

# THE EXPORT OF NATIONAL VARIETIES OF CAPITALISM: THE CASES OF WAL-MART AND IKEA

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by

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**Abstract**

Using the cases of Wal-Mart and IKEA, this paper takes a productive systems approach to examine ‘varieties of capitalism’ from the perspective of the ways by which production and market relations are structured and prioritised. It considers the nature of these relations and their interaction within the domestic economy and the ways that firms and national systems interact with each other in the global economy. It examines the processes by which trading standards are transported via supply chain relationships, which ultimately become embedded in products and recognized by consumers at various stages. In this analysis, the cases of Wal-Mart and IKEA provide insight into the ways by which national systems extend themselves globally, their contrasting effects on the business environments in host localities, and the impact of the resulting supply chain relations on organizational performance.

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## 1. Introduction

Liberalization of trade and capital movements has contributed to increasing global inter-dependence and integration. Customers and investors are demanding that firms be ever more responsive to changes in technologies and market requirements and that they deliver consistently high quality products and services at low price. At the same time, companies are being urged to prioritise shareholder interests, deliver continuous improvement in short term financial results and be transparent in their reporting. However, despite these pressures for conformity, there is substantial evidence that national systems are evolving in such a way as to maintain the distinctive characteristics that differentiate ‘varieties of capitalism,’ giving rise to a growing body of literature on this phenomenon.

One strand of the research distinguishes the shareholder from more stakeholder oriented varieties, with much of the debate centring around questions of convergence towards (and divergence from) the dominant ‘Anglo-American’ shareholder based model (Hutton, 1995; Hansmann and Kraakman 2001; Dore 2000). Other studies differentiate systems on the basis of their institutional characteristics<sup>1</sup>. Hall and Soskice (2001), for example, distinguish ‘liberal market economies’ (LMEs) such as the US and UK from ‘coordinated market economies’ (CMEs) such as Germany and Japan; the former being characterised by hierarchies and competitive market relationships and the latter by networks, other forms of collaboration and ‘relational contracting.’ In a similar vein, Jacoby (2005) differentiates capitalist systems according to the role and relative importance assigned to the requirements of production and markets, locating systems along a continuum ranging from the more organisation- or institution-oriented systems (such as Japan and Northern Europe) to the more market-oriented systems (such as the US and UK). An important observation in much of this research is that while most systems are moving towards the market pole of the continuum, they are evolving in such a way as to maintain key features of the national productive system, with its particular set of core competitive capabilities.

National systems imprint themselves on the companies originating within the home market; and because consumers’ demands are shaped by national social, economic and cultural norms and standards, they have an important influence on the approaches companies take in relations with suppliers, employees and other stakeholders. This is in large part because these relations become embedded in the final product or service and are likely to be recognized by consumers. In Sweden, for example, the high societal value placed on social and economic justice and distributional equity translates into a low tolerance on

the part of consumers for goods and services that are produced by companies using exploitative labour practices or irresponsible social or environmental behaviour anywhere in their supply or distribution networks. By contrast, American consumers have traditionally been much more tolerant of such practices. With globalization, dominant firms appear to be transporting characteristics of their national productive systems to developing countries by means of their supply chain relationships as well as to other countries in which they operate. The buyer power of large American firms like Wal-Mart, for example, is used to squeeze suppliers in order to minimize cost and price; and this impacts adversely on the socio-economic conditions in localities in which they trade. By contrast, the Swedish retailer IKEA *exports* the high quality of customer/supplier and employee relationships (expected of Swedish companies) to its suppliers in the developing world; and this contributes positively both to their socio-economic advantage and to IKEA's own competitive success.

While the distinguishing features of alternative national political and economic systems have been identified and described, insufficient attention has been paid to the co-existence and endurance of these alternative and competing forms within an increasingly global system; and the process by which different national systems extend and reproduce themselves both at home and abroad has not been effectively explained. This is in part because most studies are descriptive in nature and do not go below the surface to open up and examine more closely the 'black box' of production, the dynamics of productive system relationships within and among national systems and the interrelationships between production and market requirements and outcomes. Using the cases of Wal-Mart and IKEA, this paper takes a *productive systems* approach to examine 'varieties of capitalism' from the perspective of the ways by which production and market relations are structured and prioritised. It considers the nature of these relations and their interaction within the domestic economy and the ways that firms and national systems interact with each other in the global economy. It examines the processes by which trading standards are transported via supply chain relationships, which ultimately become embedded in products and recognized by consumers at various stages, from the supply chain through to the end consumer. In this analysis, the cases of Wal-Mart and IKEA provide insight into the ways by which national systems extend themselves globally, their contrasting effects on the business environments in host localities, and the impact of the resulting supply chain relations on organizational performance.

The paper is organised as follows: Section two lays out the productive systems framework which forms the basis for analysis and explains the interrelationship between the quality of productive system relationships and competitive outcomes. Section three extends this framework to distinguish varieties of

capitalism on the basis of the respective roles assigned to production and market relationships and the ways they are structured and prioritized. Section four provides a comparative case study analysis of Wal-Mart and IKEA. Section five sums up the main arguments and draws conclusions from the preceding analysis and discussion.

## 2. Productive System Relationships and Competitive Outcomes

Productive systems theory<sup>ii</sup> provides a general analytical framework for understanding the dynamic non-equilibrium processes by which firms and national systems evolve, reproduce and extend themselves globally, backward through their supply chains and forward through their distribution networks. It views the firm-level productive system as embedded in a particular industry-level system, which itself forms part of a broader national and / or global productive system. While the boundaries of the productive system are determined by the level of analysis, the system as a whole is a coherent, unified system in which relationships *between* productive systems become relations *within* when the boundaries are re-drawn. Relationships between firms in an industry or national productive system, for example, become relationships within that broader system just as relationships between nation states are relationships within the global productive system. The quality and consistency of these relationships at every level of analysis is a crucial determinant of competitiveness and of the relative performance of the productive system(s) involved.

Regardless of the level of analysis, productive system relationships have both technical and social dimensions. The *technical relations* are the functional inter-linkages between the various agents and factors of production, both within and between stages in the production process and encompassing the exchange of technical and other relevant information. These relations are objective and impersonal associations, shaped by the nature of the product or service and the process by which it is produced. Their effectiveness is determined by the level of cooperation within the system and the degree to which individuals fully perform their respective productive functions. The greater the level of cooperation and engagement, the more efficient the system will be. The *social relations* are the subjective and personal relationships among the human agents in the system. They form the social structure in which the technical relations are jointly carried out and thus play a central role in determining the effectiveness of these relations. Because there are inevitable and legitimate differences in the interests and objectives of individuals and groups within the system, particularly with respect to distribution, the social relations are also

important in resolving these conflicts such that everyone involved remains willing to cooperate and to participate fully in their productive roles. The social relations are therefore central in the system's ability to accomplish its objectives and to achieve operational and dynamic efficiency.<sup>iii</sup>

The hallmark of high quality productive system relations is that individuals and organisations working together provide open-ended commitments to cooperate. However, because the returns from cooperation are realised over an uncertain, long time period, this will depend to an important degree upon the level of mutual *trust*, or confidence that commitments made will be honoured and not abused. In systems where there is little institutional support for high quality productive system relations, the creation and enforcement of generally applicable behaviour and performance standards (both formal and informal) to which individuals and groups are expected to subscribe will be an important determinant of the ability of constituent productive systems to perform effectively.

Mutuality and power asymmetries are central forces structuring both the internal social and political framework of productive systems and the environment in which they operate. This is particularly the case when the role, interaction and evolution of broader institutions representing collective interests of productive system stakeholder groups (i.e. employees, managers, shareholders, customers, suppliers and society) are considered. Trade unions, employers' and trade associations, the state, international organisations and other agencies represent collective interests; but their form, actions and the outcome of negotiations reflect the power differences among their various constituent groups. Thus, trade unions and employers' associations are based on shared objectives of their members, but their internal organisations reflect the balance of power between sectional interests.

The activities of the state are also shaped by this co-incidence of mutual dependence and power differences. The provision of education, health, social welfare, law and order and the regulation of trade unions and business, can be seen as furthering the common interest by increasing production, and by curbing the destructive exercise of sectional interests. Alternatively, state activity can be regarded as serving the particular interest of capital or labour. The state may act on behalf of capital to curb worker organisation, provide services which individual capitalists are incapable of providing and make good the corrosive effect of capitalist rivalry on productive resources, including the workforce. For labour, the welfare state might shift the balance of power in favour of labour by lifting from it the burden of poverty, disease and ignorance. No doubt, all of these elements play some part in the formulation and administration of state

policy, and are manifest in the legal and regulatory framework and in the other ways by which the state intervenes in class and sectional divisions.

At the international level, nation states conclude treaties and collabourate in international institutions designed to regulate trade, international payments and capital flows. Many of these institutions --for example the IMF, World Bank, World Trade Organisation and European Union -- originated in the need of nation states to cooperate, to protect themselves from both the unregulated international movements of goods and finance, and the potentially destructive impact of unilateral attempts to control such flows. In this respect, international agencies serve the mutual interests of their member nation states by encouraging trade and financial interaction. However the form these institutions take, and the way they operate, reflect the relative power of different nation states, trading blocks and economic regions as well as the leverage of interest groups on national governments.

Competitive outcomes will be determined by the quality of productive system relationships and how these contribute to the achievement of organizational performance objectives. In this, whilst high quality, cooperative relationships are central to productive efficiency, the *measure* of performance effectiveness may vary across systems; and this will have an impact on the role and relative priority assigned to production and market relationships. In the Anglo-American system, for example, successful performance is measured in terms of short term net profits, which in most cases is reduced to shareholder returns in the stock market. As a result, markets are prioritized and production effectiveness is assessed in terms of the value of a company's shares of stock. The Northern European and Japanese productive systems, by contrast, measure performance in terms of long term production effectiveness and a balance in stakeholder returns. In these systems, the requirements of production are prioritized and markets are the arena in which productive effectiveness is realized.

### **3. National Productive Systems and Varieties of Capitalism**

Varieties of capitalism emerge from differences in the institutional framework, the organization of the social relations of production and the quality of relations in the national productive system. These together have an influence on the respective roles and priority assigned to production and market requirements and the mechanisms by which conflicts of interest are resolved in different systems.

The recent academic literature distinguishes what might be identified as *production-* oriented capitalist systems from those which are more *market-* oriented (Jacoby 2005). Production-oriented systems, like those of Northern Europe and Japan, are grounded in the recognition of the central importance of *cooperation* in production for *competitiveness* in markets. Effectiveness in production is prioritized because it is considered the means by which market success is realized. In these systems, the ability to organizationally reconcile the interests of the firm and its shareholders with those of its employees, suppliers and other stakeholders serves as the foundation for effective cooperation and responsiveness to customer needs. This in turn underpins the effectiveness of the national productive system and forms the basis for its competitive success. By contrast, market-oriented systems, like that of the US and UK, are grounded in the neo-liberal belief in the superiority of markets in delivering optimal economic welfare and distributional justice. In these systems, cooperation and collective organization are seen to be inherently anti-competitive and hence economically damaging. This idealization of the market has been institutionalized in economic, legal and business ideology and practice; and it has served to centralize corporate decision-making in the hands of management, while at the same time requiring them to prioritise the interests of shareholders over those of all other stakeholders. In this context, markets drive productive system relationships and there is weak institutional mediation for reconciling the interests of internal stakeholders, including employees and suppliers, with those of the corporation and its shareholders.

In production-oriented systems, leading edge HRM practices are combined with close relations with suppliers and customers (Applebaum and Batt 1994; Best 1990)<sup>iv</sup>. Work organisation is participatory and non-hierarchical and inter-firm links are close and co-operative rather than hands-off and antagonistic<sup>v</sup> The result has been a more effective mobilisation of the commitment, skills and knowledge of workers and trading partners, serving to raise efficiency, improve quality, and generate a faster rate of product, process and organisational innovation. The effect of this type of competition is to create a competitive environment in which top priority is given to the design of organisations such that they can fully exploit the co-operative nature of production. In market oriented systems, recognition of the competitive advantages associated with production-oriented 'high performance work systems' has encouraged the incorporation of degrees of worker involvement and other HRM practices into existing managerial structures and forms of corporate governance (Deakin et al. 2001). However, little has been done to change 'the fundamental nature of the production system or threaten the basic organisation or power structure of the firms' (Applebaum and Batt 1994, p22). As a result, although most studies find that these new workplace techniques generate substantive productivity and



quality gains, even the most promising examples have proven difficult to sustain over the medium to longer term (Applebaum and Batt, 1994; Baker, 1999; Black and Lynch, 1997; Doeringer, EvansKlock, and Terkla 1998, Huselid, 1995; Ichniowski et. al., 1996; Ichniowski et. al., 1997; Kochan and Rubinstein 2000; Konzelmann 2003; Osterman 1994; Pfeffer, 1996, 1998).

At the heart of the problem is a fundamental contradiction between the logic of markets as an efficient mechanism for allocating resources and distributing income and the logic of the management of production as a process for effectively combining and exploiting productive forces. As emphasized above, cooperation and a high quality of relationships are central to the performance effectiveness of productive systems and their ability to achieve market success. However, there is a clash between the conditions for promoting co-operation and the way that markets operate. Markets, as with other institutions in productive systems, serve two separate and conflicting purposes. Firstly, they serve *creativity* by providing the opportunity for developing competitive strategies based on improved products, processes and organisational forms so that superior forms of work organisation can better meet consumer needs. In this way, markets provide the means by which the mutual interests of consumers, owners, managers and workers can be realised. But, markets also provide the opportunity for the exercise of relative *power* and the securing of advantage in distribution; and in this, the interests of consumers, capitalists and workers are sharply divided and unrestrained rivalry is potentially destructive of the co-operation in production upon which creativity depends.

In market-oriented systems, the mutuality of interest inherent in production has found its expression in theories of production management whereas theories of markets encapsulate the conflict inherent in distribution. However, the relationships of power within which the theories have been formulated have led to a denial of any significant misuse of capitalist power in markets or production, and consequently any need for countervailing forces. Thus, rights of corporations to pursue their interests in markets and managerial prerogative in the management of production are couched in terms of their service to the public interest. Any hindrance to market forces or the exercise of managerial prerogative is thus deemed inherently anti-social, effectively ruling out the possible development of institutions and organisations by which the contradictions between mutual and separate interests can be resolved. In European, Japanese and other productive systems, where the management of production has played a more central role in policy making, the polarisation between corporate interests and those of workers and small organisations is much less than in the Anglo/American system. Rather, institutions and organisations have emerged to mediate these interests and to protect the weaker

stakeholders. In this way, *institutional power* (Bachmann 1999; Lane and Bachmann 1996) has been deployed to curb individual power and this has given greater scope for the realisation of mutual interests and for the development of high road production and marketing strategies.

The degree to which a national productive system is market or production (institution or organization) oriented has an important influence on how industries are structured and how dominant firms behave, in the domestic market and abroad as well as backward, in their supply chain relationships, and forward, in their global distribution system. Through this process, varieties of capitalism reproduce and extend themselves globally; and because dominant firms compete in the home country and in the host markets of suppliers and consumers abroad, alternative systems come into conflict with one another in both constructive and destructive ways.

In the following section, the cases of two of the most successful global retailers in the mass consumer market, Wal-Mart and IKEA, are examined. These two companies originate in very different capitalist traditions, which have enforced themselves on the respective retailers and transferred themselves globally, backward through their supply-chain relations and forward to the final consumer through their relations with employees and other stakeholder groups.

#### **4. The Cases: Wal-Mart and IKEA**

##### **4.1 Organizational structure and behavior**

Sam Walton founded Wal-Mart in 1962 as a single store in semi-rural Arkansas. Today it is the world's largest retailer and America's largest private employer. In 2004, it reported sales revenues in excess of a quarter of a trillion dollars (205 billion euros) and employed more than a million and a half people worldwide. More than a hundred million shoppers a week pass through Wal-Mart doors in the U.S. alone.

Wal-Mart has nearly fifty three hundred stores around the world, two-thirds of them in the U.S.; but as Table 1 shows, its foreign outlets grew twice as fast as its domestic core during 2000-2005. Wal-Mart currently operates stores in the U.S. and in eight other countries, including the largest chains in both Canada and Mexico. It is a major competitor in the UK, Brazil and Puerto Rico but less so in Germany, Japan, China, South Korea and Argentina. (Wal-Mart Annual Report 2005:53)

**Table 1. Number and location of Wal-Mart stores, 2002, 2005**

<b>Location</b>	<b>2000</b>	<b>2002</b>	<b>2005</b>	<b>% change 2000-2002</b>	<b>% change 2002-2005</b>	<b>% change 2000-2005</b>
Global	4,093	4,485	5,289	10	18	29
U.S.	3,055	3,289	3,702	8	13	21
International	1,038	1,196	1,587	15	33	53
Mexico	478	570	679	19	19	42
United Kingdom	240	254	282	6	11	118
Canada	168	196	256	17	33	52
Brazil	18	22	149	22	677	828
Germany	95	95	91	0	-4	-4
Puerto Rico	15	17	54	13	317	360
China	8	19	43	238	226	538
South Korea	5	11	16	220	145	320
Argentina	11	11	11	0	0	0

Sources: Wal-Mart Stores, Inc., Home Page Online, May 2000, May 2002; *Annual Report*, 2005, p. 53.

Wal-Mart operates four types of store, the Supercenter, the traditional discount store, the smaller neighbourhood store, and Sam's Club membership stores. Of these, its top performer by far is the Supercenter, which ranges in size from one hundred to more than two hundred thousand square feet and offers 24-hour, seven-day shopping for thousands of food and merchandise items, in addition to special services such as car care, vision centres, banking, hair salons, travel reservations and even temp employment agencies. Supercenters may be Wal-Mart's chief money-makers but, as Table 2 reveals, they are far more prevalent in the U.S. than abroad, accounting for more than half of all domestic stores but just one-quarter of foreign outlets.<sup>vi</sup> More than anything Wal-Mart is a one-stop merchandise plus grocery retailer. (Slater 2003: 26-29, 96-99)

**Table 2. Number and type of Wal-Mart stores by location, 2005**

Location	Type of store			
	Discount	Supercenters	SAM's CLUBS	Neighbourhood
U.S.	1,353	1,713	551	85
International	1,175	285	91	36
Mexico	529	89	61	0
United Kingdom	263	19	0	0
Canada	256	0	6	0
Brazil	118	17	12	2
Germany	0	91	0	0
Puerto Rico	9	4	9	32
China	0	38	3	2
South Korea	0	16	0	0
Argentina	<u>0</u>	<u>11</u>	<u>0</u>	<u>0</u>
Totals	2,528	1,998	642	121

Sources: *Annual Shareholders Report*, Fiscal Year 2005, p. 53.

Wal-Mart's original and still most numerous type of retail outlet is its classic discount store, a medium-sized outlet carrying a wide variety of general merchandise at prices typically well below those of competing department and variety stores. In America the company is rapidly converting discount stores into Supercenters as the former become obsolete in the race among retail chains to build bigger, more diversified stores. By contrast, discount stores dominate Wal-Mart's four largest overseas operations. Sam's Clubs offer paid members restricted selections of highly discounted items in bulk quantities. They were originally designed for small business owners but increasingly cater to household shoppers. Except in Mexico, Sam's Clubs are relatively infrequent abroad. Finally, neighbourhood stores, Wal-Mart's version of the urban convenience shop, have so far been neglected, doubtless due to limited urban space and high rents and Wal-Mart's customary reluctance to compete in big-city environments.

Wal-Mart thrives on low living standards. From Sam Walton to current CEO Lee Scott, the company's sales revenues have relied primarily on low-income shoppers, for whom low prices are the determining factor when deciding where to shop and what to shop for. The company's operating success at home and abroad has, as its signature slogan suggests, hinged on its ability to offer bargain-conscious customers 'everyday low prices.' This being the case, constant cost cutting is obligatory and Wal-Mart consequently has 'an almost

single-minded focus on reducing costs. It's imbued throughout the organization.' (Hays 2003: BU-7)

Cost cutting involves many things, including making good use of economies of large-scale operations and deftly applying modern information technology, both of which Wal-Mart does, and as a result has long been the undisputed industry leader in this regard. But that alone is not enough. Other large retailers do the same of course. Tesco, for example, has apparently overtaken Asda, Wal-Mart's UK subsidiary, in the increasingly valuable area of gathering and utilizing data on customer shopping patterns. Wal-Mart has however managed to maintain its competitive cost advantage in the U.S., mainly by forcing or persuading private and public stakeholders to pay part of its cost of doing business: workers through low wages and benefits, suppliers through rock bottom wholesale prices, communities through direct and indirect operating subsidies and the nation's productive system as a whole through forced offshore manufacturing.

Wal-Mart locates overseas stores where its business philosophy and practices are most likely to succeed. In practice this means going into countries that either are steeped in free market ideology or offer low-wage labour, low income shoppers, ineffective unions and few social protections. It stays out of France, for example, because it does not want to go up against Carrefour on the latter's home turf and also because it would not find the right kinds of shoppers and workers there. Nor does Wal-Mart venture into any of the Scandinavian states with their strict business regulation and prosperous populations.

The ineffectiveness of Wal-Mart's 'low prices at any cost' approach to retailing in certain high-income, regulated economies is demonstrated by experiences in Germany, where its nearly one hundred hypermarkets have never made a profit. This despite its strategy of slashing store prices and then challenging existing retail chains to match the cuts. No sooner had Wal-Mart entered the German market than it announced with great fanfare reductions on no fewer than a thousand items. When this failed to have the desired effect, Wal-Mart reduced a thousand more, partly on the strength of the reduced wholesale prices it had wrested from European suppliers, emphasizing that the latest cuts would be permanent. The message to German consumers was that they were benefiting from American-style discount retailing. A German retail union official put a different cast on the matter. 'The big retail companies pressure the producers for low prices,' he said. 'The suppliers then try to get the difference back from the small retail companies,' jeopardizing the latter and, along with them, the superior quality and service offered by the familiar neighbourhood specialty stores. (Konzelmann 1999: 10)

German regulation has worked both for and against Wal-Mart. The federal government acceded to pressure from volume retailers and urban residents and allowed stores to stay open longer on evenings and weekends. (Konzelmann 1999: 14) But no sooner had it done this than it dealt a serious blow to Wal-Mart. The German Cartel Office, which is empowered to prevent large retailers like Wal-Mart from using below-cost pricing to drive out small competitors, ordered Wal-Mart, Aldi and Lidl to stop selling six staple products -- including milk, butter and flour -- at less than wholesale cost as part of their Wal-Mart-instigated price wars. 'The material cost to consumers is marginal and temporary,' said the cartel officer, 'but the restriction of competition by placing unfair obstacles before medium-sized retailers is clear and lasting.' He proceeded to threaten Wal-Mart and the others with heavy fines if they did not cease and desist. 'To me it's more about seeing that independent companies are not pushed out through the unjust pricing strategy of big companies with superior market strength,' he explained. The German Retail Association hailed the decision as a 'hopeful signal for the end of the ruinous cutthroat competition' that was disrupting the industry. (Andrews 2000; Associated Press, 2000)

IKEA also began as a single store, in Almhult Sweden in 1958, and for its part has grown to become the world's largest retailer of home furnishings. The name IKEA is an acronym for the initials of its founder, Ingvar Kampard, the farm he was raised on, Elmtaryd, and his village, Agunnaryd, in South Sweden. Ingvar Kampard's initial store stocked a wide range of goods, from food to magazines. But during the late 1940s, he noticed that the cost of furniture had risen at a much higher rate than the prices of other household items, despite no apparent shortage of labour or raw materials, largely due to a tightly controlled industry by manufacturers and retailers. These high prices were preventing a majority of the population from purchasing quality furniture. In this, Kampard recognized a business opportunity that would also benefit a large segment of society. So he modeled IKEA on the concept of offering a wide range of well-designed, functional home furnishing products at prices that most households could afford.

This 'concept' lies at the heart of everything IKEA does, from the way it develops and purchases products to the way it sells and distributes them in IKEA stores around the world. According to his colleagues, Kampard is not driven by profits alone but also by a desire to improve the quality of life for people. According to Kampard, his goal is 'to create a better everyday life for the majority of people. ... We know that in the future we may make a valuable contribution to the democratization process at home and abroad.'

To ensure that IKEA would continue to grow and maintain its traditional philosophy and concept well beyond his active involvement with the company, Kampard, decided to protect IKEA by registering it as a foundation. As a result, IKEA is owned by the Stichting INGKA Foundation (registered in the Netherlands) and is therefore not vulnerable to disruptive pressures from potentially self-interested private family members or shareholders. It is not a public company and does not publish profit figures; however, IKEA does publish information on such things as sales revenues, number of stores and number of employees. The IKEA concept and trade-name are owned by Inter IKEA Systems BV, which in addition to a variety of other related businesses, is owned by the Kampard family.

In 2004, IKEA reported sales revenues of 13.6 billion Euros (\$16.8 billion) up from 4.4 billion in 1994 (IKEA Annual report 2005). As of June 2005, it had 216 IKEA stores in 33 countries, of which 192 stores belong to the Foundation and the remaining 23 stores are owned and run by franchisees, licensed by Inter IKEA Systems, to which they pay royalties and fees. IKEA employs around 84,000 people and has business operations in 44 countries. In 2004, nearly a half billion customers visited IKEA stores, more than triple the number ten years earlier. Unlike Wal-Mart, the IKEA concept appeals to customers in national settings across the range, from free market countries like the US to more regulated countries like those of Northern Europe and Scandinavia, appealing to customers' preferences for low price and good quality (as opposed to Wal-Mart's provision of low price at any quality). Germany is IKEA's largest single market, accounting for 20 percent of total sales, followed by the UK (12 percent), the US (11 percent), France (9 percent) and Sweden (8 percent).

IKEA's approach for successfully delivering good quality products at low prices for customers begins at the development stage, where before the product is designed, its price is set at a level that provides high value at an affordable price. IKEA then looks for innovative ways of creating the product, at a cost below the established price. To do this effectively, IKEA works closely with its suppliers in long-term relationships that permit the company to carefully observe production practices and to provide technical assistance with regard to improving efficiency, reducing costs and delivering quality. Distribution is another key area of system efficiency for IKEA, which plays an important role in the ability to deliver low price. In this, IKEA has strategically established 27 distribution centres in 16 countries to ensure that the route from supplier to customer is as direct, cost-effective and environmentally-friendly as possible. IKEA also economises by locating stores in less expensive sites within their

market area and expecting customers to pick-up merchandise from the warehouse, transport it to their homes and assemble it themselves.

#### **4.2. Relationships with suppliers**

Wal-Mart's ruthless cost cutting begins with its suppliers. So rewarding has the practice been that it is now the norm among large discount chains across the industry. With a massive network of suppliers, ranging from the smallest to the largest vendors worldwide, Wal-Mart is legendary both for working closely with major suppliers to ensure reliable, marketable goods while also demanding low prices (often annual percentage reductions), made to order product design and quality and smooth, timely delivery. Vendor owners, managers and employees typically do what they must to get and keep the Wal-Mart contract, including discomfiting if not destructive concessions affecting everyone. Because their careers, jobs and incomes depend on satisfying Wal-Mart, if pressed, they will accept low wholesale prices and onerous supply conditions.

Walton's operating premise in dealing with suppliers was that every wholesale price is negotiable at all times because supply prices are always open to competitive bidding rather than being the purview of any vendor. Big or small, all vendors should be forced to compete for Wal-Mart contracts and to do so largely under the company's unilateral, often inflexible terms. (Blumenthal, 1991; Tosh, 1993).

One such example is North Carolina based Cannon Mills, which for years had been unrivaled for high quality production of cotton towels, blankets and bedding. During the 1970s, however, when the industry was beginning to feel the adverse impact of cheap foreign imports, Cannon, a dominant domestic producer, was in trouble. It was at this point that Wal-Mart offered to make Cannon a major if not exclusive wholesale supplier in certain product lines if, like Wal-Mart's other vendors, Cannon agreed to conform its production and pricing to Wal-Mart specifications. Moreover, Cannon would have to restrict or sever altogether its supply contracts with several other large buyers, including K-mart and the U.S. military. Cannon management feared that accepting Wal-Mart's offer would make the company too dependent on a single buyer so it declined rather than compromise internal autonomy and control. Sam Walton politely thanked them for their time and went to Springs Mills, Cannon's major competitor, where he made an evidently similar offer that was accepted. (Greenland 2004)

Cannon Mills nevertheless fell on hard times and not long after Wal-Mart's offer ownership of the company changed hands. Under the name Fieldcrest Cannon, and later Pillowtex, management divested traditional product lines and



finally, in 2000, sought Chapter 11 bankruptcy protection. Springs Mills (now Springs Industries) thus became a \$2.5 billion a year company and a dominant player in what was left of the American cotton textile industry. So when foreign competition intensified, and Springs Industries found itself unable to compete against low-wage foreign producers and continue to supply Wal-Mart and others with competitively priced goods, it was forced to shutter some of its largest Southern plants. (Bell 2005; Mecia and Bell 2004)

Wal-Mart's global supply chain is another source of cost-saving for the company, with devastating effects on the trade balances of third world countries whose export sectors are vulnerable to Wal-Mart's supply chain relations. In Mexico, for example, Wal-Mart Mexico's growing reliance on the company's global supply chain rather than Mexican suppliers increased its ratio of import to total vendor purchases from 20 percent in 1997 to more than 55 percent by 2002; and Wal-Mart is now the leading contributor to Mexico's perennial trade deficit. To compete with Wal-Mart's low prices, its largest Mexican competitors recently formed a purchasing association in order to create their own centralized supply chains. But in doing so, they further depressed domestic supply prices, contributing to lower profit margins and the steady decline of traditional Mexican manufacturing and agricultural suppliers. (Durand 2005)

Another example is the global coffee industry. Some years ago, Wal-Mart began selling Brazilian coffee in its U.S. stores, based on a supplier arrangement with a Brazilian exporter that had vertically integrated coffee growing, roasting, packaging, wholesale brokering and international transporting under common ownership and control. Such productive consolidation reduced supply costs to the point that Wal-Mart could undercut competitor prices by a third. It also disrupted traditional supply chains, the chief victim being the African state of Uganda, which at the time relied on coffee resources for 90 percent of its export earnings; it did not, however, have the organizational capability to replicate Brazil's vertical system. Not only was Uganda eliminated as a Wal-Mart supplier but consequently also lost market share to low-wage Vietnam, which only recently had produced less coffee than Uganda but by now was producing more than of all of Africa. Maxwell and Folgers, the next largest U.S. retail coffee brands, still import from a number of countries, including Uganda, but as their market shares decline (total coffee sales are constant), they too will turn to supplier countries having integrated supply processes. Uganda will not be one of them. (Anholt 2005: 28-30)

The irony here is that while Wal-Mart and other discount retailers enable vertical integration of manufacturing abroad they help destroy it at home. By linking their low prices and consequent sales revenues to continuous imports of

cheap foreign goods made under integrated production systems, they disrupt similarly vertical systems at home. This has been true for some time, as one retail expert had concluded years ago: ‘Wal-Mart is now large enough that it is driving midsize to large players out of business and speeding consolidation among others.’ (Kaufman, 2000: 24) The transformation has been predictably effective in retail staples such as textiles and clothing.

Consider the experience of Fort Payne, Alabama, a small town with ample supplies of both cotton textiles and cheap labour and a long-standing reputation as the ‘Sock Capital of the World.’ At one time, Fort Payne manufactured every eighth pair of socks worn globally; and as recently as the 1990s, one in every three jobs in Fort Payne involved sock-making. But with the rise of the discount retailers and their ability to squeeze vendors, imports of socks skyrocketed and wholesale prices plummeted. Wal-Mart and other discount chains were profitably selling a package of five pairs of cushion socks for \$3.76 while Fort Payne’s mills struggled in vain against the trend. One of the biggest, Robin-Lynn Mills, saw its sales of \$24 million on output of 30 million pairs of socks in 1999 plunge to \$12 million on the same volume in 2004 as the ‘world sock capital’ title passed to Datang, China.

In Datang, Three Star Socks, comparable in size and output to Robin-Lynn, competes with American and other mills around the world from a distinctly advantageous position. Among other things, it has access to as yet unlimited supplies of cheap labour, trades in an under-valued currency pegged to the overvalued U.S. dollar and manufactures in an industrial district ‘of more than 10,000 households in 120 villages, 1,000 textile material processors, 400 yarn dealers, 300 sewing firms 100 pressing operations, 300 packagers and 100 forwarders.’ These vendors serve thousands of producers ranging from one-room family enterprises to substantial employers like Three Star. In addition, local government subsidizes workplace energy consumption, provides discounted land and buildings, and offers tax abatements for jobs created. The major disadvantage Three Star and the others in Datang operate under is antiquated machinery; it takes three times longer to turn out a pair of socks in Datang than it does in Fort Payne, but at a cost of 27 cents for Three Star compared with 41 cents for Robin-Lynn.

As a result of these cost differentials, in 2001, China as a whole exported 12 million pairs of socks to the U.S., up from 6 million the year before; and by 2004, it exported 670 million pairs, more than double the 264 million pairs in 2003. During this same period, wholesale prices for Chinese socks in America fell by more than half, which explains why Three Star was selling more socks to Wal-Mart, Robin-Lynn was selling fewer and Fort Payne mills were being

closed. 'If they shut the rest of the mills down,' a local sock outlet salesman grimaced, 'Fort Payne is going to be a ghost town.' But not only have the sock mills been affected; having been pushed to the brink of dissolution, the Fort Payne mills reluctantly acted to dissolve long-time supplier relationships. Rather than go on fighting a losing battle in which he knew he would have to lay off still more production workers and make additional payroll cuts beyond the 10 percent reduction everyone, including the company chairman, had already taken, Robin-Lynn's plant manager arranged for a Pakistani producer to supply the yarn needed to run his mills. Even with the added transportation costs, it could do so 35 percent cheaper than his North Carolina suppliers. 'Nothing is sacred now,' he said. 'We'll change vendors for anything. Yarn, supplies, light bulbs, it doesn't matter. The old loyalty where your buddy sold you the light bulb, that's gone.' (Lee 2005; Reeves 2004)

These adverse supply chain effects extend beyond the American south. When Wal-Mart gave Carl Krauss an ultimatum, he found he had no choice but to transfer the production of parts for his family-owned company's fan manufacturing plant in Chicago to Shenzhen, China. Wal-Mart had demanded that he reduce costs and wholesale price on floor fans or lose the account. When automation of the Chicago production line (eliminating some two-thirds of the assembly work force there) and persuasion of local suppliers to lower their prices did not deliver the prices Wal-Mart had demanded, Krauss reluctantly built the Shenzhen parts production plant, where workers made 25 cents an hour compared to the \$13 he was paying in Chicago. 'My father was dead set against it,' he said. 'I have the same respect for American workers [as he], but I'm going to do what I have to do to survive.' Krauss succeeded in keeping the supply contract and Wal-Mart succeeded in reducing the price of the fan by half. (Goldman and Cleeland 2003)

Low price and cost also are important objectives for IKEA, but not at the expense of product quality or social and environmental responsibility. In order to maximize efficiency and keep costs down, IKEA has created a global organization that provides infrastructure, service and support to its various business units and helps them to identify and implement the most cost-effective technology available. Its business solutions and services are used in IKEA stores, warehouses, trading offices, catalogue processing, product development and other units where support is needed. IKEA is not dissimilar to Wal-Mart and other global retailers in the use of economies of scale in production and distribution. However IKEA invests in innovative production methods and smart design to keep costs low without sacrificing product quality. What makes IKEA unique is its ability to manufacture good quality products at low prices

while at the same time adhering to strict standards for social and environmental responsibility.

Most of IKEA's production takes place in lower-cost countries, with 20 percent being manufactured in China and 12 percent in Poland. Eight percent of IKEA's products are manufactured in Sweden, with Germany and Italy accounting for a further 13 percent and the remaining 47 percent of production distributed around the world. (AFX Europe, July 2005)

IKEA believes that protecting the environment and improving and maintaining good conditions at the level of the factory will reap long-term benefits for all of IKEA's stakeholders. In 1998, it established 'IWAY,' to ensure that high social and environmental standards would be maintained throughout the company as well as within those entities with which IKEA has business relations.<sup>vii</sup> 'The IKEA Way on Purchasing Home Furnishing Products' (IWAY) spells out IKEA's expectations of its suppliers with regard to legal, employment, social and environmental responsibility; it also explains what suppliers can expect from IKEA. In its 2004 *IWAY, Social and Environmental Report*, these expectations are clearly outlined. Prior to commencing a business relationship with IKEA, for example, potential suppliers are required to refrain from using forced or bonded labour, child labour; and wood from intact natural forests or high conservation value forests. In addition, IKEA requires suppliers to submit an action plan detailing how they intend to meet the remaining IWAY criteria. Suppliers are told that they can expect IKEA to be reliable; to adapt its products to suppliers' production methods and contribute to efficient production; to care for the environment and support material and energy-saving techniques; to assume a clear standpoint on working conditions; to respect cultural differences; and to provide clear and mutually agreed commercial terms.

Once a supply relationship has been established, IKEA requires compliance with national laws and regulations as well as with international conventions concerning protection of the environment, working conditions and child labour. It expects suppliers to respect fundamental human rights and to treat their workers fairly and with respect. In this regard, suppliers are required to provide a healthy and safe working environment; to pay the legal minimum wage or the local industry standard and to compensate for overtime; if housing facilities are provided, suppliers are expected to ensure reasonable privacy, quietness and personal hygiene. Suppliers are prohibited from using child labour, forced or bonded labour; from discriminating or using any form of mental or physical disciplinary action, including harassment; from using illegal overtime; and from preventing workers from associating freely with any worker's association or group of their choosing or collective bargaining.

With respect to the environment, suppliers are expected to ‘work to reduce waste and emissions to air, ground and water; handle chemicals in an environmentally safe way; handle, store and dispose of hazardous waste in an environmentally safe manner; contribute to the recycling and reuse of materials and used products; and use wood from known areas and, if possible, from sources that are well managed and preferably independently certified as such.’ They are not permitted to use or exceed the use of substances forbidden or restricted in the IKEA list of ‘Chemical Compounds and Substances;’ or to use wood originating from natural parks, nature reserves, intact natural forests or any areas with officially declared high conservation values, unless certified.’

To monitor and ensure compliance with IWAY, in addition to its own auditors, IKEA contracts with independent auditors to inspect and monitor all suppliers with whom the company does business on an on-going basis; and those who fail to adhere are dropped as IKEA Suppliers. Approximately 80 auditors in IKEA’s 43 trading service offices are responsible for supporting suppliers, explaining IKEA’s requirements, agreeing action plans for improvements and monitoring compliance. In the event of non-compliance, auditors require, in writing, an action plan describing the corrective action, responsible person and timeline for completion; and this is sent to IKEA within one month of the audit. The auditors then follow up with suppliers to assure that the necessary corrective actions have been completed according to the approved action plan and timelines. According to IKEA’s 2004 IWAY Social and Environmental Report, during fiscal year 2004, non-compliance with IWAY was a determining factor in the company’s decision to terminate business relations with 49 of its global suppliers; and as a result of this strict code of conduct, IKEA today works with 1500 suppliers compared with approximately 2700 six years ago.

Because squeezing suppliers for better prices, without providing creative solutions to enable them to reduce costs and improve efficiency, will result in unacceptable working conditions that compromise quality and contribute to failures in living up to IKEA’s high social and environmental standards, IKEA works with suppliers to help them meet not only its price and quality expectations but also the requirements of IWAY. An illustration of this cooperative and mutually beneficial process can be found in IKEA’s relationship with Shaw Wood in Nova Scotia, Canada, which in December 1998 became the first North American plant dedicated to supplying IKEA. From the start, IKEA treated Shaw Wood as a partner and provided extensive technical and creative support. Shaw Wood delegations visited furniture factories in Europe operated by IKEA’s Swedwood manufacturing division;<sup>viii</sup> and during start-up, IKEA provided the company with critical technical and engineering assistance, including the selection of production equipment based on

performance-based specifications capable of delivering the required levels of quality and productivity.

According to Robert Shaw, president of the Shaw Group, IKEA has little tolerance for suppliers that do not push themselves to live up to its exacting standards. 'Price of course is important,' said Shaw, 'but quality is one area where IKEA is relatively unforgiving. It also has environmental, working conditions and quality system policies that must be met. IKEA's quality people are in our factory constantly, as they are everywhere (where its furniture is made).' According to Dean Robertson, general manager of Shaw Wood. 'IKEA is a good customer but tough and very demanding on quality.' In 2004, IKEA auditors graded Shaw Wood at level three of its four-level quality program. To reach level four requires having ISO 9002 certification, a goal Shaw Wood is actively pursuing.

IKEA also worked with Shaw Wood to ensure compliance with the company's high standards for environmental and working conditions. Shaw Wood is in compliance with IKEA's forestry practices program. 'We have a long paper trail between all of our lumber mills and harvesters to show IKEA that our lumber did not come from any old-growth forests or national parks, and that it was harvested in the right way,' Robertsons said. In the area of social standards and employment conditions, IKEA's approach is rigorous but far-sighted. According to Robertson, 'they inspect all of their supplier plants around the world in these areas and apply the toughest laws set by any one nation as their standard. They do this to level the playing field among competing suppliers. It's a bit of a pain to meet all of these things but it sets us up to be more competitive and a better supplier down the road.' (Christianson 2001: 63).

Not only does IKEA's *partnering* with suppliers benefit their long-term performance; it has also had a positive impact on local businesses and on conditions in suppliers' factories and the communities in which they are located. One such example is IKEA's relationship with Nicholas Borsos, who in 1999, with the help of a loan from IKEA, purchased a state owned run-down furniture factory in Nehoiu, Romania. According to Borsos, he learned about business from IKEA and has worked hard to meet IKEA's standards both in his factory and within its supply chain. Prior to the investment, for example, the factory had no ventilation system or air filters and working conditions were so poor that workers were forced to leave the windows open in the middle of winter. The toughest thing about IWAY, according to Boros, is that he is also responsible for making sure his suppliers follow IKEA's code of conduct, such as checking whether they are paying fair wages on time. But despite these strict demands,

Boros believes that IKEA's standards have led to better conditions for local employees, the environment, and business; and sales have increased fivefold.

#### **4.3. Employment standards**

The labour extraction process presents another opportunity for Wal-Mart to cut operating costs. The company has developed exploitive labour recruiting and supervising strategies that enable it to obtain a steady supply of low-wage workers who have few employment alternatives and are therefore willing to accept the terms and conditions offered. Managers reportedly agree to work long hours for modest base salaries in the expectation of receiving large performance bonuses and then retiring before the associated stresses take their toll. Hourly workers agree to work for low wages, poor benefits and exacting supervisory demands out of diverse combinations of fear of losing their job, personal pride in a job well done and misplaced loyalty to a company that promotes a few from the ranks but otherwise seldom reciprocates. (Cleeland et. al. 2003; Tower 2002)

But wage differentials are not its most important competitive advantage in view of the fact that Wal-Mart pays wages generally equal to or slightly below those of its competitors. The real difference arises from its practice of requiring store managers, under threat of disciplinary sanctions, to cut to the bone the number of hours of paid labour over a specified time period. The direct result of this policy is Wal-Mart's lengthy record of labour offenses. More than two dozen class action lawsuits allege a company-wide practice of forcing employees to work without pay, or 'off the clock,' by means of a variety of overt and covert supervisory actions. In some of these cases Wal-Mart has been found liable and in others has settled out of court.

Independent investigation indicates the practice is so widespread among Wal-Mart stores that it represents a headquarters cost-cutting strategy, albeit situational and circumspect in nature rather than direct and indiscreet. After months of interviewing former Wal-Mart associates and managers in 18 states and reviewing stacks of court documents and testimony, Steven Greenhouse, a *New York Times* labour writer, concluded that although Wal-Mart officially forbids off the clock work and short changing workers of overtime pay, the company's 'intense focus on cost cutting had created an unofficial policy that encouraged managers to request or require off-the-clock work and avoid paying overtime.'

Verrete Richardson, a former apparel associate at a Wal-Mart superstore near Kansas City, tells a typical story in this regard. As she headed for the parking lot after her 10 p.m. to 8 a.m. shift, her manager ordered her back into the store to

return garments to the shelves and pick up discarded items. This was not the first time it had happened. At other times she had been told to bring in shopping carts from the parking lot after having clocked out. Still other times, before she had a chance to clock in a manager would direct her to a cashier and tell her to start checking out customers. Sometimes, she said, she worked as much as three hours before being she was able to clock in and start getting paid. She had always complied with these orders, she conceded, because she did not want to offend her supervisors. But she was nevertheless resentful that Wal-Mart would do that to her. 'A company that makes billions of dollars doesn't have to do that,' she told Greenhouse. (Greenhouse 2004a; 2004b; 2002)

Finally, state governments have fined the company for multiple and repeated violation of child safety ordinances, wage and hour regulations, anti-discrimination mandates and illegal immigrant laws. But the modestly penalized yet recidivist nature of these offences suggest that Wal-Mart, along with many other American employers, consider them a cost of doing business. (E.g., O'Brien 2002; Schafer and Helderman 2001)

Unions could make a decisive difference but to date, not one Wal-Mart store in North America is organized. Recognizing the obvious threat Wal-Mart poses to its existing contracts and negotiated standards, the United Food and Commercial Workers (UFCW) union and others have tried for more than twenty years to organize Wal-Mart; and although the UFCW has succeeded in getting about a dozen formal certification elections, some involving entire stores and others specific departments within stores, it has won only one, a small unit of meat cutters at a Texas store. However, after an unsuccessful appeal to nullify the election, Wal-Mart discontinued skilled meat cutting in that and other regional Wal-Mart's, rendering moot the hard-won union certification. Several years later, the provincial labour board in Quebec, Canada, certified UFCW Canada as bargaining agent for hourly workers at a Wal-Mart store there; but again, after exhausting its appeals and going through the legal motions of negotiating a labour contract, Wal-Mart closed the store for 'poor operating performance.' (Barbaro 2005)

A report on U.S. labour standards by the Geneva-based International Confederation of Free Trade Unions (2004) revealed that between 2000 and 2003, Wal-Mart was involved in more than a hundred unfair labour practices, primarily involving union organizing attempts. Since 1995, the National Labour Relations Board (NLRB) has filed at least sixty complaints ranging from illegal firing of union sympathizers to unlawful surveillance, intimidation and threats. However, the most severe penalty Wal-Mart has received was 'a requirement order to post notices in various stores that it will no longer threaten employees



who engage in "concerted activity" deny their right to organize, require employees to report their contacts with unions, or discipline or fire workers who engage in concerted activity.'

On the labour front, Wal-Mart Germany experienced recurring worker actions including brief walkouts relating mainly to its repeated failure to observe prevailing pay and employment standards in German retail. As a result, Wal-Mart Germany has had a difficult time recruiting and retaining qualified store and warehouse workers. A more striking demonstration of the difference between American and German expectations occurred when Wal-Mart's home office in Arkansas tried to introduce a level of behavioral discipline in Germany that it routinely imposes on its domestic labour force. After having to close stores and finding it difficult to recruit and retain workers, Wal-Mart Germany inaugurated what it called an 'employee ethics code.' Along with their monthly paychecks, employees received a gratuitous lecture from the boss. The new, mandatory code prohibited employees from accepting gifts and from entering into romantic relationships with fellow employees in positions of employment influence; and it instructed workers to inform on other workers 'if they observe that they have broken the rules.' Non-compliance with the code, employees were warned, could lead to termination. When they issued the order, Wal-Mart's German managers informed employees that the code did not originate with them but came directly from their Arkansas superiors; and when the union vowed to resist in court, German managers declined to comment. (*Deutsche Welle* 2005).

Worker rights expert, Manfred Confrurius, rightly pointed out that American workers tolerate considerably greater restrictions on personal behaviour than do European workers and for that reason Wal-Mart's unilateral code might not travel well. Within weeks, a German tribunal, in response to union complaints, declared the rule changes illegal and the cross-national directive was not allowed to stand. (*Morning News Beat* 2005)

Wal-Mart has also stumbled in the UK. With the success of several upstart discount food chains, UK shoppers had become used to regular price-cutting before Wal-Mart acquired Asda in 1999, then the fourth largest supermarket behind Tesco, Safeway and Sainsbury. For some time, Asda had been trying to increase market share using Wal-Mart's cost- and price-cutting strategy, although not nearly as successfully. But under Wal-Mart's control, Asda soon displaced Safeway and Sainsbury and moved into second place. Tesco initially faltered but under changed management distanced itself from the pack, including Asda, which began losing market share and by 2005 had fallen behind the previously vanquished Sainsbury, also under new management.

Asda's decline was attributed to its failure to match Tesco's quick perception of and response to a signifying change in consumer preferences -- from low prices to low prices plus service. Whereas Wal-Mart's approach had come to dominate mainstream retailing in the UK, shoppers had come to expect price cuts as the industry norm and now wanted wide aisles, appealing shelf selections and informed shop assistants as well. The difference between Asda and Tesco in this regard is that Wal-Mart is less inclined than Tesco to sacrifice its cost-price-cutting priorities in order to win over enough customers to maintain its earlier momentum. Its future in the UK is not in jeopardy as a result but is certainly less assured. (Rigby 2004)

Asda has also experienced strained labour relations under Wal-Mart ownership. In late July 2005, GMB union members at Asda distribution centres supplying its northern UK stores, its area of greatest density, voted overwhelmingly for a series of brief strikes at the Washington, Tyne and Wear and Ince, Wigan depots. Asda Washington initially offered workers a generous 10 percent pay raise provided they agreed to give up collective bargaining rights; but when workers rejected the stipulation, Asda offered a 7.75 percent increase over two years, half of what the union was demanding, and informed 315 of the depot's 600 workers that they might be made redundant. At the Ince Wigan depot, the company announced plans to impose unilaterally a one-fourth increase in the number of warehouse items lifted during the regular 8-hour shift, on the grounds that this is the number of items Tesco employees lift. When workers protested the speed-up, management suspended a GMB shop steward pending investigation. Yet another dispute arose when Asda announced plans to cut some 14,000 jobs companywide -- three or four managers from each store and numerous headquarters staff -- in response to market losses to Tesco and Sainsbury. GMB claimed that Asda junior managers had been joining the union in large numbers recently and that it would resist the reductions on their behalf. The union's rationale for resisting each of these related incursions and for trying to publicize the industry trend producing them relates to the negative impact of Wal-Mart's practice of reducing labour standards to a local minimum, which ultimately undermines labour standards for all workers in that market. (Donaldson 2005; Goldsmith 2005; GMB 2005)

IKEA, by contrast, does not get the most out of employees by capitalizing on their labour market disadvantages but instead by developing their skills and commitment to the organization, and consequently, encouraging them to fully participate in their productive role within it. According to an IKEA executive, successful employees 'are people who accept our values and are willing to act on our ideas. They tend to be straightforward rather than flashy, and not too status-conscious. They must be hardworking and comfortable dealing with

everyone from the customer to the owner to the cashier. But perhaps the most important quality for an IKEA is 'odmjukhet,' a Swedish word that implies humility, modesty and respect for one's fellow man. It may be hard to translate, but we know it when we see it. It's reflected in things like personal simplicity and self-criticism.' (Barlett and Nanda 1996: 5) IKEA believes that the company's employee culture plays a central role in supporting its philosophy and ensuring success. The company therefore makes serious efforts to propagate this culture throughout the organization by means of training and mentoring programs. It also attempts to export this culture to IKEA suppliers and the various entities with which they do business.

However, difficulties and challenges arise with respect to differences in national social, economic and political norms and standards. For example, when IKEA stores in the US are compared with stores in Scandinavia, differences in employee attitudes quickly become apparent. 'Because of low job security, American employees are always looking for guidance despite their higher education and need to achieve. The IKEA way requires openness and a willingness to take responsibility. We want people to stand up and disagree with authority if they have confidence in their beliefs. Despite intensive training programs it has been hard making the IKEA way their way of life here in the United States.' (Barlett and Nanda 1996: 10) Since most large retail stores in the US suffer from high rates of employee turnover, it is common for employers like IKEA to encounter employees who have worked at other retail facilities like Wal-Mart, from which they bring remnants of the culture of that employer, such as insecurity and low self esteem. These negative attitudes are challenging obstacles to the employee culture IKEA is seeking to develop in its retail outlets in the US.

To support its high commitment employment strategy, IKEA pays good wages, gives full benefits and provides health care benefits to anyone working 20 hours a week. New parents at IKEA can tap into its parental-leave benefits by which mothers automatically receive seven weeks off with full pay, while fathers and adoptive parents get one paid week. (*Working Mothers Magazine* 2005) Such forward-thinking policies make employees feel that their contributions are valued, no matter how many hours they work; and this corporate vision, IKEA executives contend, has had a direct effect on employee retention.

#### **4.4. Social responsibility**

The triumph of the global discount retailers as stand-alone stores or shopping mall anchors indeed gives shoppers bargain prices, ample parking spaces, controlled indoor climates and, in addition, offers the promise of hundreds of hourly jobs and enhanced local tax revenues. However, some have argued that

discount chains like Wal-Mart make calculated use of communities in the drive for constant growth in order to achieve economies of scale from large distribution centres and saturation of store locations. In the process, they are accused of discarding community interests with the consequent traffic jams, empty storefronts, increased welfare costs and eventually closed or abandoned discount store buildings of the wrong size or location. Moreover, existing class and race tensions stemming from industrial decline of one sort or another is often intensified, according to critics.

As the promise of low-price Wal-Mart retail outlets is widely tarnished by low wages, small business bankruptcies and costly local tax subsidies and abatements, communities and community groups have become divided in their willingness to host such stores. White-collar suburbs increasingly resist them while blue-collar, deindustrialized communities welcome them. In the ensuing disputes, the outcomes depend upon the relative political power of the contending parties. On one side are the discount chains, low-income shoppers, tax-starved local governments and low-wage or unemployed workers while on the other are the small local retailers, labour unions, environmentalists and community activists including women's, minority and religious groups. In Chicago, for example, Wal-Mart recently announced plans to build one regular discount store in a low-income, largely black and Hispanic ward on the West Side and another in a more middle-class and higher income black ward on the South Side. Besieged by both camps, Chicago Aldermen approved the poorer West Side ward's bid and rejected the other. The West side had waged an aggressive campaign, calling attention to the 80 percent youth unemployment level in the ward. 'We need those jobs. Something beats nothing,' an alderman argued, 'and we look for low prices.' An anti-Wal-Mart alderman, however, painted a broader picture. 'Wal-Mart does not just affect these two wards. It affects the whole of Chicago. There will be a race to the bottom in wages, benefits, full-time versus part-time employment,' he warned. (Associated Press 2004; Mihalopoulos 2004; Grant and Daniel 2004)

Early concern over the rise of discount retailing focused on its destructive impact on existing stores and shops. (Stone 1997; Artz and McConnan 2001; Hicks and Wilburn 2001) Of greater concern recently is the cost to communities in terms of municipal finances, mainly tax revenues and expenditures in the form of direct and indirect subsidies. A report released in 2004 by California Democrat U.S. Congressman George Miller estimated that each Wal-Mart employee costs taxpayers \$2,103 per year in public assistance expenditures for health care, food stamps, housing and energy subsidies and other benefits to low-wage households. Another study, by Los Angeles County, estimated the cost of Wal-Mart's entry into southern California, taking into

account employment decline and the resulting downward pressure on wages and benefits, to be \$2.8 billion per year in that region alone. Yet another survey concluded that Wal-Mart has received at least a billion dollars in state and local government subsidies in connection with store and warehouse location and construction. (Good Jobs First 2005)

Unlike Wal-Mart, IKEA has an established tradition and proven track record of good corporate social responsibility and of enforcing high standards throughout its productive system; and it goes far beyond most companies in its efforts to live up to and propagate high social, ethical and environmental standards globally. One key area is that of the rights and conditions faced by children. IKEA has little tolerance for suppliers who use child labour; and it has worked hard to make a difference in this area in its relationships with global suppliers. A key motivator for IKEA's pro-active approach in this area occurred during the 1990s. In 1995, a 12 year old Pakistani boy named Iqbal Masih was shot dead in his home town of Murikde, Punjab; but his killers were never brought to justice. When Iqbal was 4 years old, his father had sold him into bondage to a carpet factory owner in Punjab because he needed a loan to pay for his older son's wedding. To repay the loan, Iqbal worked more than 12 hours each day in the carpet factory; but the loan could never be re-paid because the interest rates were so exorbitant. Although bonded labour was abolished in 1992 in Pakistan, the practice remains common. Iqbal was eventually rescued by the Bonded Labour Liberation Front of Pakistan; and trips were arranged for him to visit Europe and the United States to tell his story. Iqbal became a powerful symbol and a crusader against child slave labour. In 1994, he was awarded the Reebok Human Rights Award and a television documentary on slave labour was produced and aired in which IKEA was implicated as one of the companies being supplied by Pakistani factories using bonded labour. This was a huge wake-up call for IKEA; and its owners, management, and customers were deeply disturbed. In response, IKEA committed itself to actively work to rectify the situation and ensure that it never again did business with suppliers using exploitative practices towards children.

It also committed itself to create a code of conduct that extends to all aspects of social and environmental responsibility. The result was IWAY. IWAY is based on the eight core conventions defined in the Fundamental Principles of Rights at Work, ILO declaration June 1998, the Rio Declaration on Sustainable Development 1992, and the fundamental principles of human rights, as defined by the 'Universal Declaration of Human Rights'. IKEA committed to applying these requirements to IKEA suppliers worldwide.

IKEA has endeavored to positively impact the conditions experienced by children more generally. An important initiative is its children's rights project with UNICEF, started in August 2000, in the Northern State of Pradesh, India, covering 500 villages with a population of more than one million. The project's aim was to prevent and eliminate child labour in the Indian 'carpet belt,' by addressing the root causes, such as debt, poverty, the lack of access to education, disability and ill health. Prior to launching the project, IKEA conducted research on the main causes of the problem found that child labour and the corresponding low levels of education were not due to a shortage of schools. To the contrary, empty schools were everywhere, some bearing the names of international companies, but the children were being put to work because their parents were in debt. In this region, poor mothers were falling victims to loan sharks; and it was their inability to pay the exorbitant fees that forced them to supply their children as collateral to the money-lenders, who were often owners of the handlooms. The project's objective was therefore aimed at helping the mothers, of potential and actual child workers, to escape the vice-like grip of the loan sharks. With the help of the project, lower-caste women have been assisted in paying 20 and 50 rupees a month into self-help groups; and this has enabled them to collectively save enough to open bank accounts and borrow at market, rather than usurious, rates of interest and to pay off their debts to the money-lenders. 'Now that we are financially independent, we can take our children and put them in school,' said one woman in the village of Suiyawan. (Luce 2004). As a result of the project, around 75,000 children who otherwise would receive no schooling will be educated. Additionally, IKEA is supporting a vaccination program in the region under the auspices of UNICEF and the World Health Organisation (WHO). During a five-year period 140,000 infants and 150,000 mothers-to-be in 3,000 villages, will be inoculated against serious diseases which has also been identified as a factor forcing children into work.

Another example of IKEA's efforts to improve the conditions faced by children around the world was its July 2003 launch of a Teddy Bear called 'BRUM' in its stores world-wide. Two Euros from the sale of each bear is donated to support children in Angola and war-torn Uganda. In Angola, the IKEA contribution will be used to support outreach programs for the estimated 1.3 million children who are not in school. In Northern Uganda, the new funds will support play-based programs for reaching at-risk adolescents about the threat of HIV/AIDS. Youth peer educators will be trained as part of the program, and will reach out to other young people in camps throughout the north, where young people are especially vulnerable to HIV infection. (Unicef Press centre, March 2004).

Despite initiatives like the above, progress in some areas in Asia is moving at a slow pace and critics believe that IKEA could increase the rate at which its standards are being achieved, especially in South East Asia. However, IKEA contends that most of its suppliers are in compliance with a majority of the 90 criteria in IWAY. IKEA also contends that in most of these cases, the non-compliance issues will take time to resolve because a fundamental change in society must take place before major improvements are realised. Most of these obstacles are due to deeply embedded cultural and political factors which are very difficult to change. IKEA strongly believes that if other businesses were to require from their suppliers to adhere to similar codes of conduct, the impact will be phenomenal.

#### **4.5. Conclusion**

Despite being the world's largest seller and employer, Wal-Mart's continued success is by no means assured. Its single-minded pursuit of the bottom-line and corresponding disregard for the public interest have given rise to a seemingly endless barrage of unfavourable media reports concerning its documented and alleged labour law violations and a host of other policies and practices that inarguably qualify as 'bad behavior.' These together have prompted a concerted public relations counter-campaign on the part of community groups, unions, women's rights groups, environmental activists and individuals. In April 2005, the UFCW union launched 'Wake Up Wal-Mart,' aimed at educating the public about Wal-Mart's destructive practices and persuading customers to stop shopping there. In a similar vein, 'Wal-Mart Watch' was launched by the Service Employees International Union, funded by a combination of foundations and individual donors. However, in response, rather than attempt to change its behaviour, Wal-Mart launched a publicity campaign designed to refute any criticisms of the company and to discredit those making them. As these publicity wars escalate, Wal-Mart's image as a folksy, country store-keeper is rapidly being replaced by one of an international predator.

By contrast, IKEA considers social responsibility an integral part of the company's culture and philosophy of conducting business that should not be compromised. This commitment originates in and has served to extend dominant features of the Swedish variety of capitalism in IKEA's relations with suppliers and customers world-wide. It has also permitted IKEA to invest heavily in socially responsible measures globally, backward through its supply-chain and forward to its customer base. As a result, IKEA has substantially improved working conditions in its supplier plants, which in turn have worked to improve conditions within their own supply chains. These improvements have yielded higher productivity and better quality, contributing positively to both suppliers' and IKEA's bottom line. The IKEA approach has also benefited

society and IKEA stakeholders more generally by bringing up conditions for suppliers and local host communities, employees throughout the IKEA system (from the point of supply through to the sale of final products), customers and communities in which IKEA retail outlets are located.

## **5. Conclusions**

Since the end of World War Two, the industrial structure of the global retail sector has profoundly changed. Under the earlier system, a few dominant firms in each of the basic supplier industries produced and sold retail product lines to department stores, variety chains, independent specialty shops and supermarkets, more or less on terms set by the supplier; and retailers gladly offered consumers fashionable, brand-name products, manufactured by well-known companies whose relative size and scope gave them the bargaining leverage to present the retailers with ‘take-it-or-leave-it’ wholesale prices. But with the rise of the giant discount retailers like Wal-Mart and IKEA, the system shifted to one where suppliers were forced to play by the retailers’ rules. ‘As consumers were increasingly drawn by the stores’ low prices rather than the manufacturers’ brand names, these retailers built enough market share to start making demands of their suppliers: about prices, marketing and even product design and production methods.’ (Mitchell 2005)

It is in this context that Wal-Mart and IKEA compete for customers of discount home furnishings, with a comparable degree of power and influence in their relations with suppliers. However, the two companies exercise this power in very different ways, with vastly different outcomes both in terms of the impact of the corporate productive system on its social and economic environment (domestic and global) and in terms of the long-term performance of the company, those within its supply chain and the communities in which its suppliers and retail stores are located. Whereas Wal-Mart uses its market power to squeeze suppliers in order to minimize cost and price, with adverse effects on the socio-economic conditions in localities in which they trade, IKEA’s power is used in a constructive way, to work with suppliers in order to help them deliver low prices without compromising product quality or social and environmental standards. In so doing, IKEA exports the high quality of customer/supplier and employee relationships expected of Swedish companies to its third world suppliers and its retail outlet employees and customers, to the mutual benefit of these stakeholder groups, host localities and IKEA itself. The cases of Wal-Mart and IKEA thus demonstrate the process by which national varieties of capitalism enforce themselves on companies originating within their borders, which in turn, transport dominant features of the national variety of



capitalism globally, backward through the supply chain and forward to employees and customers at home and abroad.

In discount retailing, the customer is in the dominant position; and consumer preferences with respect to quality and price will importantly determine the approach retailers are incentivised to take in their supply chain relations, with consequent impacts throughout the system. For example, a potentially vicious cycle is set off when consumer preferences for low price overwhelm other considerations. In this case, retailers (like Wal-Mart) have strong incentives to minimize costs, putting downward pressure on wages (and household incomes) in the supply chain, the final goods sector and their own workforce. This in turn depresses effective demand, putting further downward pressure on prices as the cycle degenerates. As prices within the supply chain are squeezed further, domestic suppliers may find it impossible to compete with lower cost foreign suppliers, with adverse impacts (both direct and knock-on effects) within sections of the supply chain and in the local economies in which their operations are embedded. At first, low prices for final sector goods and services may keep the system operational because of shifting patterns of expenditure towards lower price retailers as the wages and incomes of a growing number of households fall and they are increasingly unable to pay higher prices. But eventually, this inability to pay will reach a point where it adversely impacts even the lowest price retailers as the income and employment situation of a larger and larger proportion of the labour force deteriorates and the demand base disappears. At some point, the household sector is not able to reproduce itself in either the home country or the foreign supply chain host country. Although taken to its extreme, this scenario typifies the case of deep discount retailing in the United States, in which Wal-Mart plays a key role. Because its aggressive and single-minded cost cutting are demonstrably effective and therefore threatening to other firms, Wal-Mart's approach has come to dominate national and multinational retailing, with potentially degenerative effects.

By contrast, IKEA's ability to cut costs without sacrificing quality or high social and environmental standards offers an alternative way forward and one that poses a significant threat to the long-term performance viability of companies like Wal-Mart, which depend on a consumer orientation for low price at any quality. In the long-term, companies like IKEA are likely to have the advantage because when given the choice, customers will inevitably prefer better quality for given prices.

Returning to the discussion above, what is required for the system to succeed and expand is a sufficient price to suppliers to enable provision of good terms and conditions of employment (both in the home and foreign suppliers'

markets) and a sufficient price to labour to support effective demand and reproduction of the labour force. In this virtuous cycle, there is a balance in the flows of resources and payments throughout the system; and from the perspective of the long-term effectiveness of the household, firm, national and global productive systems, this is essentially a 'win-win' situation for all involved. The IKEA case provides a powerful illustration of this dynamic process. Because IKEA is a major global player in the discount retail sector, offering goods and services in which these standards are embedded at competitive prices internationally, it is successful not only in the Swedish market but also in the others in which it has operations. In this case, success breeds success, setting off a virtuous cycle with quite the opposite effects to a strategy like Wal-Mart's.

As the cases of Wal-Mart and IKEA demonstrate, markets will operate as destructively or constructively as they are permitted by the national productive system in which they are located; and companies originating and / or operating within them will behave accordingly. Wal-Mart, for example, is a product of American neo-liberal ideology embodied in American capitalism, which idealises free and unrestricted markets; views large size and market dominance as the reward for successful competition; and considers managerial prerogative as the efficient way of coordinating relationships within large firms. Because cooperation and collective organization are assumed to be inherently anti-competitive and hence economically damaging, fierce opposition to unions is justified; and lax laws with respect to labour and corporate standards permit exploitation of weaker stakeholders at a relatively low cost to the company. The strong preferences of American consumers for low price, their high tolerance for exploitation and social and environmental irresponsibility and their increasing dependence on cheap goods and services as more and more households find themselves among the 'working poor,' lends support to the proliferation of deep discount retailers like Wal-Mart, contributing to their success in the U.S. market.

Not surprisingly, Wal-Mart avoids locations where its business philosophy and practice is unwelcome, illegal and likely to be unsuccessful. The less regulated the national economy and the lower the standard of living among shoppers and workers, the better Wal-Mart fares. The company has had its greatest successes in English-speaking nations steeped in free market ideology and, alternatively, in low-wage developing countries with weak unions and social protections. Accordingly, Wal-Mart's most recently targeted markets are in Eastern and Central Europe. By contrast, Wal-Mart avoids economies like Sweden, which are characterized by high family incomes, narrow earnings differentials and comprehensive social programs.

IKEA is a product of the Swedish variety of capitalism, with its strong tradition, ideology and societal value for social democracy, distributional equity and corporate and personal social responsibility. Access to the Swedish market requires a high standard of quality, social and environmental responsibility, which in turn underpins the country's high social and labour standards. Evidence of the social imposition of high national standards of corporate behaviour and social responsibility on Swedish companies can be found in such things as IKEA's immediate and pro-active response when the exploitation of child labour was discovered in its Pakistani supply chain. IKEA's constructive response demonstrates the embeddedness of these high standards in the company's corporate culture and the ability to transfer them globally to the mutual benefit of all of the system's stakeholder groups. By contrast, in the case of Wal-Mart, recent pressure in reaction to the company's widely publicized bad behaviour is generating a public relations counter-response rather than a reflective change in corporate behaviour. In the case of Wal-Mart, the boundaries of minimal accepted standards are being tested in U.S., and driven even further downward, to the disadvantage of all but the short-term interests of the dominant stakeholders in the system.

IKEA's success and that of its suppliers and other stakeholders demonstrate the contribution to long-term performance effectiveness that high quality cooperative productive system relationships can make. But the ability to maintain these relationships is based on a supportive institutional framework and the ability to secure a high level of mutual and reciprocal trust that commitments made will be honoured. In the IKEA case, high quality productive system relationships are enforced at the corporate, national and societal levels. IWAY, for example, contractually requires of suppliers a high standard of social, economic and environmental responsibility, good terms and conditions of work and recognition of independent representatives of weaker stakeholders, such as trade unions. IKEA's system of corporate governance in the form of the IKEA Foundation ensures that commitments made by the company to its various stakeholders (such as employees, suppliers and local communities) are not undermined by the requirements of a dominant stakeholder group. The Swedish national system provides both institutional support for IKEA's strategic approach from a social, legal and economic perspective and imposes high standards of corporate behaviour and responsibility on IKEA and, by extension, the companies with which it does business.

As evident in the cases, corporate concentration in retailing has directly affected the trade fortunes of third world countries, whose major export sectors are vulnerable to the supply chain relations of global buyers. Wal-Mart's approach demonstrates the process by which discount prices based on low living standards reverberate through the entire retail system to the detriment of domestic manufacturing; and given the global nature of production systems, the vicious circle moves from one national system to another. By contrast, IKEA's approach shows that it is possible to deliver low price and good quality while at the same time adhering to high standards of social, economic and environmental responsibility at home and abroad. Whereas the Wal-Mart case illustrates the potential costs of a market based, 'low road' approach to global sourcing, the IKEA case demonstrates the potential benefits of an organization-oriented, 'high road' strategy to long-term system performance for the corporate, national and global productive system of which it forms a part.

## Notes

<sup>i</sup> See, for example, Berger and Dore (1996); Hall and Soskice (2001); Hollingsworth and Boyer (1997); Quack, Morgan and Whitley (1999); Streeck and Yamamuro (2001); Whitley and Kristensen (1995, 1997, 2001).

<sup>ii</sup> For a further elaboration, see Birecree, Konzelmann and Wilkinson (1997); Wilkinson (1983); and Wilkinson (2002).

<sup>iii</sup> For development of these ideas see Birecree, Konzelmann and Wilkinson (1997).

<sup>iv</sup> Applebaum and Batt (1994) in their extremely valuable study identified 4 main systems of cooperative production: Japanese lean production; Italian flexible specialisation; German diversified quality production; and Swedish sociotechnical systems. The Japanese and Swedish systems are more firmly rooted in Taylorist mass production than the German or, particularly, the Italian. But what the four systems have in common is the importance given to high levels of worker training and the success they have achieved in closely involving workers at all levels in the organisation and management of production, in product and process innovation and in the development of organisations and institutions designed to facilitate cooperation working relationships.

<sup>v</sup> Inter-firm relations in the Anglo-American Britain have been typified as 'adversarial dealings between short-horizon contractors, each party seeking out its immediate advantage'; market individualism which has traditionally driven English law of contract. (Brownsword 1997, p.255).

<sup>vi</sup> Aggregate figures are misleading because in 2005 Supercenters, for example, were the exclusive format in four countries including Germany but were non-existent in Canada.

<sup>vii</sup> IWAY was fully implemented by September 2000.

<sup>viii</sup> Since its formation in 1991, Swedwood has grown to operate 30 furniture and board plants and sawmills in 10 countries.

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