

*"IKEA consistently combats corruption. All of our divisions operate completely transparently. The company has adopted a strict code of conduct and its provisions are binding not only for rank-and-file employees and executives, but also for business partners. These regulations are uniform throughout the world and Russia is no exclusion."*¹

– IKEA'S PRESS RELEASE FOLLOWING INVESTIGATION OF BRIBERY CASES
AGAINST FORMER EMPLOYEES OF IKEA RUSSIA, JULY 2012

*"People in the West know astonishingly little about Russia. Those who call themselves Russia experts usually don't understand the first thing about it. People who say they don't know much about Russia come much closer to understanding it."*²

– LENNART DAHLGREN,
Former Russia Country Manager for IKEA, FEBRUARY 2011

Introduction

In July 2012, a Turkish national, Okan Yunalan (Yunalan), who acted as an intermediary for Carl Ola Ingvaldsson (Ingvaldsson), former Head of the Leasing Department in IKEA's Russian subsidiary (IKEA MOS), to extract a bribe, was sentenced to five years in a high-security prison. Yunalan was found guilty of large-scale extortion after he demanded 6.5 million ruble (US\$ 225,000) from a company that sought to lease two premises at IKEA's Mega shopping complex in Tyoply Stan, a suburb in Moscow. Ingvaldsson and another accomplice managed to leave the country and Russia was seeking their extradition.

IKEA stated that it welcomed the investigation by Russian authorities into the incident and would co-operate fully with them. This was not the first instance of corruption seeping into its Russian operations negating its tough stance against the all-pervasive corrupt business environment in Russia.³ IKEA was known for its uncompromising attitude toward corruption but it had not always been successful in ensuring that its employees adhered to its ethical standards.

The same year, the company came under the scanner of global environmental agencies when an investigative report revealed that it was utilizing ill-defined Russian logging rules to cut down old growth forests.⁴ This raised questions about its claims of being an ecologically sensitive company that believed in sustainable logging practices.

This case was written by Namratha V Prasad, under the direction of G V Muralidhara, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. 2013, IBS Center for Management Research. All rights reserved.

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¹"IKEA Cooperates with Investigation in Cases against Executives," www.rapsinews.com, July 18, 2012.

²Svetlana Smetanina, "Addicted to Russia," <http://rbth.ru>, February 23, 2011.

³Augusto Come, "Corruption, Corruption, Corruption," www.opendemocracy.net, November 29, 2012.

⁴Old growth forests are those that have been left undisturbed for about 300 to 600 years, resulting in them exhibiting unique ecological features.

It was in the late 1990s that IKEA decided to enter the Russian market as part of its global expansion strategy. From its early days, the company had displayed a non-tolerance for corruption. This standpoint meant that it had to face several setbacks when setting up stores, inaugurating them, and even while advertising for them. However, there were also instances of support from authorities, whether local or federal, and of difficulties being smoothed out, which enabled the company to get things done faster than in any other country in the world.

Over the years, the company expanded and experienced success with its stores in Russia. Some of them, in fact, became the top grossers in the world for IKEA. It was also in Russia that the company introduced its successful new business model, wherein its furniture stores were operated not as standalone stores but as part of large shopping and entertainment complexes.

Though the company continuously faced and overcame the serious hurdles caused by the corrupt bureaucratic system, it finally decided to halt all expansion in Russia in 2009. The decision came in the wake of permission being denied to setup two if its stores, allegedly after it refused to pay bribes to safety inspectors. However, the top Russian ministry officials convinced the company to go ahead with its expansion in 2011.

As of 2012, with 14 existing stores (See Exhibit I for more information about Russia's IKEA Stores), the company's expansion plan in Russia was on track, and it had plans to open several new stores and even a retail bank.

Background Note

IKEA, founded in Sweden was the most successful entrepreneurial venture of its founder Ingvar Kamprad (Kamprad). Kamprad was just a boy in the 1920s, when he began selling matches. He later graduated to selling flower seeds, greeting cards, Christmas tree decorations, pencils, and then ball-point pens.

In 1943, Kamprad set up a business with money given by his father. He called it IKEA (representing his own initials (I.K.), in addition to the first letter of his farm, Elmtaryd (E), and the village where he spent his childhood Agunnaryd (A)). IKEA started out selling products such as pens, wallets, picture frames, table runners, watches, jewelry, and nylon stockings, at discounted prices. In 1948, furniture made by local manufacturers was also sold through the business.

EXHIBIT I Russia's IKEA Stores

Store Location	Opened
Moscow Khimki	2000
Moscow Teply Stan	2001
St Petersburg Dybenko	2003
Kazan	2004
Moscow Belaya Dacha	2005
Nizhniy Novgorod	2006
St Petersburg Parnas	2006
Yekaterinburg	2006
Novosibirsk	2007
Rostov-on-Don	2007
AdygeaAdygea-Kuban	2008
Omsk	2009
Samara	2009
Ufa	2010

Source: www.ikea.com

Over the years, the company took to advertising its products by various methods, including through catalogs. In 1953, the first IKEA furniture showroom was opened in Älmhult, Sweden. In 1956, the company took to designing its own furniture, adopting flat packaging and enabling self-assembly of the furniture. In the early 1960s, the 'IKEA Concepts'⁵ of form, function, and price were created, with furniture designed accordingly.

Over the next three decades, the company launched some highly successful products such as the POÄNG armchair, the SKOPA chair, the ÖGLA chair, the BILLY Bookcases, the KLIPPAN sofa, the LACK table, the MOMENT, sofa and the STOCKHOLM furnishings. IKEA gradually expanded its footprint across Europe and North America, opening stores in Norway (1963), Denmark (1969), Switzerland (1973), Germany (1974), Australia (1975), Canada (1976), Austria (1977), the Netherlands (1979), France (1981), Belgium (1984), the US (1985), the UK (1987), and Italy (1989).

In 1982, the Stichting INGKA Foundation, based in the Netherlands, became the owner of the newly formed 'The IKEA Group'. In 1984, the customer club, 'IKEA Family', was launched. In 1991, the company started the industrial group, Swedwood, to produce wood-based furniture and wooden components. In addition, IKEA purchased several sawmills and production plants.

In 1997, IKEA launched its website, www.ikea.com. The same year, the company also launched Children's IKEA, with the focus on providing home furnishing solutions to cater to families having young children. In 2000, IKEA launched e-shopping in Sweden and Denmark. Over a period of time, it began providing this facility in several other countries.

The company continued its global expansion endeavor, opening stores in Hungary (1990), the Czech Republic, and Poland (1991), Spain (1996), China (1998), Russia (2000), Portugal (2004), and Japan (2006). The company also entered

into several partnerships to execute numerous social and environmental projects.

The company's business concept in all its markets was to offer furniture of simple designs at affordable prices. Though the company designed its own furniture and other items, it manufactured only a minimal portion; most of the supplies were made through a global network of contract manufacturers (a significant quota of these were located in emerging markets). The company's business strategy could be summed up as cheap labor, combined with expedient retail pricing.

With regard to human resources, IKEA claimed that it gave precedence to values and beliefs over skills, academics, or work experience in all of its standard jobs interviews. Prospective employees were expected to even take a culture quiz to determine if they fit in with the corporate culture.

IKEA strove hard to project itself as an environmentally conscious, ethical company. It took measures to ensure that the materials it used were sustainably sourced and the labor it employed met international labor regulations. By 2012, it hoped to fully implement the "IKEA Way", a roster of rules and regulations for its suppliers. It was also against child labor being used at its supplier's operations. The idea behind these rules was to provide the world with a clear picture on the origin, volume, and kind of wood used in IKEA's products.

Over the years, IKEA won several awards for its ethical practices. As of 2010, it had been recognized by the Ethisphere Institute⁶ as one of the "World's Most Ethical Companies" in specialty retail for four consecutive years.

As of 2012, IKEA had 338 stores in 40 countries. Of IKEA's revenues, 80% came from Europe and the company had future plans to expand into Asian markets, especially India. By the end of the decade, IKEA expected to increase the number of its stores by 50% (to 500 stores) and to double its sales figures and customer numbers. IKEA was judged the "2012 World Retail Congress International Retailer of the Year" because of its superiority as compared to its peers in global profitability, branding, and strategizing.

Foray into Russia

Kamprad had been quite keen to do business in Russia since the 1960's, when it was still The Soviet Union.⁷ However, he was unable to do so for quite a few decades for several reasons. IKEA's first attempt to begin Russian operations was stalled due to the collapse of the Soviet Union in 1991. A later attempt failed due to the 'Russian constitutional crisis of 1993'⁸ and the country's subsequent unfavorable economic scenario.

⁶The research-based Ethisphere Institute based in New York is concerned with the creation, advancement, and sharing of best practices in business ethics, corporate social responsibility, anti-corruption, and sustainability. It publishes a quarterly called the "Ethisphere Magazine".

⁷The Soviet Union or USSR (Union of Soviet Socialist Republics) was in existence between 1922 and 1991. It constituted 15 socialist states, which were ruled collectively by the Communist Party.

⁸The Russian constitutional crisis of 1993 occurred when a war erupted between the Russian President, Boris Yeltsin, and the Russian Parliament. The conflict that was spread over a period of 10 days gave rise to the deadliest street battle ever witnessed in Moscow. The issue was later resolved through the use of military force.

⁵IKEA believed in the practice of providing its products at prices which made them affordable to everyone. It was this belief that dictated the way it sourced its raw materials (maximizing their use), its production processes (cost effective and innovative) and its retail practices (reasonable pricing).

In 1998, Lennart Dahlgren (Dahlgren), a prominent IKEA employee, who was on the verge of retirement, was asked to oversee the setting up of IKEA's operations in Russia. Dahlgren stated that he, like many others in the West, had harbored several negative opinions about Russia, including the thought that the country was teeming with poor people. He quickly abandoned this view and came to realize that there was a large retail opportunity waiting to be tapped. In the early 2000s, a market report from A. T. Kearney, a global market consulting firm, stated that in terms of retail expansion, Russia was the top country in the world. The report further said, "With a growth rate of 30 percent for retail sales from 1999 to 2003 and a relatively sparse retail network to serve its growing market, Russia is full of promise."⁹

In time, Dahlgren also realized that Russia had a highly corrupt bureaucracy, which demanded bribes for getting anything done. However, in concurrence with IKEA's policy of zero tolerance of corruption, Dahlgren decided that he would not give in to the corrupt system. On the issue of companies dealing with corruption in Russia, Dahlgren said, "Companies interested in Russia should be absolutely up-front and honest in their dealings. When a foreign company pays bribes, there is no end to demands for bribes. In turn, foreign companies should feel an urgency to report corruption."¹⁰

Dahlgren entered into discussions with the Mayor of Moscow, Yuri Luzhkov (Luzhkov), with regard to the opening of the first IKEA store in that city. However, IKEA's endeavor to open a store in Moscow's prosperous Kutuzovsky Prospekt¹¹ fell through when it became a victim of vicious slander. Later, Luzhkov suggested that IKEA set up its store in a recently constructed building complex. But IKEA found the building impractical for setting up its store.

After some deliberation, IKEA came across a site it found suitable for setting up the store and approached Luzhkov to get a lease on the site. But the city authorities asked for sky high land lease rates that the company deemed to be economically unfeasible. Dahlgren said, "Buying land on these terms would make it impossible to keep low prices on products."¹²

Consequently, IKEA decided to move the project to a suburb 12 miles north of Moscow called Khimki, whose Mayor displayed a friendlier demeanor toward the setting up of the store. As soon as the construction of the Khimki store began, the 'Russian Financial Crisis' or the 'Ruble Crisis', broke out. The crisis was the result of the Russian Government's default on domestic debt and devaluation of the Ruble. The crisis period caused a jump in food prices and a break-out of mass protests. Millions lost their life savings. In spite of the setback it faced as a result of the crisis, the company continued with the construction of the store.

Opening of the Stores

In March 2000, IKEA's first store in Russia was opened at Khimki. The inaugural day drew a large crowd of 40,000 shoppers. People waited for an hour to get into the store and all the roads leading to it were backed up with traffic for miles around.

Analysts believed that by the time IKEA opened its first store there was a lot of pent up demand in Russia, especially from the middle class. It was a time of transition in the country, with the rising middle class looking to abandon the old world Soviet-era furniture in favor of the modern Scandinavian furniture showcased by IKEA.

At a time when furniture stores in Russia offered only two extreme choices, pricey furniture for the affluent and cheap stuff for the other classes, IKEA's offering of simple, sturdy furniture at affordable rates created quite a stir. Many of the shoppers expressed disbelief over the pricing of IKEA's items, with some of them even wondering whether they were priced in US dollars rather than Russian Rubles. Speaking on this issue, Dahlgren said, "We spent the first weekend writing the word 'ruble' on all the price tags."¹³

In contrast to other stores in Russia, IKEA laid emphasis on customer service. It had a highly selective process of recruitment, with its initial 440 employees picked from a total of 16,000 applicants. Moreover, the Store Supervisors, whom it termed the "Core Employees", were provided training at IKEA stores in other countries. Through its stores, IKEA also offered several other amenities such as free shuttle services from select places, a playroom for children and coffee to customers who came in early.

The store continued to be popular, with 100,000 visiting it even after a month. Within a year, IKEA opened another store in the Moscow region. The Russian IKEA stores were similar in size, structure, and style to their counterparts in other parts of the world. In the first year of operations, IKEA reported sales of more than US\$ 100 million in Russia, three times more than what the company had expected. IKEA's Khimki store became one of its top 10 grossing stores in the whole world. The rousing response to the store's opening encouraged IKEA to formulate ambitious plans of expansion.

In addition, IKEA tested its new business model for the first time in Russia. The company observed that the land value of the areas surrounding its new stores greatly appreciated in value over a period of time. It decided to take advantage of this by trying to develop the areas around its stores into commercial complexes.

The company had a land lease for its store's sites extending for a period of 98 years, with the option to purchase it, if Russia ever allowed it. This gave it sufficient leeway to make use of the excess land to increase its business prospects. IKEA invited other stores selling electronics, hardware, and clothes, most of whom were leading international brands, to set up operations in its store sites. It also set up areas for leisure such as movie

¹³Colin McMahon, "Russians Flock to Ikea as Store Battles Moscow," <http://articles.chicagotribune.com>, May 16, 2000.

⁹Curt Hazlett, "Russia is an alluring but sometimes scary place for Western retailers," www.icsc.org, May 2005.

¹⁰Lennart Dahlgren, "The Basics of Doing Business in Russia," <http://blogs.hbr.org>, October 25, 2010.

¹¹Kutuzovsky Prospekt is one of the key streets in Moscow. It is flanked by expensive residential areas.

¹²Maria Antonova, "Ex-IKEA Boss Bares Russia's 'Chaotic Reality'," www.sptimes.ru, March 26, 2010.

theaters, ice rinks, and play areas in these complexes. Apart from that, the company created comfort zones which housed cafés, restaurants, childcare facilities, and baby care rooms.

This initiative enabled certain IKEA stores in Russia to be operated as enormous shopping and entertainment complexes, unlike in other countries where they were standalone furniture stores. Over the years, IKEA's new division called the 'Mega Mall', which was set up to manage these complexes, made more money than the standalone retail business.

However, the company did struggle to make profits in Russia until the mid-2000s. The main reasons for this were the high startup costs and the steep 25% tariff imposed on imported furniture. IKEA got only 13% of the furniture it sold at its stores locally made. Dahlgren was of the opinion that the company needed to produce 30% of its furniture locally in order to make its operations profitable.

Accordingly in April 2002, IKEA started production at its first Russian factory, in the vicinity of St. Petersburg. Built at a cost of US\$ 15 million, the facility employed 250 people. Apart from opening a production facility, the company provided its local suppliers with credit of US\$ 400 million to purchase equipment and arrange for credit. Russia had about 25% of the world's hardwood supply and the company's efforts to develop its production facilities there were expected to make Russia a major supplier for the company for its global operations.

A Growth Story Marred by Problems

However, it was not all smooth sailing for IKEA in its expansion plans. The business environment in Russia dictated that IKEA constantly faced problems with regard to its stores from government officials in the fire, health and safety, electricity, tax, customs, and other related departments. These officials reportedly discovered problems with IKEA stores, especially during critical times such as store openings. Analysts observed that IKEA would then be provided pointers by the same authorities to overcome these serious issues by way of some monetary payment or engaging a party recommended by them to rectify the problem.

A few weeks before the opening of its first store, IKEA was asked by the local utility department officials to pay a bribe to get an electricity connection for its stores. In order to counter this demand, IKEA decided to hire large diesel generators to power its stores. This became a standard practice for the company for most of its stores in Russia.

IKEA's earlier decision to move out of Moscow didn't go down well with the city authorities, causing them to hold a grudge against IKEA for a long time. When the company finally opened its first store, the Moscow City authorities did not give it permission to advertise the store in the Moscow metro. Dahlgren stated that the municipal authorities refused citing certain scientific studies which showed that people who used the underground had damaged psyches, thereby making IKEA's ads potentially harmful.

Later, when the company wanted to build an off-ramp over Leningrad Highway to ease traffic and enable customers to reach the Khimki store without hardship, Moscow put

obstacles in its way. IKEA had not realized that the Leningrad Highway was controlled by Moscow City, rather than Khimki. Though IKEA had completed all formalities necessary to gain the necessary construction permits, once the construction began, the proceedings were halted by Luzhkov and his team. They refused to grant permission for construction of the off-ramp stating that it would thwart the view of a historic place called the Tank Trap monument, which depicted the place where the Red Army¹⁴ obstructed the march of the German Nazi forces during World War II.¹⁵

The off-ramp stood half-constructed for about a year, causing hardship to customers and traffic snarls on the Leningrad Highway. Later, the company received permission to build the bridge after Kamprad appealed to Vladimir Putin¹⁶ and the 200 other store owners in the complex protested against authorities on the issue.

However, IKEA did make certain compromises with regard to the construction. It agreed to get the off-ramp built by the company endorsed by the municipal authorities of Moscow. This cost the company in terms of cost and time, as it had to pay US\$ 5 million more than the estimated cost. Besides, the off-ramp's construction took three times longer than necessary.

In 2003, the company planned to build a US\$ 40 million warehouse in the Solnechnogorsky district of the Moscow region. Things worked out smoothly for the company as long as Deputy Governor Mikhail Men, who was well-disposed toward the company, was in office. Once he was discharged, the company began facing problems with authorities. Dahlgren accused Vladimir Popov, who was District Head at that time, of using the police to halt work at the warehouse. IKEA was given the go-ahead to continue work only after it donated US\$ 30 million as aid to elderly people and hired a contractor endorsed by the regional government.

In December 2004, IKEA was all set to inaugurate its next store at Chimki, just outside of Moscow. The US\$ 250 million store was one of the biggest in Europe with large boutiques, ice halls, children's play area, and cinema multiplex. The construction of the store began with the blessings of the Mayor of Khimki. However, when he was replaced with Vladimir Strelchenko (Strelchenko), an ex-military officer who showed marked indifference toward Western investors, the store's inauguration faced a major setback.

Officials stalled the store's opening saying that the road to the store ran over a gaspipe, making it dangerous. Therefore, the company was ordered to build a new roadway. It was another matter that the pipeline in question also passed

¹⁴Red Army or 'The Workers' and Peasants' Red Army' were the Soviet Union's communist war group, who were active during the time of the Russian Civil War (1918–22). Later, it became the national army of the USSR.

¹⁵World War II occurred during the period 1939–1945. Several major nations participated in it and it was considered to be the deadliest war in human history, due to the large number of human casualties and the use of nuclear weapons.

¹⁶Vladimir Putin has been the President of Russia since May 7, 2012. Previously, he had served as President from 2000 to 2008. He had also served as Prime Minister of Russia for the periods 1999–2000 and 2008–2012.

underneath a heavily used six-lane highway and a crucial railroad. Dahlgren stated that the company had agreed to construct a number of pressure reducers over the gas pipes, but the real reason the opening was stopped was because they had refused to pay bribes.

Dahlgren described the prevention of the store opening as “sabotage against Russia”¹⁷ and raised his voice about the corruption dogging Russia, something which had never been done earlier by any official of a company doing business in Russia. He said, “Like all Western companies in Russia we’re subject to blackmail, sabotage, and pressure for bribes. In many cases we’re totally in the hands of local chieftains. IKEA is big in Russia and doesn’t pay bribes.”¹⁸

Dahlgren announced that the inauguration on December 10, 2004, would go ahead as scheduled. Though police forces blocked the store, Dahlgren and his team, along with the Swedish Ambassador to Russia held a grand opening ceremony. This incident drew the attention of the worldwide media and IKEA’s plight gained it a lot of sympathy. At the same time, the Chimko municipal authorities drew harsh criticism. Strelchenko’s superiors were worried about the incident and its possible ill-effects on Russia’s reputation. They then put pressure on him to give the go-ahead for the mall’s opening.

Even though Kamprad made several attempts to meet the political leadership of Russia, he was not able to meet either Putin or his successor Dmitry Medvedev.¹⁹ In one such attempt in 2005 in which Dahlgren strove to arrange a meeting between Kamprad and Putin, he was told by a senior government official that it would cost US\$ 5-10 million. Dahlgren said, “I sensed that it would be better not to get into that discussion any deeper.”²⁰

A Stop to Everything?

Fortunately for IKEA, it did not face only problems in Russia. There were instances when support from the authorities made things smoother. In 2005, IKEA opened another store called the ‘Mega Kazan’ in the Kazan region, 500 miles east of Moscow. The store was built in partnership with Ramstore hypermarket.²¹ Mega Kazan went on to become the largest regional mall in Russia. Dahlgren said that the authorities in Kazan were very co-operative, which caused the store to be opened in record time. He said, “It took less than a year between the first meeting with Kazan’s mayor and the store’s opening — a record impossible to break anywhere in the world.”²²

Over a period of time, IKEA became the largest foreign retailer in Russia. The company invested US\$ 4 billion in Russia over a period of 10 years, making it the country’s sole largest foreign investor. It opened 14 stores and three manufacturing facilities, along with one distribution center. Company officials stated that IKEA’s success was attracting other world retailers to set up their operations in Russia. The popularity of IKEA and its impact on the younger generation caused Russia’s yuppies²³ to be named the ‘IKEA Generation’. IKEA’s Managing Director, Per Wendschlag said, “We are one of the top-selling IKEA countries in the world. The potential with 141 million people who are interested in consuming and furnishing their homes is big.”²⁴

However, despite its runaway success, IKEA put a freeze on its expansion in June 2009, after officials refused to give it permission to open two of its stores in the central cities of Samara and Ufa. According to Kirill Kabanov, Head of the NGO National Anti-Corruption Committee in Moscow, the reason for the non-opening of the stores was IKEA’s refusal to give bribes to safety inspectors. Officials refused to give approval in Samara stating that the walls of the store were not in a condition to withstand hurricane-force winds, notwithstanding the fact that such weather conditions had never been experienced in that region.

A company official stated that the municipal authorities had recommended that IKEA use the services of a local construction company to “quickly help”²⁵ fix the construction deficiencies. Gigibulla Khasaev, Economic Development Minister for the Samara region, however, stated that the company’s allegations were untrue and that IKEA was publicizing its complaints to divert attention from its substandard construction. He added, “To say the government is creating artificial barriers is an invention.”²⁶

IKEA stated that it was tired of being conned out of its money and was halting expansion. Kamprad claimed that the company had been swindled to the tune of US\$ 190 million because of the failure of Russian authorities to provide electricity to its stores as promised. However, some incidents seemed to indicate that certain IKEA officials were bowing down to the all-encompassing corruption in Russia.

In 2009, IKEA discovered that the key executive responsible for renting the diesel generators had hyped up the rental charges in collaboration with the generator rental company, causing the company a loss of several million dollars.

In February 2010, IKEA fired two of its executives Per Kaufmann, a Director for IKEA in Eastern Europe, and Stefan Gross, a Director for IKEA’s shopping mall business in Russia, for turning a blind eye to corruption.

Though they had not committed any personal indiscretion, their decision to overlook a corrupt transaction between a subcontractor of IKEA and an electricity company

¹⁷Curt Hazlett, “Russia is an alluring but sometimes scary place for Western retailers,” www.icsc.org, May 2005.

¹⁸Andrew Osborn, “In Fear of His Life: Ikea’s Man in Moscow Tells of Threats and Bribes,” www.independent.co.uk, December 15, 2004.

¹⁹Dmitry Medvedev has been the Prime Minister of Russia since May 8, 2012. Previously, he had been President of Russia from 2008 to 2012.

²⁰Maria Antonova, “Ex-IKEA Boss Bares Russia’s ‘Chaotic Reality,’” www.sptimes.ru, March 26, 2010.

²¹Ramstore Hypermarkets are owned by Turkish retail giant, MigrosTürk Ticaret A.Ş. There are about a dozen Ramstore hypermarkets in Russia.

²²Maria Antonova, “Ex-IKEA Boss Bares Russia’s ‘Chaotic Reality,’” www.sptimes.ru, March 26, 2010.

²³Yuppie stands for “young urban professional” or “young upwardly-mobile professional” and generally refers to the earning members of the upper middle class or upper class, in their 20s and 30s.

²⁴“IKEA’s Freeze Curtails Medvedev’s Goal,” www.themoscowtimes.com, March 15, 2011.

²⁵“Why IKEA Is Fed Up with Russia,” www.businessweek.com, July 2, 2009.

²⁶“Why IKEA Is Fed Up with Russia,” www.businessweek.com, July 2, 2009.

official in order to resolve a power-supply issue at IKEA's St. Petersburg mall, did somewhat dent IKEA's reputation for non-tolerance of corruption. Speaking on this issue, Kamprad said, "The documented mess in our Russian shopping center company is completely unacceptable. I have been too optimistic. It is shocking and deplorable that we have wandered off course."²⁷

In April 2011, the Ministry of Economic Development of Russia got in touch with IKEA's senior leadership and persuaded them to carry on with their expansion plans in the country. Minister Elvira Nabiullina who met company executives claimed that IKEA had agreed not only to open new stores, but also to enhance its local manufacturing capability. Analysts felt that the company's meeting with the Russian senior ministry demonstrated a strategy of building relationships with authorities at the federal, rather than local level.

Apart from the rising cases of corruption being detected among its ranks, IKEA's image took a further beating when reports on its alleged unethical logging practices surfaced. In early 2012, a Swedish public service television came out with an investigative report that proclaimed that IKEA's subsidiary Swedwood cut down several hundred acres of old growth forests every year. This revelation caused various global conservation groups to condemn IKEA's logging practices. IKEA refuted the allegations and claimed that it was logging wood according to local guidelines.

However, analysts pointed out that IKEA was adhering to local guidelines that were highly questionable. Viktor Säfve, Chairman of Swedish NGO 'Protect the Forest', said, "This all comes down to a question of credibility and we believe that they are cheating their customers by claiming that the wood they use is sustainably sourced. The wood they are cutting down in Russia is from a high conservation area and we have the evidence to prove it. They are hiding behind flawed and criticized FSC accreditation."^{28, 29} Analysts felt that IKEA should show greater responsibility in sourcing wood without taking advantage of defunct environmental guidelines in countries such as Russia and China, in which it mostly logged wood.

The Road Ahead

As of 2012, Russia was IKEA's primary target for expansion. Out of its three top globally performing stores, two were located in Russia. Apart from that, the country's extensive boreal or taiga forest belt was a source of high-quality timber. The company was also in the process of executing new business plans, such as the initiative to open a bank.

IKEA's journey reflected the fact that even though Russia was one of the fastest emerging markets of the world, and a part of the BRIC (Brazil, Russia, India and China), it was one of the toughest in which to do business.

Analysts said that the major stumbling block for business was the country's corrupt systems at both the regional and national levels. In Transparency International's³⁰ 2011 Corruption Perceptions Index, Russia was placed at 143rd position, on par with notorious nations such as Nigeria and Belarus. As per the cables published by Wikileaks,³¹ it was estimated that bribery in Russia was worth US\$ 300 billion per annum. Analysts opined that bribery was like another taxation system in the country, which benefited the political elite including the police and the Federal Security Service (FSB).³²

Over the years, IKEA's clash with government officials across various store locations over corruption continued, prompting the Russian Government to come out with several promises that it would eradicate corruption. Speaking on this issue, Dahlgren said, "Officials regularly make public statements about increasing the war on corruption, bureaucracy, and abuse of office. But we did not notice any positive changes over all this time. While some legislation has changed for the better, the authorities have not."³³

Political observers were of the opinion that unless Russia brought about major changes in its political system such as permitting the formation of a free press and allowing a genuine opposition to exist, which could then criticize government drafts, corruption and bribery would remain omnipresent. Speaking on this issue, Evgeny Kovrov, a Researcher at Retail Consultancy Magazin Magazinov, said, "Investors need dozens and dozens of approvals from an incredible number of agencies. That provides for unlimited corruption opportunities."³⁴

On the other hand, analysts felt that corruption was an institutional problem and not a transactional issue. They agreed that multinationals took measures to ensure compliance of their conduct with their Code of Conduct, regulations prevalent in their home country, and internationally relevant rules and regulations. However, they felt that this was not enough to address a systemic problem like corruption, particularly in emerging nations. They were of the opinion that companies through 'Business Associations' and 'Chambers of Commerce' should develop a collective voice and strive for concrete steps to eradicate corruption.

As in Russia, IKEA passed through ethical minefields in certain other countries in which it had operations. In May 2012, it came to light that IKEA France had been spying on staff and disgruntled customers in that country over a long

²⁷"Ikea Owner 'Distressed' Over Russian Expansion," www.thelocal.se, December 11, 2010.

²⁸FSC (Forest Stewardship Council) includes some of the world's leading environmental NGOs who develop 'Principles and Criteria' - the highest standards of forest management which are environmentally appropriate, socially beneficial and economically viable.

²⁹Annie Kelly, "Ikea to go 'Forest Positive' - But Serious Challenges Lie Ahead," www.guardian.co.uk, December 14, 2012.

³⁰Transparency International is an international organization that measures corruption and publishes a comparative listing of corruption worldwide.

³¹Wikileaks is a non-profit organization which has been publishing secret and classified documents through its website launched in 2006.

³²The Federal Security Service of the Russian Federation (FSB) is the successor to Soviet Committee of State Security (KGB). It is the primary domestic security agency of the Russian Federation whose responsibilities include ensuring security and gathering intelligence.

³³Maria Antonova, "Ex-IKEA Boss Bares Russia's 'Chaotic Reality'," www.sptimes.ru, March 26, 2010.

³⁴"Why IKEA Is Fed Up with Russia," www.businessweek.com, July 2, 2009.

period of time. The company had reportedly employed private detectives and gained access to police files illegally to gain information about them. To make amends, IKEA fired several key executives, including the country head.

In September 2012, a report released by research company, Ernst & Young claimed that East German political prisoners had been forced to manufacture products for an IKEA supplier for a period of 30 years. Speaking on this issue, Jeanette Skjelmoose, IKEA's Sustainability Manager, said, "We deeply regret that this could happen. At the time, we did not yet have the well-organized control system we have today and clearly did not do enough to prevent this type of production method."³⁵

It was obvious that IKEA's various global operations were floundering in their attempts to adhere to its own ethical standards. Speaking about the difficulty in maintaining the unique corporate culture and ethical stance across geographies, Christopher Bartlett, an emeritus professor at Harvard Business School said, "In any company that is as large and diverse as IKEA it does become a challenge [to maintain the culture]. There is often a tension between the corporate culture and a national culture."³⁶

Case Questions

1. What are the various external factors which a company must take into account while devising a market entry strategy for a new country? Discuss these factors in the Russian context and in the actions taken by IKEA.
2. What is the impact of strong and co-operative political machinery on the business prospects of an emerging market? In this context, discuss IKEA's Russian sojourn. What should IKEA's business strategy be in the future?
3. What are the strategies that a company should use to grow its business in an emerging market? How do you establish a strong market presence in an underserved market? Discuss IKEA's strategy of establishing large shopping complexes instead of standalone shopping centers.

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