The literature however recommends that job roles and responsibilities are formalised.

Ethical training

No ethical training has been occurred. Given the significance of ethics training in shaping and reinforcing sound ethical codes and policies, it is advised ethical training programmes are introduced.

6.2.4 Auditing of supplier

Latvia in general is considered to have a high level of ethical standards. State management of forestry practices is also considered to be good. Furthermore, given the above documentation of suppliers and practices, there is a particularly high level of transparency in the Swedwood organisational process.

5.2.5 Exposure to risk of low level practice

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 3.

Motives for low level practice

The literature presents low salary levels as a motive for low standards of ethical practice. Salaries are considered by Per Dahlström (MD) to be not lower than the branch rates. However, Latvia has developed rapidly in the last few years and the salaries at Swedwood haven't increased in the same speed and so it is no longer considered high status work. In common with other East European countries, high status is closely connected with material standards. Also, in comparison with their own salary, people handle lots of money and so the temptation there - A few cubic meters represent many months of work. So, motive is present.

Opportunities

According to Monczka & Trent (1998) the number of suppliers is an important opportunity factor. The role of LPM chooses which supplier to work with. Today, there are 25 harvesting companies and the same role has responsibility for regular re-negotiations in today's turbulent timber market. The LPM in role also evaluates the supplier he selects, including controls whether that supplier has a harvesting ticket. Auditing levels are low. Changes of price are however made together with his superior and so insight into pricing agreement is high. Nonetheless, the span of control the role has poses a high exposure risk.

Measurement is carried out by an organization that is formally independent from the purchasing department and suppliers. Further the empirical results show automatic scanner measurement of timber, where the scanner is calibrated by another independent part. Actual payments are based on these results. Only the volumes of pulpwood are calculated manually. Thus, theory around formal organizations indicates that opportunities for collusion on price-volume levels should be low due to the high risk involved.

There may however be an information issue since Incukalns is a small village where everyone knows everyone. So, informally, there is a chance that the supplier who deliveries timber to the factory has a close personal connection to someone in the measuring team. It could thereby be questioned whether measuring is done independently or not. Although measuring is done by scanner as the empirical data show and the result is saved in a database, there is no guarantee that the measuring hasn't been effected.

The RP works on a long way from his superior, which decreases the level of internal control over his role. The regional purchasing role also has contact with many suppliers. Since prices are fixed and volume measured by IT, the only opportunity for undue influence the regional role has is transport costs, which are made on the basis of distance travelled. The same issue concerns LPM role in the procurement process. Distance is difficult to estimate and control.

Auditing

While the literature stresses the importance of 'signals' to report low levels of ethical behaviour, it also shows the risk of detection is in many ways a question of culture. According to Transparency International the corruption in Latvia has been widespread and levelled throughout society. Nonetheless, great progress has been made. It is one of the countries with the most positive development and in a short period the corruption index has improved considerably to a level of Latvia got 4.7 and a position of 47 in a list of almost 160 countries.

Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, the table summarises analyse and presents an overall risk factor. 1 is low, and 3 are high.

Table 3. Summary of the exposure risk of low level practice in Incukalns

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Log procurement manager	The salary is enough living on. It is satisfying, and they earn more then the people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	Many log suppliers and negotiations in the present organization and turbulent market with many small suppliers.	The influence is considerable. The signal system could be affected by cultural obstacles. He evaluates suppliers and selection criterions are poor.	
	2	3	3	8
Regional purchaser	The salary is enough living on. It is satisfying, and they earn more then the people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	Works under the WP manager. Responsible for organizing the work.	The geographical placement in his work affects the influence of his work.	
	2	2	2	6

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

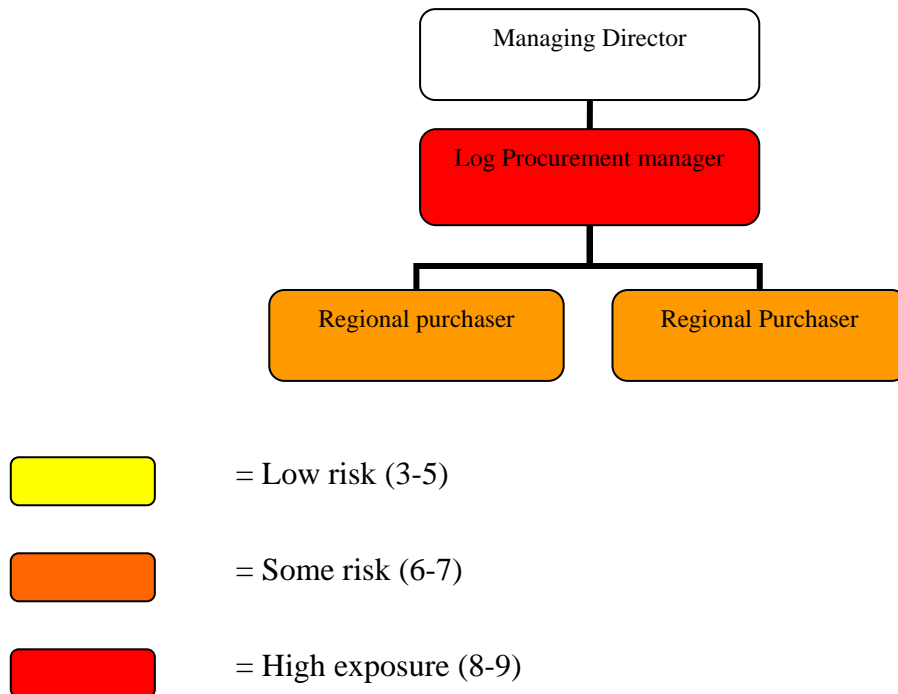


Fig. 11. The risk of exposure of low levels of practice for the purchase organisation in Incukalns.

5.3 Analysis of Poland

In the empirical results, the organisational structure of wood purchasing in Poland was determined. This was illustrated in Figure 3 and 4. This chapter assesses these and other findings to determine Swedwoods exposure risk to low level of legal and ethical practices.

5.3.2 Support for ethical practice

Policies

As the empirical results shows, the RMM in Chociwel, has a manual regarding policies. This manual, however, only contains information about wood quality, how to detect failures in the log and, what to look for and what kind of quality that should be preferred. There are no guidelines regarding any general policies, areas of responsibility or any other directive regarding purchase or and ethical behaviour. The Purchasing manager considers the policies that should be followed are those related to FSC-certification. The empirical results also show that both the RMM in Stepnica and the Purchasing manager in Wielbark have not been informed about either policies or directive regarding purchasing and ethical behaviour. There are no rules or recommendations regarding gifts or other offerings from suppliers.

According the Lysons (1999), two factors that are highly effecting unethical decisions are lack of policies and the ethical climate in the industry. According to Transparency International's corruption index, Poland has a score of 3.7 which is considered low. The empirical results show that that the PM in Wiekbark has been offered gifts from a supplier they where about to

initiate cooperation with. This empirical result together with the low rank indicates that the industry faces significant risks of unethical behaviour and decisions. Furthermore, the literature reported in earlier sections considers the risk of unethical decisions increases further when there is a lack of clearly defined policies, which is the case in Poland.

Lysons recommends the use of a purchasing manual to form a solid foundation for sound ethical purchasing practices. We similarly consider it advisable for a purchasing manual to be developed specifically for the Polish business context.

Ethical training program

Ethical training is, according to Lysons (1999), a way to reinforce the organizations ethical codes and policies. And according to Monczka & Trent (1998), all new buyers should enter a training program before actually starting their work to learn about purchasing ethics, and how to handles this in practice. As the empirical data shows, the Purchase manger and the Raw material mangers has not taken part of any ethical training regarding purchase. Lysons also means that since purchaser are the ones who are in contact with suppliers and are thereby representing the organization an ethical training is extremely important. A criterion for assessing high levels of ethical practices is to benchmark actual behaviours against formal polices. Unfortunately, formal policies are not yet in place.

Since corruption is an issue, ethical training, for both experienced purchasing managers and new staff, is therefore advised.

Job instructions

The literature, Lysons (1999) Gadde and Håkansson (1998), highlights the significance of clearly defined processes, roles and responsibilities. The empirical results however show that neither the PM in Stepnica nor the Purchaser in Wielbark have a written job description, with the Purchaser considering a job description would help him in his daily work since he was new to this area. While PM in Stepnica does not have a job description, his duties are however written in his contract.

Given the weight the literature places in formalising processes discussed previously, we consider it theoretically justifiable to formalize job describes where they are not today as well as enhance the level of formalization in cases where there is some documentation.

5.3.3 Auditing of supplier

All state-owned forests in Poland are FSC certified. The state also owns all harvesting companies and audits their work. The auction system creates high transparency and insight. Each delivery specifies its harvest's stand and location, which is straightforward to control. Every log is measured in the forest by state forest, and all activities have high levels of transparency.

The private sawmills Swedwood purchases logs from are required to show their contract with State Forest, which confirms Swedwoods the right to buy FSC certified wood from them. Thus, there are high levels of transparency.

Swedwood in Poland also imports wood from Germany and Russia. Wood form these sources is sorted and processed separately from the normal flow to ensure it won't go into Swedwoods furniture factory, since the suppliers aren't FSC certified.

5.3.4 Exposure to risk of low practice levels

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 4 and 5.

Motives for low level practice

Understanding the underlying issues is according to Quah (2003) important. One of the fundamental motives is correlated with the salary. The more money you earn honestly the lower is the incentives for low level practice. According to the PM in Stepnica he is satisfied with the salary at Swedwood. The salaries for workers in Swedwood are adapted to the region and normally a bit higher than medium. According to Robert Björk (2007) the salary is less important than the system and the culture.

Opportunities to carry out low ethical practices

Monczka & Trent's (1998) studies show that opportunities are correlated with the amount of supplier and how often you negotiate. This creates base for how many possible opportunities occur. In Poland, according to empirical results, almost all timber is purchased from the state. Since they are working with the state, there are no motives for them to affect the purchasers.

According to RMM in Stepnica and Chociwel, they sometimes get timber from private sawmills that have bought too much. This business is made through market knowledge and contact network, which is difficult to get an overview of. According to Quah (2003) opportunities are control over lots of resources. In this kind of "wet" organisations the corruption exists in form of gifts from private companies for using their services. Timber purchase organisations are typical "wet" organisation with lots of resources and poor insight in supplier choice.

The purchase organization also administrates the transport of logs. They normally use private small sized transportation companies. This results in many contacts and lots of negotiation. One way to create insight we recommend is to introduce a system where a superior signs all contracts and so we recommend this.

One of the Purchasing managers and Raw material manager's role and duty is to control the invoices from the transportation companies. It is a difficult task to control the distance reported in the invoice and according to PM in Wielbark the insight is poor. His opinion is that more insight is needed to control this process. As mentioned before he has been offered gifts from a transport company for choosing their services, which supports Quah theories of "wet" organizations. Another risk of low level practice is the bonus system which is the PM role to control. The bonus is paid as extra kilometre tax, which gives wrong signals about transport distance and problem to see how much bonus each company gets. In Wielbark, under the present organization, the role of the PM is to be responsible for evaluating the transport companies. There is however neither a process nor activities to follow-up on the evaluation of transport companies. Introduction of such a process and its activities is advised since it would enhance transparency.

Today, 'common sense' is used to select suppliers and here the most important factor is the assessment of flexibility and willingness for cooperate. According to Lysons (1999), prevention of low level practice is created through control. Therefore the introduction of processes for selection and auditing of suppliers are recommended.

The measurement in Poland is made by measuring frames. Every log is also measured by State forest before delivering. Each log gets a number and so it is possible to audit if the measurement has been made correctly.

Organizational obstacles to prevent low ethical practices

Transparency International rates Poland at 3.7 in a scale up to 10, with Poland number 62 in the country listing. This social climate increases the likelihood of unethical behaviour increases because of this even more. Thus there is a need for management to put in place a clear system where partnering firms are aware of ethical practices and inform when they observe any wrong doing.

Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, the table summarises analyse and presents an overall risk factor. 1 is low, and 3 are high.

Stepnica and Chociwel

Table 4. Summary of the exposure risk of low level practice in Stepnica and Chociwel

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Raw material manager	The salary is enough living on. It is satisfying and they more than people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	Many log suppliers and negotiations. In present org. responsible for transports.	The influence is considerable. The signal system could be affected by cultural obstacles. The organizational placement could be unsound for the company.	
	2	3	3	8
Foreman	The salary is enough living on. It is satisfying, and they earn more than people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	Works under the WP manager. Responsible for organizing the work.	Good transparency of his results.	
	2	1	1	4
Measurement team	The salary is enough living on, and is comparatively to other similar work. The system is not good enough to fully support ethical behaviour and prevent corruption.	Technical measurement methods are used.	The organizational placement and cultural obstacles could be unsound.	
	2	1	2	5

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

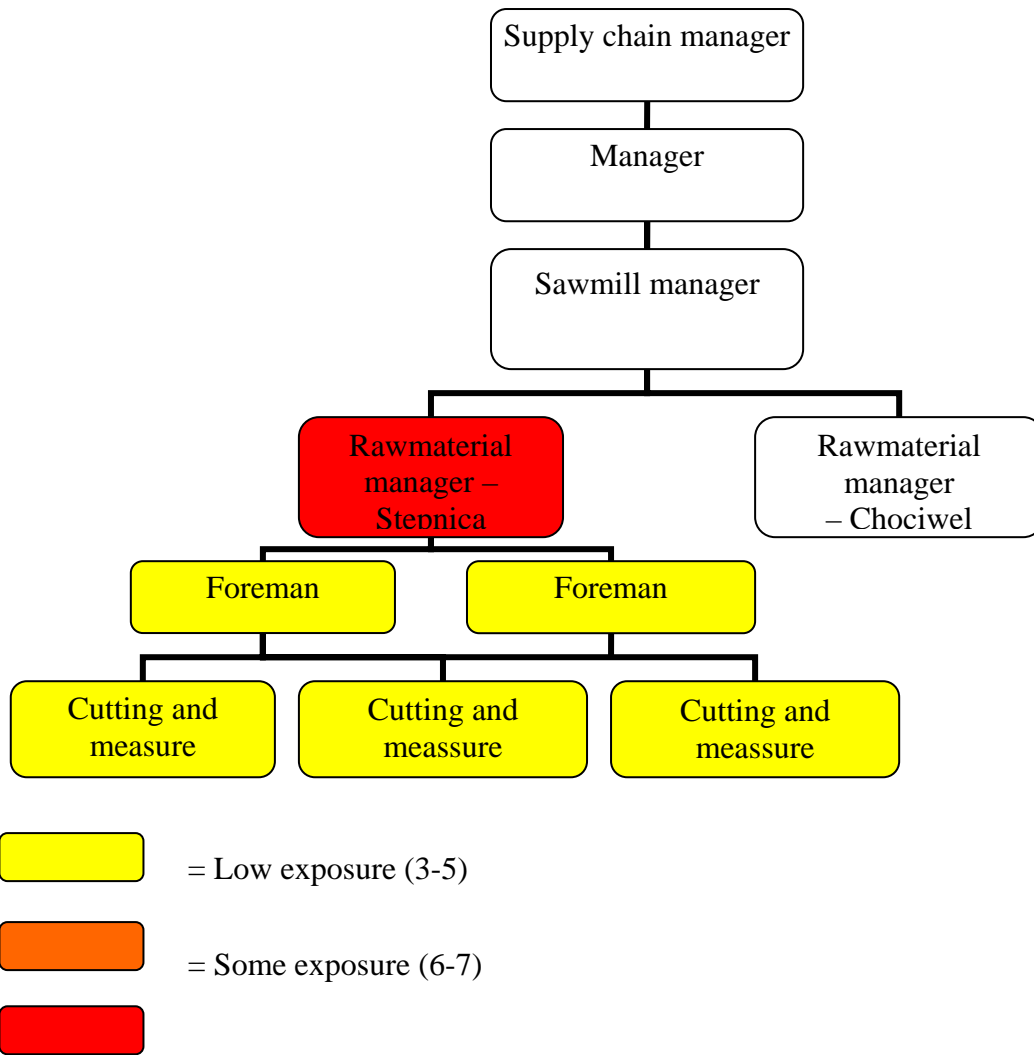


Fig. 12. The risk of exposure of low levels of practice for the purchase organisation at Stepnica.

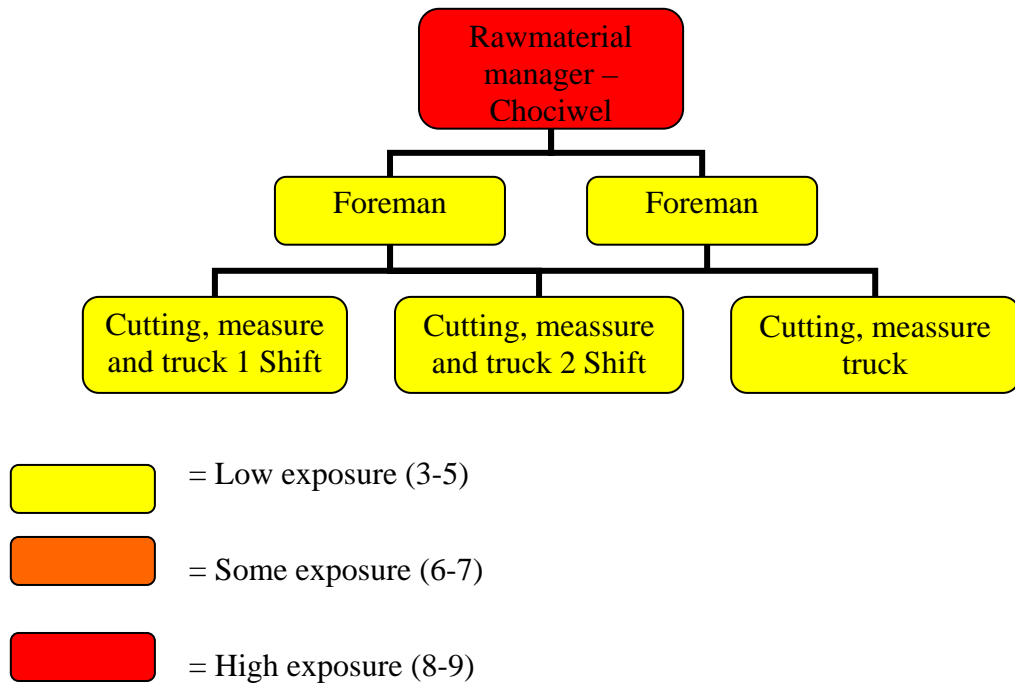


Fig. 13. The risk of exposure of low levels of practice for the purchase organisation at Chociwel.

Wielbark

Table 5. Summary of the exposure risk of low level practice in Wielbark

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Purchase manager	The salary is a bit higher than average for similar work. They earn more than people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	One supplier and no negotiations. In present org. responsible for transports and bonus system.	The influence over transport is considerable. The signal system could be affected by cultural obstacles. Poor auditing and insight of daily work.	
	2	3	3	8
Foreman	The salary is enough living on. It is satisfying, and they earn more than people in production. The system is not good enough to fully support ethical behaviour and prevent corruption.	Works close to WP manager. Helps him to control measurement and transport costs.	Under the present org. system the transparency is good.	
	2	2	1	5
Measurement team	The salary is enough living on, and is comparatively to other similar work. The system is not good enough to fully support ethical behaviour and prevent corruption.	Technical measurement methods are used.	The organizational placement and cultural obstacles could be unsound.	
	2	1	2	5

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

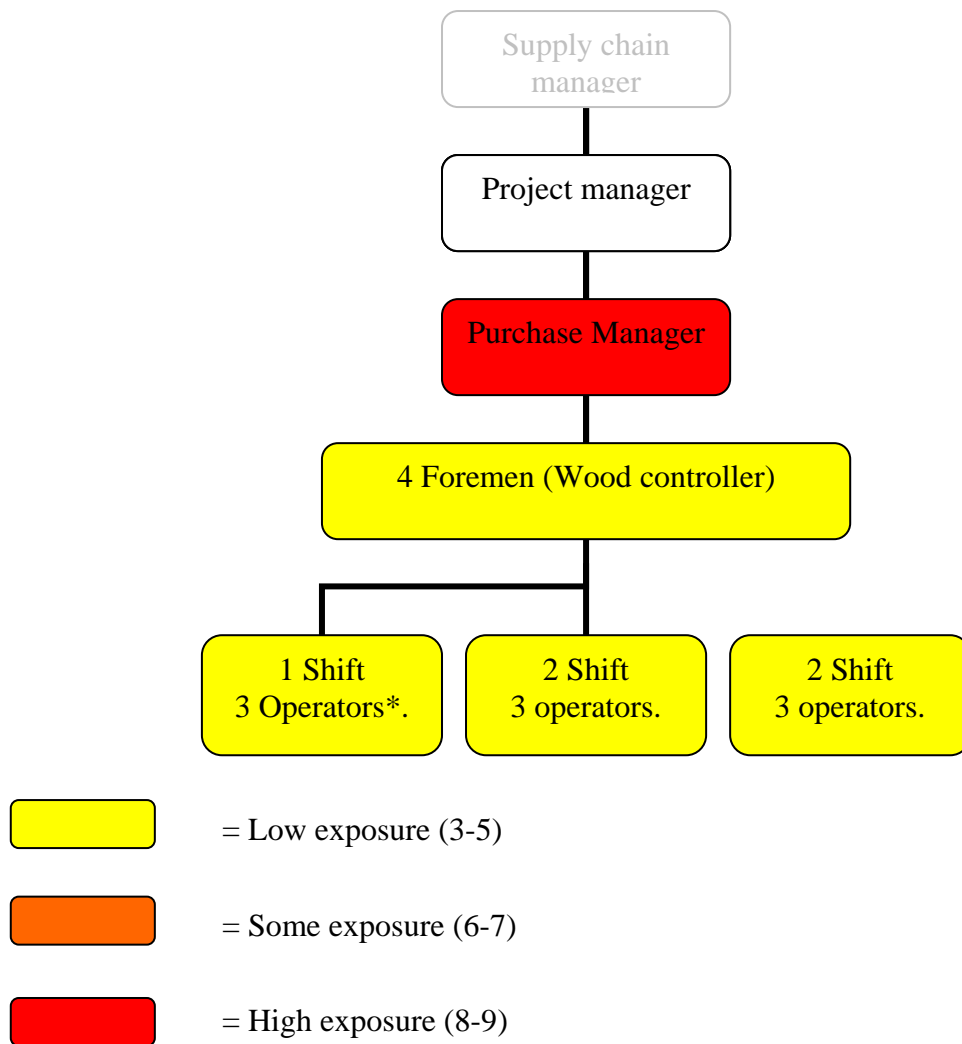


Fig. 14. The risk of exposure of low levels of practice for the purchase organisation at Wielbark.

5.4 Analysis of Slovakia

5.4.1 Support for ethical practice

Policy

As the empirical results show, the organisation in Slovakia has guidelines regarding volume, price and stock level that Purchaser of sawn timber and wooden components (further PSTW) should follow. However, they have no written directives specifying areas of responsibility but nonetheless work according to state rules, company rules and Chain of custody. Some policies are indirectly specified in writing since some of these factors are included in the contracts of employment. Such contracts regulate the acceptance of gifts and other ethical dilemmas.

According to the Lysons (1999), two factors that significantly effect unethical decisions are lack of policies and the ethical climate in the industry. Since Jasna included some policies in their employment contracts, according to the theory, this should decrease the risk of unethical decision-making. We do however believe that by creating a specific document compiling all aspects of purchasing practices and ethics would further decrease the potential risk level. One example of a type of document that highlights policies is a purchase manual. As are described before, using a purchasing manual has many advantages.

Regarding the ethical climate in the industry, our data is constraint to the Transparency International index for corruption. In this list, Slovakia has a score of 4.7 which could be considered as low but still much higher than Russia for example.

Ethical training

As in other countries, people in the purchasing unit have not undertaken courses in purchasing ethics. They had however undergone training regarding FSC certification and Chain of Custody.

The empirical results also shows that the PSTW manager handles most contacts with suppliers, including raising any issues with quality or delivery. These flag Lysons (1999) concern about the importance of ethical training. As assessed in other countries, all new buyers should enter a training program on ethical purchasing practices.

Job instructions

As assessed in other countries, the literature highlights the importance formal directives and routines. While the empirical results show a job description exists, it is however not particularly extensive and the current PSTW manager has not read it. We therefore consider it theoretically justifiable to both extend the scope of the formalization of the job description as well as the introduction of routines to ensure people are actively aware of its contents.

5.4.2 Auditing of supplier

All state forest is FSC certified. In the contract they sign with sawmills the Chain of Custody demands are specified. Before a supplier can deliver to Swedwood they have to guarantee timber delivered to Swedwood is legally harvested. The Purchaser is allowed to control whether the sawmill is purchasing legal cut timber by asking for the needed and required documents.

5.4.3 Exposure to risk of low level practice

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 6.

Motives for low level practice

In the context of Quah (2003) concern about salary levels and motives for low levels of behaviour, the salaries of Purchaser of sawn timber and wooden components manager a slightly higher than the average in this area. PSTW consider his salary satisfying but quite similar to other similar works in this area. Managers earn more than people working in the production.

Opportunities to carry out low ethical practices

Regarding theories of organisational opportunities and wet organisations, there are a noteworthy number of suppliers. These companies are quite big and everything is developed to a high level. The companies also work more long-ranged with stabile relationships. PSTW also works with smaller wooden components suppliers, but this is not the focus of this study.

Organizational obstacles to prevent low ethical practices

As the empirical data shows it is the PSTW role is to cooperate together with the Commercial manager and prepare all contracts. A key obstacle is, according to Lysons (1999), to organize so that one person does not have all relevant matters under their control, since this would force then to risk collusion with others. Therefore all contracts are signed by Management director. The transparency regarding price setting is also relative high since the price on sawn goods is mostly based on the timber price. And since State forest has a pricelist for timber that are open for public it is easy to compare this price with the price they pay to their suppliers, recalculated with a profit percentage for their supplier for sawing the logs.

They also follow up the suppliers deliveries and has a database with data saved regarding volume, rejection and quality. This creates insight in his work. The measurement is made by the production department which creates a cross control in the company. This we consider to be theoretically sound for the organization. They reports to him and their supervisor. The quality of the measurement is also easy to control later in the production. Since the transports are arranged from known points it is easy to control this as well.

As mentioned in previous analyses the management must create an atmosphere that supports reporting of unethical behaviour. A supplier should be able to tell management about an ethical impropriety with confidence that manager will correct the problem. Since the Commercial manager also keeps in contact with the supplier it would be easy for them to exchange information regarding this matter.

An important factor affecting the possibilities of transparency is the signal system which is influenced by the culture and norms in the society. Quah (2003) says “cultural norms effectively preclude punitive denial of the perquisites that attend each position”. Transparency International has ranked Slovakia on position nr 50 of least corrupt countries in the world. They’ve got 4.7 score of 10 possible. This is relatively high in Eastern Europe. According to PSTW the business climate in the sawn timber market is not as leaven through of low level practice as the market for logs.

Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, the table summarises analyse and present an overall risk factor. 1 is low, and 3 are high.

Table 6. Summary of the exposure risk of low level practice in Jasna

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Purchaser of sawn timber and wooden components	The salary is enough living on and similar to other in the region. The system is not good enough to fully support ethical behaviour and prevent corruption.	He is responsible for auditing and evaluating the suppliers.	Good transparency and cross control. He prepares contract with Commercial manager but they are signed by Managing director.	
	2	2	1	5

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

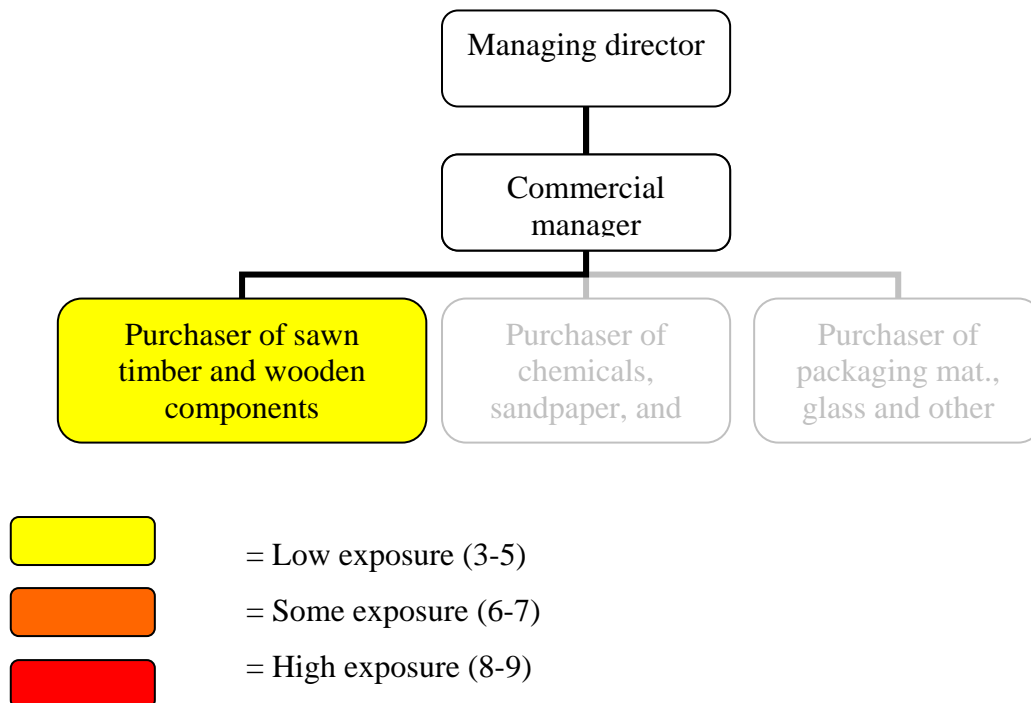


Fig. 15. The risk of exposure of low levels of practice for the purchase organisation in Jasna.

5.5 Analysis of Ukraine

In the empirical results, the organisational structure of wood purchasing in Ukraine was determined. This was illustrated in Figure 8. This chapter assesses these and other findings determine to determine Swedwoods exposure risk to low level of legal and ethical practices

5.5.1 Support for ethical practice

Policies

According to Transparency International, Ukraine has a CPI score of only 2.8. Ukraine could therefore consider being a country where the risk of unethical behaviour may be socially acceptable. This highlights the importance of clearly defined policies and that they are actually carried out so they don't just become a paper tiger. Regarding policies, the empirical results shows they are working according to Ikea's policies, which means no bribes, environmental care and no illegal timber in the factory. All these matters are specified in the contract they sign with every supplier. All employees have also signed a contract with a Code of Conduct. This includes personal rules regarding gifts and other ethical behaviour. This should therefore decrease the risk level.

Job instructions

According to the empirical results, the BM has a job description that is a complement to the contract, including policies etc. that he has signed. The job description includes responsibilities, rights and authority. This does however not include any description or guidelines about how the daily work should be carried out. Since theory emphasises the creation of a purchasing manual to provide guidance to staff and as a benchmark in auditing, it is suggested the job description could be further developed and incorporated into a purchasing manual.

Ethical training

Ethical policies are included in the staff's contract at Swedwood's factory in Ukraine. However, the empirical results show, the BM hasn't gone through any ethical training before starting at Swedwood. Given the significance of ethics training in the literature, and Ukraine's low CPI score of 2.8, it is considered the introduction of an ethical training program – for all employees - could reduce organisational exposure to the risk of low levels of ethical behaviour.

5.5.2 Exposure to risk of low level practice

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 7 and 8.

Motives for low level practice

Theory indicates perceived low salary levels are a motive for unethical. Employees reported their considered their payment for their work with log procurement is sufficient, lying a little above average. Managers, according to MD in Karpaty, earn approximately 60-70 % more than a worker in the factory. Despite this, salaries are very small compared with the resources they handle in their daily work. The motive risk is therefore to a medium level.

Opportunities to carry out low ethical practices

Theory proposes a large number of suppliers are a basis for low level of practice (Monczka & Trent (1998)). The empirical results show that Ukraine has many suppliers, including small

companies. Prices are set for the whole year, although they have changed prices during the year. In the current organisational structure, it is the role of the BU manager to set payment prices. Payment prices can only be changed if the CM approves. This is considered a way of creating transparency of the role and working practice of the BM.

The empirical results show that in the current organization the WP manager role includes evaluating suppliers. Insight into the activity is poor. Given theoretical considerations of opportunity and 'wet' organisations, the lack of insight is an issue. The opportunity risk is therefore considered high.

Organizational obstacles to prevent low ethical practices

Measurements are made first in the forest by the Forest supervisor (further FS). Then the timber is transported to the site and measured again. A key obstacle is, according to Lysons (1999), to organize so that one person does not have all relevant matters under their control, since this would force them to risk collusion with others. At the Swedwood site, measurement is made by the production department, which creates a cross control, reducing risk levels. Timber is measured a second time at the Swedwood site, before sawing, to create transparency in the measurement. This we believe is theoretically sound for the organization.

Contracts are always signed by the MD to create insight. Although he is concerned that that for practical reasons auditing and insight into contract negotiation and preparation is poor. He trusts his co-workers and believes if problems will occur he will find out sooner or later. He relies on a signal system, which theory considers important. However, the general cultural obstacles in Ukraine may block signals. The risk levels are considered high.

Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, the table summarises analyse and presents an overall risk factor. 1 is low, and 3 are high. Only the roles within the current organisation that influence log procurement are taken in consideration.

Swedwood Karpaty (Sawmill)

Table 7. Summary of the exposure risk of low level practice in Karpaty

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Log yard supervisor	<i>The salary is enough living on but is still low compared to other countries. It is considered OK by him. The system is not good enough to fully support ethical behaviour and prevent corruption.</i>	<i>Is not a part of the supplier selection decisions but can have a large impact on the measuring of the deliveries form suppliers.</i>	<i>The audit is poor and his influence is huge. Only systematically incorrect measuring will be detected but The signal system could be affected by cultural obstacles. Placed under Production manager. The measuring is cross-controlled.</i>	
	2	2	2	6
Measuring team	<i>The salary is enough living on but is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.</i>	<i>The organisation is structured so their interactions with suppliers are small in.</i>	<i>The placement under the Production manager is sound. Manuel, visual measuring. The measuring is cross-controlled.</i>	
	2	1	2	5

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.

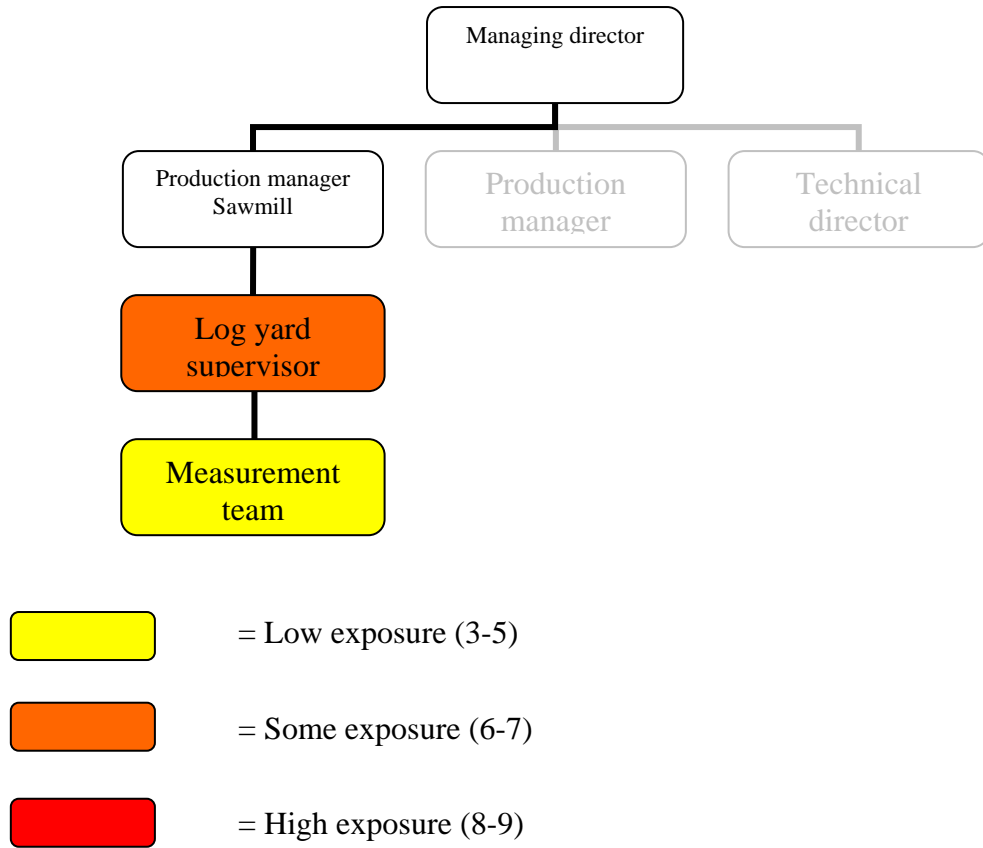
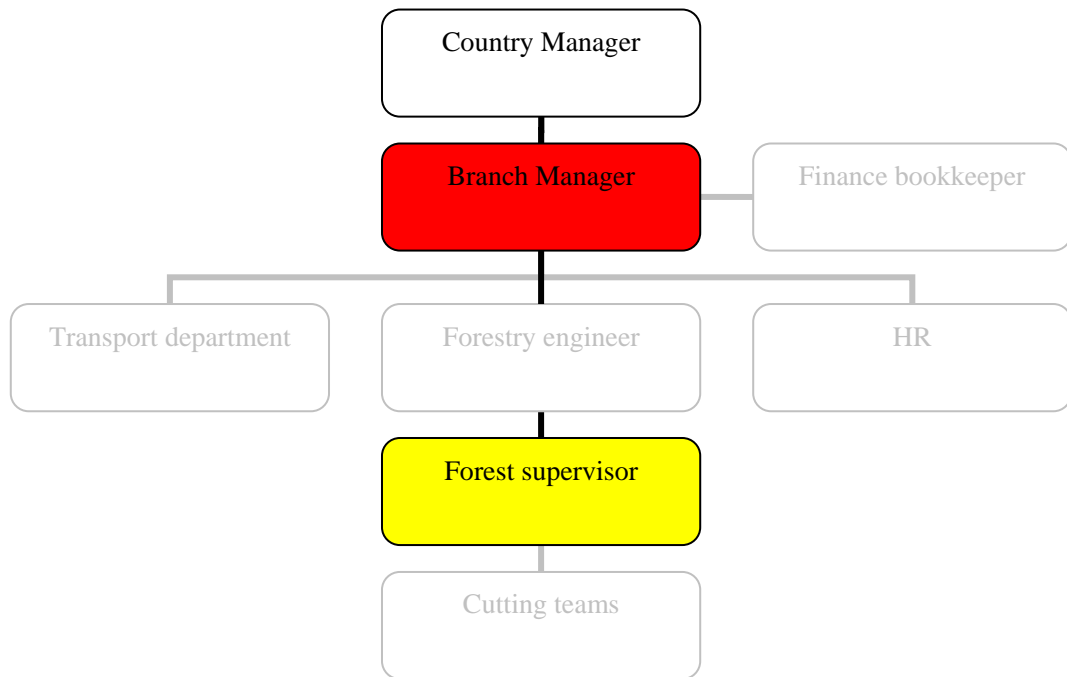


Fig. 16. The risk of exposure of low levels of practice for the purchase organisation in Karpaty.

Table 8. Summary of the exposure risk of low level practice in the harvesting company

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Branch manager	The salary is enough living on but is still low compared to other countries. It is considered OK by him. The system is not good enough to fully support ethical behaviour and prevent corruption.	Large number of suppliers. Is independently negotiating and preparing contracts with suppliers.	The audit is poor and his influence is huge. He evaluates suppliers and selection criterions are poor. The signal system could be affected by cultural obstacles.	
	2	3	3	8
Forest supervisor	The salary is enough living on but is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.	Main responsible for the timber until it is delivered to site.	No major impact on measuring since it is measured both by supplier and measuring team.	
	2	2	1	5



- = Low exposure (3-5)
- = Some exposure (6-7)
- = High exposure (8-9)

Fig. 17. The risk of exposure of low levels of practice for the purchase organisation in the harvesting company.

5.5.3 Auditing of supplier

Swedwood has a system to control the supplier’s source, which is based on harvesting tickets and buying contracts with the state. We observed that both of these are controlled by Swedwood systematically. The demands for cooperation are specified in the contract and it is of most importance that they work according to these. Since the market is so insecure it is important to continue and improve the work because otherwise it risks becoming a paper tiger.

5.6 Analysis of Romania

In the empirical results, the organisational structure of timber procurement in Romania was determined. This was illustrated in Figure 9. This chapter assesses these and other findings determine to determine Swedwoods exposure risk to low level of legal and ethical practices.

5.6.1 Support for ethical practice

Policies

The empirical results shows people need to sign a Code of conduct before they start working. This regulates gifts and behaviour. They also work according the IKEA rules of social responsibility regarding illegal timber, child labour and following the laws in the specific country. This combined with the fact that they have a job instruction including authority,

obligations, tasks, competence limitations and responsibilities, - according to organisational theory - provides a solid foundation for carrying out relevant policies and theoretically should reduce the risk of unethical decisions.

Having clearly defined policies could be seen as extra important since Rumania has a CIP score of only 3.1 which means that social acceptance of unethical behaviour are high.

Ethical training program

As found in the empirical results, the current organisation the role of Purchaser has not taken part ethical training regarding purchasing. According to the literature, ethical training is important and so the lack of training presents a risk-

Job instructions

The literature highlights the importance of clear organizations, directives and routines. The empirical result show the role of Purchaser at Siret has a job instruction. However, this is only general for purchasing whereas theory stresses this should be specific with measurable goals. An issue is the Purchaser hasn't actually read it. Nonetheless, we consider it theoretically justifiable to formalize a job instruction special adapted for purchase of timber. And, introduce routines so people are clearly aware of the jobs instructions so that they fulfil their intended purpose.

6.6.2 Auditing of suppliers

As the empirical result show, Swedwood in Siret has no practical audit of their suppliers. Before a supplier can deliver they have to sign a contract where they guarantee timber delivered to Swedwood is legally harvested. There are however a big market of timber in Rumania. The Purchaser is allowed to control whether sawmill is purchasing legal cut timber by asking for the needed and required documents. Since the market is insecure it is important to continue and to improve this work.

5.6.3 Exposure to risk of low practice levels

The following text discusses the exposure to risk of low practice levels. Here the authors of this study compares the theory which are discussed above (under theory section) with the actual case. This is summarized in Table 9.

Motives for low level practice

Quah (2003) concludes salary an important factor. According to the MD, the salary for a Purchaser is about 50 % higher than for the people working in the production. All Swedwoods salaries are quite similar to other companies in the region, and must be considered to be medium.

Opportunities to carry out low ethical practices

Theory indicates the larger the supplier base, the higher the risk. The empirical result shows a broad supplier base with up to 40 different suppliers. This large number of suppliers may therefore increase the risk of low levels of ethical behaviour occurring.

Organisational obstacles to prevent low ethical practices

Theory considers the larger the scope of control, the higher the risk. The empirical results show the manager role currently has a diverse range of issues under its control. In the current organization, it is the Purchaser who prepares the contract, handling the negotiation and sets the price although it is the MD who has the authority to sign contracts. The role as Purchaser

also includes evaluation of each supplier and deciding who to continue to cooperate with. This means the role as Purchaser has a diverse range of issues under his control. And since every supplier has a different price it is, according to the MD, there is little transparency to ascertain whether this price or evaluation is based on sound judgment. Thus, the risk is considerable high.

As are described previously, a firm should encourage suppliers to report instances of unethical behaviour. According to Transparency International Rumania has a CPI score of 3.1. This means as with Russia, the social acceptance for unethical behaviour in Rumania is an issue. Quah (2003) means that “cultural norms effectively preclude punitive denial of the perquisites that attend each position”. This could be considered a problem since both people within their own organisation as well as people from external supplier may not reflect upon their action.

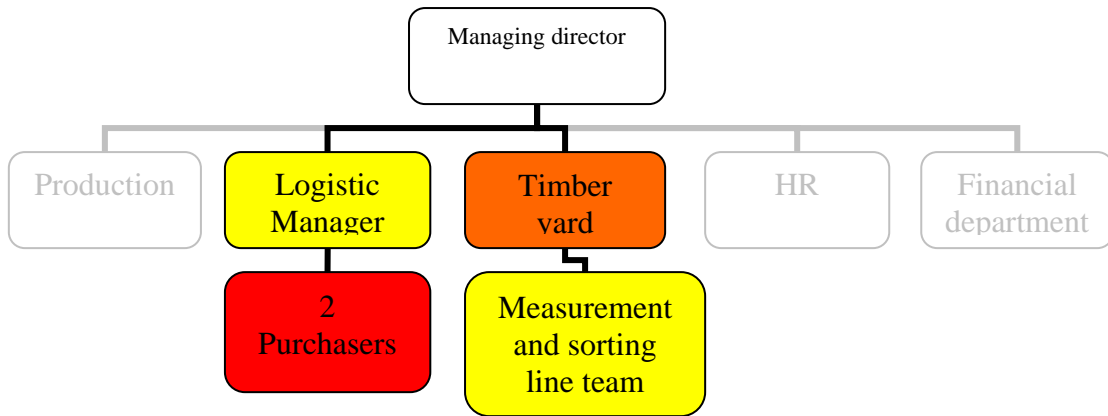
Assessment of the exposure risk of organisational roles to low practice levels

To visualise the exposure of low levels of practice, the table summarises analyse and presents an overall risk factor. 1 is low, and 3 are high. Only those rolls within the currant organisation who are involved or in any other way influence log procurement is taken in consideration.

Table 9. Summary of the exposure risk of low level practice in Siret

Current role	Motives for low level practice (1-3)	Opportunities to carry out low ethical practice (1-3)	Organizational obstacles to prevent low ethical practices (1-3)	Sum exposure to risk (3-9)
Logistic manager	The salary is enough living on but is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.	Mainly responsible for planning purchase, not active in the daily process.	The contact with suppliers is not significant.	
	2	2	1	5
Purchaser	The salary is enough living on but is still low compared to other countries. According to him it is satisfying. The system is not good enough to fully support ethical behaviour and prevent corruption.	Large number of suppliers.	Transparency of the roles activity is poor. He is independently responsible for auditing and evaluating suppliers. Prepare contracts.	
	2	3	3	8
Timber yard responsible	The salary is enough living on but is still low compared to other countries. The system is not good enough to fully support ethical behaviour and prevent corruption.	Mainly responsible for the outcome of measuring.	The organizational placement. Placement in the organisation structure is in theory sound. Cultural obstacles may prevent insight.	
	2	2	2	6
Measurement and sorting line team	The salary is enough to live on but low compared to others, earn less then Purchasers. The system is not good enough to fully support ethical behaviour and prevent corruption.	No frequently contact with suppliers. Systematically measuring failure will be detected.	Transparency high. Placement in the organisation structure is in theory good.	

To visualise the risk of exposure of low levels of practice, this figure below colour codes how the organisational structure contributes to risk. White is low, yellow moderate, and orange/red are high/very high.



- = Low exposure (3-5)
- = Some exposure (6-7)
- = High exposure (8-9)

Fig. 18. The risk of exposure of low levels of practice for the purchase organisation in Siret.

6 Discussion

This section is divided into two parts. Firstly, this study's method is assessed, with the authors discussing their views of the reliability and validity of this study. Secondly, the findings are discussed, where the authors discuss the result from broader perspective than the benchmarking approach, incorporating a wider spectra of related issues.

6.1 Method discussion

6.1.1 Research strategy

Since each unit is unique (they are structured in different ways and operating in different markets) and operate in different contextual conditions, the choice of a case study as the research strategy, using a semi-structured interviews, appears to have been appropriate. It has enabled flexibility. Working with semi-structured interviews helped us to gain a deep understanding of each unit and its particular purchasing function.

6.1.2 Reliability and validity

When preparing the semi structured interview guide, our intent was to create questions that addressed the issue but were posed in a diplomatic way.

To minimise the risk of misinterpreting the qualitative data we collected, we recorded the data digitally. And, listened to this data throughout our analysis.

Regarding reproducibility, if a similar study were to be repeated its findings may differ since Swedwood's is changing, expanding 20 % each year, and the world changes. These changes in internal and external environment would affect the respondents and hence findings. So the possibility of replication is low.

We were concerned about the trustworthiness of the information from interviewees. This concern arises from the sensitive nature of the subject, which means that there are incentives for holding back information and not telling the truth. This issue is not always straightforward to discuss since you are questioning people's trustworthiness. This might affect the result of the interviews. To minimise this effect, our assessment focused on the formal organisational structure. Since this is neutral information, we consider people felt they could discuss this openly. Furthermore, to enable us to take a critical approach, we made extensive use of the theoretical framework to assess responses.

During data collection, language barriers have sometimes been a problem since some of the interviews relied upon the use of an interpreter. We consider the presence of another person, and their translation, could have affected the answers and thereby decreased the trustworthiness of our respondents. It is also likely that information was lost during translation, despite the best intentions we observed: overall we observed people to be helpful and to take their time to ensure we collected the information we needed. Nonetheless, we consider the reliability of the formal organisational benchmarking to be high.

Whether the result of this study could be generalised for the entire Swedwood organisation is difficult to assess. We have altogether visit eight different units in six different countries. In average we studied each unit for 3 days. We consider longer study visits would enable more nuances to be captured. Similarly, making a second visit to follow up would provide a deeper understanding about each case and underling factors. This would increase the reliability of studies.

Overall we have hope we have acted with the sensitivity that is appropriate for addressing the ethical issues we were studying.

6.2 Result discussion

The issues we have worked with are not unique for Swedwoods units. It reflects a huge social and cultural problem in society, and is an issue that companies with high ethical demands must address. IKEA and Swedwood make great efforts and invest lots of money to restrain and deal with these problems, and therefore contribute to the society's welfare. We see this particular study in this context and that social responsibility has been and will to be one of Swedwoods cornerstones. Despite these efforts, a single company cannot change society itself. Here governments and NGO's must also play a role. Swedwood has recently started a pilot project to ensure high level of practice and trustworthiness are accomplished, which will be applied in all their units in the future. We therefore want to make it clear that our assessment of potential exposure does not indicate that any wrong doing has actually taken place.

We emphasise that this work is an independent audit that maps Swedwoods purchasing organisation and practices, assessing, from an organisational perspective, the risk the purchasing organisation potentially has to being exposed to low levels of ethical and legal practices. Their intent of the discussion is to raise a constructive critique so that Swedwood can strengthen its organisation and practices in order to minimise risks.

Swedwood has recently invested in countries that are low-ranked on the Transparency International's corruption index, where low levels of ethical behaviour are more socially accepted. People that are interested in taking advantage of the system, tend to be drawn to business and units where lots of money is involved.¹¹⁸ This means that purchasing units by their nature are often exposed to a high risk regarding low levels of ethical and legal practices.

Since Swedwood is both a relatively young and growing organisation, it is perhaps not that surprising the purchasing organisation and practices of its operations in six Eastern European countries are informal i.e. they are undocumented. In a context where corruption is considered an obstacle to social responsibility, the lack of formal policies however is considered problematic. None of the purchasers who were interviewed in this study had participated in any ethical training and so the first issue we consider that needs to be addressed is the lack of policies and training. Such a situation means that people do not have clear guidelines for ethical practices. We therefore consider it appropriate to introduce purchasing manual, which contains process and ethical guidelines, and people are trained to use these guidelines effectively.

The fundamental motive for people's unethical behaviour is correlated with their salary. The more money you earn without compromising principles, the lower the likelihood for low levels of ethical practice. According to our respondents, co-workers at Swedwood earn quite similar salaries to staff at other competitor industries in the region.

Organisational structures can affect the number of opportunities and hence risk of low level practice. The purchasing units could be considered as "wet" organizations, with huge resources and it is common in the countries where Swedwood's units are located to accept gifts from private companies for choosing their services. If this were a practice, it could potentially affect the quality of deliveries since good companies neither need to pay for

¹¹⁸ Robert Björk (2007) [Oral]

delivering good services nor risk their ethical reputations. Therefore, it is important to create transparency in supplier selection and evaluation process to ensure this is done on the basis of a sound judgement of facts and information. The purchasing organizations typically cooperate with between 15 – 30 harvesting and trading companies. Contracts are also short term and renegotiated frequently. It's a turbulent and insecure market, with many new suppliers coming in. Logs and sawed timber are also standard products and the investment in the relation with the supplier is considered low, since it is easy to change supplier. Thus, both the large number of suppliers and short nature of contract may increase the risk of low levels of ethical behaviour occurring.

With the intent of attracting reputable suppliers to Swedwood, it is important to note that key issues for supplier satisfaction are price, measurement and payment. Since the buyer often performs measuring, it is particularly important measurement is made correctly, i.e. rigorous and systematic methods and modern instrumentation should be used. Furthermore, we consider there is a need to work with payments and credit time to ensure Swedwood is considered an attractive business partner.

Swedwoods various purchasing units all have systems for payments and document flow. Cross control is normally made for invoice payments, which is a good practice. The purchaser and financial department need to approve all invoices, to ensure cross control. It also creates insight and control by letting at least 2 persons see every decision. Invoices and other measuring of received goods should also be randomly and systematically controlled and audited to ensure high levels of practice. Insight, transparency and control over the purchaser are often accomplished by giving the purchaser's supervisor authority to sign contracts.

The purchaser is often responsible both for preparing contract and evaluating the suppliers. Guidelines, routines and directives regarding these activities are however often poorly described in the units. The role of purchaser includes handling all relevant matters and can thereby highly influence decisions regarding whom to cooperate and on which terms. Since there is often only one purchaser at each unit (at least regarding timber and log procurement) the independence of his work is large. His influence is thereby huge and insight in the purchaser's activities is poor. In some cases, when the purchaser is also responsible for measuring deliveries, the purchaser's role controls and influences the entire process. Transparency, and therefore trustworthiness, could thereby be questioned, particularly since measurements are performed manually using a visually method. Organisational changes are therefore recommended to formally separate purchasing, auditing and measurement roles and ensure they are organisationally independent from one another. Measuring should also systematically and randomly be controlled/audit.

Regarding audits, Lysons highlights four main purposes the purchasing management audit serves. These are to ensure:

- purchasing policies are adhered to
- the organization is using desired modern and correct techniques, procedures methods
- control and measurement of the extent to which resources are used effectively
- Auditing takes place to prevent and detect fraud and malpractice.

Since there are no clearly defined criteria to evaluate whether the Purchasing Manager acts appropriately, the credibility of auditing is questionable due to the organization dependencies discussed above. We consider that there are issues regarding the auditing practices mentioned

here. This strengthens our conclusion that there is a need for both an organizational change and introduction of a purchasing manual.

Generally, for the people who are working in the purchasing unit, Swedwood's policies are often poorly described or carried out. Many of those who participated as respondents in this study have not been informed about the policies and guidelines they are expected to follow. According to Lysons (1996) lack of policies highly affects unethical decisions¹¹⁹. IKEA and Swedwood want to operate with social responsibility, and contribute to social well being. Corruption could be seen as an obstacle and the lack of policies could therefore be considered problematic. None of the purchasers who were interviewed in this study had participated in any ethical training. In the current organisation, the purchasing role handles most of the contact with their suppliers and thereby represents the company. Since Swedwood intend to act ethically and prevent corruption, the behaviour of individual purchasers is extremely important. And according to Lysons (1996) all new purchasers shall enter a training program before starting their real work. This could be a way of decreasing the risk of unethical behaviour within the organisation. Since policies and guidelines regarding purchase ethics are often not carried out, the significance of ethical training becomes even more important.

Swedwood has invested in countries that are low-ranked on Transparency International's corruption index. This means unethical behaviour such as bribes and "kick backs" are more socially accepted than in Sweden. People that are interesting of taking advantage of the system and willing to take bribes or in another way acting unethically tend to be drawn to business and units where lots of money is involved.¹²⁰ This means that purchasing units are particularly exposed to a high risk regarding low levels of ethical and legal practices. It is important to remember that such problems they are working with partly reflects the society in general, with a country's governments also having responsibility to improve and upgrade the judiciary system.

Management should encourage their suppliers to report instances of unethical behaviour by anyone within the firm and made clear to suppliers that the buying firm commits itself to ethical business. According to Lyson the most common way of detecting fraud is via outside information. However, in practice, such a signal system is based on people's willingness to inform when issues arise. Cultural obstacles may prevent this occurring due to social acceptance of low levels of practice, which decrease the probability of detection and perceived risk of detection. According to Transparency International, corruption in Eastern Europe is widespread through out all levels in society. It is important to state examples and makes police reports. According Robert Björk, the Security manager, 70 % of a security system is signals. Then the employee won't only risk losing his job, he will also risk penalties defined by the law. The illegal act risks the company and his own reputation. One of the biggest assets for a buyer is their reputation, which they bare through their entire carrier.

In Eastern Europe, the forest and harvesting companies are by traditional mostly owned by the state. Employment in a state owned company wasn't, according Mays Nordberg, seen as work to earn a living, but a position to use for personal gain. According to Quah, even the most honest person may under perform if he can't live on the salary. There is a risk that this view of state employment is still an inheritance from the time of the Soviet Union and Tsar. There are concerns that the State Forest department underestimating the volume and quality of the timber in the forest, and so creating a 'surplus' of timber can perpetuate this situation. This

¹¹⁹ Lysons, K (1996)

¹²⁰ Robert Björk (2007) [Oral]

can be sold to private sawmills or traders for a low price, with part of the difference between the value of the delivery and the invoice paid to civil servants. Traders can then sell it on to sawmill and so the timber turns 'legal'. Thus, auditing of the harvest source is vital. In this issue the government needs to take greater responsibility. The NGO's must also put effort to establish a higher performance in this topic.

Swedwood has a system to control the supplier's source, which is based on documentation of harvesting tickets and way-bills. We observed that Swedwood controls both of these systematically. The units using sawed timber contractually demands their suppliers only deliver legally harvested timber. There is a need to work with data concerning routing to ensure high levels of trust in these harvesting tickets; otherwise the system might become a paper tiger. NGO's and governments also needs to take further responsibility to ensure judiciary systems function well in regard to this matter.

When starting this study, we hoped to be able to create a "best practice" regarding purchase. It has however turned out to be quite complicated, perhaps impossible and we thereby agree with Farmer and Jessop who state that there is no single best practice for purchasing¹²¹. Every purchase and its circumstances are unique. Best practice is affected by the environment and since environment is constantly changing, so has the way of purchasing too. We therefore believe that while guideline changes and improvements can be suggested, there is however no 'single' "best practice" for all units.

We similarly believe that the same goes for the structure of the organization. Swedwood are active in a number of different countries/areas. This means that there are a wide range of different cultures, conditions and other different circumstances. Every organization and its environment are unique and shall thereby be structured appropriately for its given circumstances. According to Farmer and Jessop organization can be analyzed by a centralized/decentralized perspective¹²². There are different benefits for both types and result is often a compromise between centralized and decentralized for the purpose of gaining benefits from both types of structures. Regarding Swedwood and its purchasing organization for timber and sawn goods, it could be classified as a highly decentralized organization. Of course, this must be the case since a significant aspect of timber purchasing relies upon knowledge of specific local circumstances. The contacts and cooperation with the suppliers are also tight, which requires a local presence and thereby a decentralized purchasing organization is appropriate.

In this spirit, we therefore make recommendations for Swedwood to enhance its organization.

¹²¹ Farmer & Jessop (2005)

¹²² Farmer & Jessop (2005)

7 Recommendations

This section contains the authors' recommendation for improvements. These include both suggestions for actions for Swedwood to take as well as how the organisation should be structured in order to lower risk. Lastly, recommendation for further studies is raised.

7.1 Recommendations for improvements

For Swedwood to be a "model company" and good example, it is particularly important to enhance their security work. A seller who "must" practice unethical sales methods probably does not have a product worth purchasing. There is a high likelihood it is of poor quality and perhaps even illegally harvested or produced. We consider it important to give managers appropriate guidelines so they have tools to handle this situation. We also believe there must be a balance between the efforts made to increase the security. To be able to continue existing on the market the investments on developed security should correspond to the probability of losses occurring. We also believe it is of most importance to progress in a calm way to avoid unnecessary disturbance to the working environment.

7.1.1 Actions to take

- Create a purchasing manual for each unit, containing policies, responsibilities, authority, guidelines for supplier evaluation and routines. Update this regularly to take into account developments in business conditions and the local business landscape.
- Be clear on the company policies and guidelines concerning ethical purchasing practices and about policies on receiving gifts – and ensure people are aware of them.
- According to Transparency International, Swedwood are active in several countries where corruption is considered as a problem. The need for training in purchasing practices and ethical policies, for both experienced and for less experienced purchasers, is therefore considered to be particularly important.
- Swedwood expands intensively and opens new units all over the world. They will need to employ many new co-workers in the future and it would be a support for them to have a purchasing manual. Always train the new purchaser and inform him about rules and policies about purchasing.
- Draft an ethics contract for all employees, which they should sign.
- Co-work with the other western companies in the region and share your knowledge about suppliers.
- Enhance proactive security measures e.g. Create a database with every case and suspicion of illegal activity. Here you save all experience and knowledge about the weak points of purchasing organisations. All units could then share this information and thereby learn from each other and prevent incidents. Swedwood must become a learning organization in this respect! This would probably be a suitable task for the security manager.
- To improve security you need Structure – culture - method – routines and technical solutions. Swedwood today has experts in production and factory building. It is similarly recommended that Swedwood established a Social Responsibility and Ethics Practices expert, who shapes approaches, routines, process, security practices etc. to ensure high levels of ethical practices.
- Start off on the right track and raise a culture of high ethical practices from the beginning. It is natural to be focused on production given the challenges of establishing new organisations. People may get bogged down in this and so overlook culture. However, as discussed above, high levels of ethical practices are ways of

attracting reliable suppliers and so ease production issues. Include ethics training along with the current factory establishment routines.

- Raise the status of being a Swedwood employee. It should be something to aspire to and something people would not want to lose. It could be continuing professional education, English language, and entrepreneurship – things that are important to people and build loyalty in Swedwoods concerns for business with social and ethical responsibilities.
- Highlight the manager's responsibility regarding performance evaluation.

7.1.2 Guidelines for shaping organizational structures that have low risk of exposure

- Always create insight and control. At least 2 persons have to see every decision. Cross control with different departments.
- A purchaser's role should not have undue scope and influence over auditing type functions i.e. the purchasing, auditing and measuring departments should be distinct units, with no span of control over each other. E.g. neither the log yard nor the measurement unit should work directly under the purchaser. There is also no need for the purchaser to be responsible for the log yard.
- The Measurement team should always work independently to increase trustworthiness.
- Rotate staff so long term 'personal' contacts are counteracted.
- Build-in a culture from the beginning that avoids corruption, with high status and salaries, high transparency and auditing.
- Continually work to increase transparency.

As Ingvar Kamprad (the founder of IKEA) says– most of the things are still unmade.

7.2 Recommendations of future studies

The authors hope that Swedwood International AB will continue to improve policies and ethical guidelines in order to decrease the risk of unethical behaviour within their organization. With enhanced policies, guidelines and job description Swedwood will not just decrease the risk of low level of ethical practice but also improve purchasing since the risk of sub optimization decreases. But setting policies and guidelines is not enough, it also takes a great effort to put these into practice so change happens.

The responsibility of many of the issues that we have highlighted in this study lies not only with Swedwood. The government has a large, if not to say, the biggest responsibility. This means that in order to make changes, Swedwood must cooperate with state and government. In many of the countries where Swedwood has invested, corruption is considered a problem (Transparency International). While influencing governments can be challenging, someone must lead the way and that someone should be Swedwood.

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Appendices

Appendix 1: Semi structured interview guide

Introduction

1. Tell us about your background and education
2. Tell us about your work
3. What's your official title
4. Can you describe your view of the company
5. What's the function of your business unit
6. Who approve/authorize your decisions?

Organization form

1. Can you tell us about how the organization works? Organized? Map it?
2. Who does what? Who are your colleagues? How many are you?

Different kinds of activities in purchasing and the purchasing org.

1. How does a typical purchase look? What different kinds of activities are involved in the process?
2. Who does what?
3. Who has the contact with the supplier?
4. How is the contact with the supplier arranged? Personal meetings? Telephone?
5. How often do you meet them?
6. Who is authorised to make a deal and write a contract?
7. Do you need any approval for your work?

The information flow in the purchasing organisation

1. How is information exchanged between purchase and production (stock-unit)?
2. How often do you meet in your unit?
3. Which kinds of parameters do you report to the controller?

Wood measurement

1. Who measures the timber?
2. How do you know that their measure is correct? How are they done?
3. Who controls the controller?

Chain of custody

1. How do you control the source of the timber according to chain of custody?
2. Is it possible to control all timber?
3. How is the illegal cuts made?
4. Have you ever been forced to interrupt any business relation because of problems with track ability?

The administrative part of the organisation. How it's been organised and managed.

1. How is the timber measure reported? Where is it reported?
2. How long is the term of credit? How do you pay them?
3. Who pays the supplier?
4. Do you need any ones approval?

Directives for the procurement process

1. Do you get any formal guidelines from Swedwood how to work regarding purchase (if no; skip to nr 4)?
2. How does it look? What do they describe?
 - Policy?
 - Responsibility?
 - Working conditions?
 - Field of work?
3. Do you use them?
4. Do you have your own guidelines?
5. Do you think that a formal guideline would help you in your purchasing work?

Corruption

1. Do you feel that sometimes you are under pressure from corruption?
2. Is it used by any other companies to get advantages?
3. Is there any formal way of dealing with corruption?

Purchasing personnel

1. Has every member of the purchasing function an appropriate job description?
2. How do actual duties carried out related to the job description?
3. Is an attempt made to empower purchasing staff?
4. What training and development opportunities are provided for purchasing staff?
5. How do salaries and remuneration packages compare with those in similar industries/companies?

Purchasing policies

1. What written/unwritten policies apply to purchasing function?
2. Is there a purchasing manual? How frequently is it updated?
3. Rules and guidance for: Supplier relationship, gifts and entertainment?

Purchasing procedures

1. How might purchasing documentations be improved or simplified?
2. How much time do purchasing staff spend on seeing suppliers?

Purchasing reports

1. What reports are prepared by the purchasing function?
2. By whom is each report requested?
3. By whom are each report prepared?
4. To whom is each report sent?

Future perspective

1. What is your organisation doing in 10 years?
2. How does the timber market look like then?
3. What are your suggests to improve the purchasing organisation?

Choose of supplier

1. Out of which aspects do you choose supplier?
 - Security of deliveries
 - Price
 - Volume
 - Quality

Attendant questions

1. Ask for a flowchart regarding documents.
2. If policies regarding purchase and ethics exist, ask to see them.
3. If a purchase manual exists, ask to see it.
4. According to the object of our study, who else do you believe we should interview?

Appendix 2: Arbetsfördelning

Detta arbete har utförts och skapats av Emil Gustavsson och Daniel Norberg. En stor del av detta arbete har åstadkommit genom gemensamma diskussioner och funderingar. Vi har dock sinsemellan delat upp detta arbete och de olika arbetsområdena för att skapa bättre förutsättningar för att lyckas med denna studie.

Generellt sett kan sägas att Daniel har behandlat de västerländska organisations- och inköpsteorierna medan Emil har fokuserat på områden rörande korruption, mutor och problem kopplat till dessa.

Vi har dock gemensamt genomfört samtliga intervjuer, både i Sverige samt de som gjorts på respektive Swedwoodenhet i de olika länderna. Efter avklarade intervjuer har gemensamt gått igenom vad som har varit viktigt och vad som därigenom vad som skall fokuseras på. Resultatdelen har sedan delats upp genom att ansvara för 3 länder var. Emil har ansvarat för att sammanställa Ryssland, Lettland och Rumänien medan Daniel har tagit de resterande; Polen, Slovakien och Ukraina.

Efter att samtliga länders resultat renskrivits har vi självständigt läst igenom dessa för att plocka ut essensen och det vi tycker skall lyftas fram i en analys. I analysen har det fallit sig naturligt att Emil har varit den som har analyserat resultatet utifrån de teoretiska kunskapsreferenser som han erhållit via litteraturstudien och det samma gällande Daniel och hans område. Självklart har ingen av oss verkat i sin enskildhet utan det mesta och kanske även det bästa har framkommit efter diskussion där vi jämfört och ställt de olika teorierna mot varandra.

Den avslutande diskussionen i arbetet är något som vi kontinuerligt diskuterat och funderat kring, särskilt under de resor som vi genomfört i detta arbete. Diskussionen och de förbättringsåtgärder som vi föreslagit kan därför sägas ha vuxit fram vartefter arbetet har fortskridit.

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