

Corruption in Russia: IKEA's expansion to the East (A-D)

Urs Müller

Urs Müller is based at ESMT European School of Management and Technology, Berlin, Germany.

© 2016 by ESMT European School of Management and Technology, Berlin, Germany, www.esmt.org

The author wishes to thank: Derek Abell for his support in the design of the case series and his attempt to collect additional information. Amanpreet Singh, Daniel Rettich, Martha Ihlbrock and Tonisha Robinson for their support of researching, editing, translating and formatting of the case study, teaching note and supplementary material. A sanitized version of this case study series has previously been published in the Emerald Emerging Case Study Collection under the title "Corruption by design? L'Antimarché's struggles in Russia (A-D)".

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The author/s may have disguised names, financial and other recognizable information to protect confidentiality.



Corruption in Russia IKEA's expansion to the East (A)

Introduction

In 2000, IKEA, the world's largest furniture retailer entered the Russian market. The Swedish retailer wanted to be part of the gold rush fueled by the emerging middle class in Russia after the fall of the Iron Curtain. The company was preparing to open its first flagship store on the outskirts of Moscow, only the first of several planned projects. After substantial investments in infrastructure and logistics, IKEA focused on marketing, but quickly faced a sudden complication. Its major ad campaign in the Moscow Metro with the slogan "[e]very 10th European was made in one of our beds" was labeled "bad taste". IKEA had to stop the campaign because it "couldn't prove" the claim (Fuerbringer, 2000). Soon Lennart Dahlgren, the first general manager of IKEA in Russia must have realized that the unsuccessful ad campaign was going to be the least of his problems: A few weeks before the planned opening, the local utility company decided not to provide their services for the store if IKEA did not pay a *special service fee* (Kramer, 2009a). What should IKEA and Lennart Dahlgren do? Was there any alternative to *playing the game* the Russian way, and paying?

From a small company to a global player

IKEA was founded in 1943 as a general mail-order company in a small village in Southern Sweden. By the end of 2000, the privately owned IKEA Group was operating 151 stores in 29 countries with a turnover of about €9.5 billion (Exhibits 1 and 2) (IKEA Australia, 2010). IKEA continued to carry out its mission of providing quality furniture with an innovative design at an affordable price to average income consumers, in particular to families. IKEA had described its vision and business plan as such:

At IKEA our vision is to create a better everyday life for the many people. Our business idea supports this vision by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them (IKEA Ireland, 2015).

As early as 1955, IKEA established its innovative business model of self-assembly by the customer and flat packaging for easier transport. IKEA's founder and owner Ingvar Kamprad described this as an optimal method "to avoid transporting and storing air" (Fundinguniverse, 2015)). IKEA opened its first flagship store just outside of Stockholm in 1965. Opening a store close to Stockholm, IKEA proved that the company's new idea of producing and selling low-cost furniture could succeed in a metropolitan market. With the innovative concept came the new idea of self-service in an industry that had traditionally been dominated by large numbers of salespeople (Fundinguniverse, 2015).

In the mid-1960s, IKEA began its international expansion, first to its Scandinavian neighbor Norway and then moving into Denmark. In the next two following decades, IKEA opened stores in much of Western Europe, expanding into Germany in 1974 and France in 1981. Having opened stores in Australia in 1975 and Canada in 1976, IKEA took on the US market almost 10 years later, opening its first store in Philadelphia, Pennsylvania in 1985 (Torekull, 1998).

During its rapid expansion, IKEA targeted young people aged between 20 and 35 years. Demonstrating its family-friendliness and marketing savviness, IKEA launched the Family Card in 1984, a customer card giving discounts and special deals to cardholders, including a free cup of coffee anytime one came into the store (Jungbluth (2008)). IKEA served the coffee in its own in-house restaurant, the first of which was opened in Sweden in 1960 (Webarchive, 2010a). And of course, IKEA became famous for running small playgrounds and offering child care while parents strolled through the exhibition halls.

IKEA's founder Ingvar Kamprad stepped down as CEO in 1986, but as owner and honorary chairman, he maintained significant influence on the company's strategy and culture. The company culture and strategy was often described as highly cost-cautious, sometimes even as stingy (Hansegard, 2011). IKEA always sought out the lowest possible production cost to provide the most competitive price (Jungbluth (2008)). Accordingly, the company's internationalization was not only driven by the desire to sell more products to a broader customer base but also the search for low-cost production opportunities and capacities. IKEA turned into an international business early on.

Behind and after the fall of the iron curtain

Long before 1989, IKEA recognized that buying supplies from countries behind the Iron Curtain would give them a competitive cost advantage, the Swedish retailer was already holding contracts with factories in East Germany, Poland and Yugoslavia. In the 1970s, supplies from Eastern European contractors made up for around 20 to 25 per cent of the company's total needs, even during the political turmoil and changes in 1989, around 15 per cent of the supply came from Eastern Europe (Fundinguniverse, 2015).

After the dissolution of the Soviet Union, IKEA quickly seized the opportunity to expand its concept into Eastern Europe, first opening a store in Budapest, Hungary, in 1990, and then moving into the Czech Republic and Poland the following year (Hansegard, 2011). IKEA's immediate success in these markets demonstrated that Eastern European average income consumers really had a demand for stylish and budget-friendly furniture. Between 1990 and 2000, IKEA opened a total of five stores in Poland, two stores in Hungary and Czech Republic, respectively, and one store in Slovakia. A move further eastwards to Russia seemed like a logical next step.

In 2000, IKEA planned to open its first store in Moscow. By entering Russia, IKEA wanted to tap into a huge and potentially highly attractive market of around 146 million consumers (Webarchive, 2010b). Between its foundation in 1943 and 2000, IKEA had already entered (and conquered) most of the established, developed economies and had even started to move into emerging markets such as Malaysia (1996) and China (1998). Additional growth was seemingly only possible by capturing market share in additional emerging markets – and given its size Russia appeared to be an obvious choice, especially as IKEA had already sourced raw-material and finished products from Russia before. In 2000, Russia was still perceived as the *Wild Wild East*. In the decade after the fall of the wall, the country had been going through political and economic turmoil including a slight decrease in its overall population (from 148.3 to 146.6 million inhabitants from 1990 to 2000) and periods of extremely high inflation and negative gross domestic product (GDP) growth (Worldbank, 2016). Only in the past few years, before 2000 the situation had gotten more stable even though inflation was still at 20.1 per cent (Worldbank, 2016b). But the economic indicators seemed to point into the right direction and the country was still far behind the European average consumption for furniture, with the expenditure rate estimated at €7 per person in

2000. Compared to up to €300 spent annually per person in Germany, there was certainly the prospect of a large and growing market, especially if a company could successfully reach out to the emerging middle class (Inflation.eu, 2016). A Russian emerging middle class was eager to improve its standard of living, including making changes to the interior design of its homes. Little improvements had been done to apartments since Soviet times, with old-fashioned cupboards and tables often being mixed with homemade essentials. Soviet-made furniture was large and heavy and often filled almost all of the little space in small Russian apartments (Webarchive, 2008). According to the *New York Times*, Russian households seemed to be “a goldmine of need” for durable goods (Kramer, 2009a). Russia, indeed, seemed to be a must for international retail chains in general.

Problems before opening the mall in Khimki

Soon after the decision to enter Russia, IKEA learned that doing business in this country required some adjustment. The company had some initial successes, for instance in resolving the issue of the calculation of import duties on furniture (Cockburn, 2000). However, IKEA soon struggled to get hold of a prime location at the necessary low cost to fit into the business model. After an unsuccessful search within Moscow, IKEA decided to open the first store three miles outside of the city in a place called Khimki (Kramer, 2009a). Scouting the site, development and construction took two and a half years, but new issues came to light. After IKEA's disastrous ad campaign, the city of Moscow blocked the construction of an overpass that was supposed to ease the traffic to the new store. The region's officials were reported to order IKEA to build the overpass, but after already investing US\$4.5 million, and with only two pillars left to build before the structure was complete, the city of Moscow stopped construction. The city had control over a street that also had to be passed, as the day of the opening came closer and closer, the traffic issue remained unresolved.

Finally, a few weeks before the grand opening of the first IKEA in Russia in 2000, the local utility company reportedly approached the company's management and gave an ultimatum: Lennart Dahlgren, general manager of IKEA in Russia, could either pay a *special service fee* or proceed without electricity (Kramer, 2009a). Already under pressure from the previous challenges associated with the grand opening, Dahlgren had to act fast. Could IKEA afford to postpone or even completely cancel the opening in Khimki? Or should he just pay whatever was required?

Corruption in Russia: IKEA's expansion to the East (B)

Introduction

In line with IKEA's image as innovative company, the organization came up with a creative solution *vis-à-vis* the local utility company's demand for a special service fee. Instead of paying a bribe, the global furniture retailer simply bypassed the utility company by renting diesel generators to power the outlet (Kramer, 2009a). But IKEA will soon have learned that corruption in Russia was systemic and could not be easily defeated through innovation or creativity alone.

IKEA's successful grand opening in Khimki

The opening of IKEA's first store in Russia was an enormous success. When the diesel generators started operating in the morning to provide the necessary electricity for the lights, computers and cash registers, customers were already lining up outside to get in. About 37,000 people crowded the 31,000-square-meter store on the first day. But due to the unresolved issues with the city of Moscow, the planned overpass to the store was still missing its last two pillars. Consequently, the line of cars that were trying to exit the highway to IKEA was close to five km long by noon. And even though 70 per cent of the 265,000 people entering the outlet during the first weeks were only there to take a gander, the remaining 30 per cent of visitors (i.e. almost 80,000 people, which is more than 6,500 per

day) had already started adapting to the IKEA way of living. The company's assessment of the market proved to be correct: Most Russians were in need to upgrade the interior of their apartments. Only 3 per cent of all purchases were paid by credit card, and the large number of middle-class cars in the parking lot demonstrated that it was not just the upper class that could afford to buy IKEA (Semenenko, 1999). Hopes and plans for more IKEA stores on the base of a huge potential market demand across the country were high.

And things even looked brighter: After realizing that IKEA was not going to play the corruption game, the utility company caved in and started providing the necessary electricity. Nevertheless, significant challenges remained during the opening of the next spate of stores. During subsequent new openings in Russia over the following years, IKEA reportedly faced similar bribing attempts from utility companies. Then the retailer followed the established pattern of renting diesel generators to provide enough electricity for the large shopping malls in which the IKEA stores were located. And IKEA executives took pride in having found a creative solution to the demands for bribes. In a newspaper interview, Lennart Dahlgren commented: "We Swedes are poorly educated in corruption. Whoever complains about corruption should know one thing: Without anybody giving, there is nobody to receive" (Hartmann, 2003).

Plans for expansion in Russia

As of the end of 2008, IKEA had opened eleven giant shopping malls, called MEGA malls, in Russia. MEGA malls housed not only IKEA stores but also other retailers, restaurants and entertainment facilities like skating rings (MEGA Mall, 2013). Three IKEA outlets were located in Moscow, where the first two stores were opened in 2000 and 2001. St. Petersburg followed in 2003 and received another store in 2006. In 2006, IKEA opened a total of three stores, the most in any single year, and then slowed down its expansion, opening just two stores in 2007 and one in 2008 (IKEA, 2010).

IKEA had planned to expand more quickly in Russia; the declining rate of openings reflected an increasing level of problems, most of which had to do with administration and an opaque Russian bureaucracy. Like the issue with the half-finished overpass, IKEA repeatedly encountered more bureaucratic challenges. A classic example was the planned construction of a MEGA mall in Samara. The construction began in 2007, but local officials repeatedly prohibited IKEA from opening the Samara store due to the violation of "numerous safety regulations and other rules" (Bush, 2009). Apparent problems like this continued to put a damper on IKEA's rapid expansion plans.

Despite the slowdown in opening new stores, Russia already accounted for almost five per cent of IKEA's global business at the end of 2008. The company initially grew at a rate of 20 per cent per year in Russia and enjoyed an increasing popularity with the general public, making it necessary for emergency vehicles to be on the scene of grand openings of new stores (Kramer, 2009a). IKEA clearly wanted to be in Russia, and to grow even faster than their current rate. Russian customers, in turn, wanted IKEA products. But external circumstances seemed to hinder the company to grow.

A growing concern within IKEA

After several years of business in Russia, the focus moved from external to internal issues. Refusing to give in to the seemingly systemic corruption in Russia, IKEA continued to rent diesel generators whenever a local utility company tried to solicit bribes to provide electricity. This tried-and-true method worked for years and seemed to be the ideal solution for getting around the bribes. The company once again rented diesel generators when confronted with the request to pay bribes from utility companies before the opening of two malls with IKEA stores at the end of 2006. The stores opened on schedule and just in time for the year-end shopping. But still at the end of 2008, generators were still supplying electricity for both malls, because the companies asking for special fees proved to be stubborn (Kramer, 2009a).

At the beginning, IKEA did not notice the skyrocketing rental costs for the diesel generators but over time, the first signs of an underlying issue surfaced. In 2008, when IKEA became aware of the high costs, the board hired a private investigation company based in London. After examining the Russian operation, the investigators identified a former employee who testified that a Russian IKEA executive in charge of renting and managing the generators was responsible. Apparently, the manager was taking substantial kickbacks in the form of weekly cash payments from the diesel generator rental company. Allegedly, the generator company charged IKEA a much higher than normal rental price. This suspected fraud might have been occurring for more than two years, and IKEA estimated the damage to be around €135 million. When confronted with the allegations, the IKEA executive denied any wrongdoing, and the owner of the generator rental company argued that the high costs were due to the fact that the generator had been rented as standby power source, but had supplied the two MEGA malls continuously for years (Kramer, 2009a).

While the diesel generators were still buzzing after two years in operation, and while the customers were still rushing into the 11 Russian stores, IKEA had to turn its attention inside its own organization. After findings of alleged corruption within the organization, IKEA faced a new issue: internal corruption. Which next steps should the company have taken in the short and long run to address those problems?

Corruption in Russia: IKEA's expansion to the East (C)

Introduction

IKEA decided to follow through its no-corruption policy, after the discovery of signs of corruption within the organization. IKEA terminated the contracts with the diesel generator company and with the purchasing manager, even though both insisted on their innocence. The former IKEA employee accused of accepting kickbacks denied any wrongdoing and claimed instead that IKEA's country managers were trying to cover up their own expensive incompetence by blaming Russian subordinates. He also argued that the Russian police investigated and cleared all IKEA's allegations (Kramer, 2009a).

The blindfolded Justitia in Russia

Once so proud of their innovative solution to bribery attempts in Russia, IKEA executives were forced to recognize that the systemic problem had not been solved. Christer Thordson, an IKEA board member and global director of legal affairs, publicly admitted that IKEA was slow in recognizing the soaring rental costs for generators. He blamed IKEA's "pell-mell rush to expand" (Kramer, 2009a).

After this experience, IKEA executives might have wanted to regain control. In addition to the termination of the contracts with the diesel generator company and with the purchasing manager, IKEA went to court and claimed compensation for fraud. However, instead of receiving reimbursement for the alleged €135 million in damages from the kickback scheme, an arbitration appellate court in Moscow ruled in June 2009 that IKEA had to pay €5 million for breach of contract to the diesel generator company (Sagdiyev and Popova, 2010; Kramer, 2009a).

IKEA appealed, but had to deposit the €5 million in an escrow account, to be paid to the head of the generator rental company only if the appeal was lost as well. In another instance, a lower court ordered that the money also be directly withdrawn from IKEA's account. At this point, IKEA had paid out €10 million – twice as much as the initial ruling, although the appeal process had not started yet (Kramer, 2009a).

Opaque and absurd

While the denial of corruption in Russia was widespread, the country's politicians started to admit that the country was having a problem. Several high ranking politicians repeatedly

criticized corruption as a significant impediment to foreign investment. They were also urged to take action from non-government organizations such as Transparency International (TI). TI published an annual *Corruption Perception Index*, which measured in a composite index the *perceived* levels of corruption in various countries and which ranked Russia (together with Bangladesh and Kenya) in 2009 at place 146 (seven places behind Pakistan) from 180 countries in the area of “clean government and business” ([Exhibit 4](#)) ([Transparency International \(TI\), 2010](#); [IKEA, 2010](#)). Despite public statements, Russian leaders did not seem to have an answer to corruption by 2009.

In the same year, Russian President Dmitri A. Medvedev enacted a law prohibiting surprise inspections from state employees, a practice often used by fire fighters and health department employees as a decoy for extortion. This law also required that spouses of bureaucrats disclosed their income and assets so that tax evasion and money laundering within the family became more difficult ([Kramer, 2009b](#)). TI's reaction was cautiously optimistic. And while TI applauded IKEA's position regarding corruption, the NGO also said about the larger context: “[I]f companies like IKEA don't see results in their daily business practices, it's sad news for Russia”([Kramer, 2009b](#)).

The National Anti-corruption Committee estimated that one-fifth of the annual GDP in Russia, almost US\$200 to US\$300 billion, was paid out in bribes to bureaucrats. Lennart Dahlgren, first general manager of IKEA in Russia, had stepped down in 2006 and written a book titled *Despite absurdity: How I conquered Russia while it conquered me*^[1]. In this book, he remembered that there were often so many bureaucrats in the IKEA offices that it was impossible to tell them apart from employees ([Steiner, 2010](#)).

When a market is almost too attractive

Russians needed furniture. It was as simple as that. A legacy from the Soviet era had been a lingering deficit of durable consumer goods, including furniture. The growth rate within Russia averaged 20 per cent for IKEA for most of the 2000s, which definitely made it easier to ignore the challenges of doing business in what the *New York Times* described as “a maddeningly opaque but potentially lucrative market of 140 million people” ([Kramer, 2009a](#)). And despite all their struggles, IKEA managed to open their twelfth store, another 25,000 sqm, in Omsk in 2009.

By this point, IKEA seemed able to overcome graft, corruption and an opaque bureaucracy with persistence and adherence to company policies and, more importantly, with creativity. The *Moscow Times* quoted Dahlgren as he described the necessity of getting more than 300 separate permits to build a store: “If we had waited to receive them all, we would have lost years” ([Sagdiyev and Popova, 2010](#)). Accordingly, the company had seemingly always looked to come to agreements with local authorities so that they could begin construction and receive the permits “in the process” ([Sagdiyev and Popova, 2010](#)). But the problems had not only spilled over from external to internal challenges: After the court's ruling and the double withdrawal of the €5 million, it seemed as if the problems also extended beyond the business arena into the judicial system, which unveiled an even larger societal issue. On the one hand, IKEA seemed to be alone in this fight, but on the other, the Swedish retailer had to wonder if there was anything that the company could do to enable its continuous operation in a market that seemed to be toxic. How could IKEA continue to do business in a country placed in a cluster of the 20 per cent most corrupt countries in the world, and in which even the legal system apparently failed to provide the necessary level of security for business? The average *Corruption Perception Index* of all countries into which IKEA had expanded since its foundation per decade had fallen from 8.7 in the 1950s-1970s to 5.4 in the 1990s. In 2009, Russia scored only a shockingly low 2.2 ([Exhibit 5](#)). Had IKEA, in its decades of geographic expansion, grown too far?

Corruption in Russia: IKEA's expansion to the East (D)

Introduction

In September 2009, IKEA managers disclosed their continuous challenges with corruption in Russia to the *New York Times*. Although IKEA was still appealing the case against the diesel generator company in court, and despite the fact that an escrow account had been set up for a penalty of €5 million (the amount IKEA was sentenced to pay for breach of contract), the same amount was additionally and incorrectly withdrawn directly from IKEA's bank account (Kramer, 2009a). The company will most likely have hoped that the unusual step of talking about corruption openly would finally help to force the government and authorities to take decisive steps.

Corruption: The Lernaean Hydra

IKEA had refused to *play the game* in Russia, and this caused many difficulties in opening the new stores. Not only had several utility companies refused to provide electricity without a bribe, at various instances other bureaucratic agencies hindered the opening of finished stores. As was the case in Samara: the grand opening sign still hung after three years (Bush, 2009). Samara would have been IKEA's eleventh store in Russia at that time, had IKEA been willing to contract a local construction company to *fix* alleged deficiencies.

Instead, IKEA opened a superstore in Adygeya in 2008. This shopping center had initially been planned for the neighboring city of Krasnodor, but IKEA moved the location after city officials sold the property to a private dealer who then wanted five times more for the land than the price already negotiated (Steiner, 2010).

Going public

By this time, IKEA seems to have had enough and decided to go public. On June 23, 2009, IKEA's founder Ingvar Kamprad announced in a radio interview that IKEA was stopping all new investments in the country, in part in reaction to the problems concerning Samara and other stores. Addressing the issues of corruption in Russia, Kamprad said that IKEA was not going to "solve problems by slipping money under the table" (Kramer, 2009b).

At that point in time, IKEA was the largest foreign investor in Russia after oil companies (Steiner, 2010) and the largest owner of commercial real estate in Russia (Sagdiyev and Popova, 2010). The company had been present in Russia for only 10 years, but the Swedish furniture giant had already become so iconic that Russian yuppies were referred to as "the IKEA generation" (Sagdiyev and Popova, 2010). Despite this great success in the country, IKEA announced a stop to all future investments. This step was supposed to send a strong signal, but the company decided to put even more pressure on the Russian government.

While most companies (including IKEA in Russia up to this point) carefully avoided talking about corruption, the Swedish furniture retailer seemed to have decided to get involved in politics. Hoping that the Russian authorities would take action, the company disclosed to the *New York Times* about their losses (Kramer, 2009a). The newspaper grasped the opportunity and published a lengthy article on the front page of the business section, which was then re-printed on the cover of the *International Herald Tribune*. The case was finally a talking point of international debate. Hopes were high that the Russian government would act to ensure future foreign investments from IKEA, as well as from other international companies.

Damage to credibility

After firing the purchasing manager and restating the validity and importance of its non-corruption policy, one might assume that IKEA had taken the necessary steps to ensure compliance. However, the company soon must have realized that it was still not immune to corruption within its own ranks. IKEA fired two senior executives Russia in

February 2010 after being implicated for allowing alleged bribes (Kramer, 2010). Only six months after one of these two executives himself had publicly underscored IKEA's anti-corruption stance in Russia and announced the investment stop, this revelation disturbed many Western and Russian observers. This also begged the question of whether IKEA's internal compliance processes were sufficient, and if IKEA's mission to conquer Russia was hopeless.

Learning lessons – and the continuous battle

On January 13, 2011, IKEA's then global CEO, Mikael Ohlsson, announced to draw consequences from the Russian experience and vowed to "take a conservative approach to expansion in China and other emerging markets in an attempt to avoid a repeat of the problems that had beset the Swedish furniture retailer in Russia". In an article in the *Financial Times*, Ingvar Kamprad was reported to having "admitted that Ikea – the world's largest furniture retailer by sales – had 'wandered off course' in Russia". The article reports that:

[. . .] he [Mr Ohlsson] was determined that expansion in China would go more smoothly, with plans to add to the company's eight existing stores at a rate of just one or two a year. "The potential in China is enormous but there is no rush," he said. "We want to make sure we are always doing a good job where we already are before moving on" (Ward, 2011a).

These remarks were made in the context of announcing the 2010 financial results. In a reaction to public criticism, e.g. through the former senior IKEA manager Johan Stenebo's book *The truth about Ikea*, the company had decided to publish its financial statements for the first time in 2010. Mr Ohlsson commented that "the newfound openness reflects growing interest in the company's inner workings from employees and other stakeholders as it expands internationally" (Ward, 2011b).

But in another turn of events, in December 2011, Russian prosecutors filed charges against a former senior IKEA executive in absentia. The former head of IKEA's Real Estate department in Russia allegedly delayed the sign of a lease for two premises at a mall close to Moscow. The reason for the delay was that the executive and two of his accomplices tried to extort first US\$360,000, then later decreased to US\$225,000, from a prospective tenant to "help settle the problem with the lease" (Odynova, 2011). The prospective tenant alarmed the Russian police about the bribe elicitation. During a sting operation, the police detained one of the accomplices accepting the bribe money. The executive and another accomplice already left the country, leaving the Russian judiciary asking the home countries for extradition of the accused (United Press International, 2011; Radio Sweden, 2012). Was Russia finally conquering IKEA?

Notes

1. The book was published in Russian and Swedish. This English title is a translation.
2. When using the case series in executive education (esp. with senior and multi-national participant groups), it can be helpful to open – or close (see below) – the discussion by asking the participants to share their personal experiences with corruption. However, at the beginning of the session this might take away too many arguments early in the discussion. Conversely, when saved for the end, it might be perceived as non-value adding, but in the context of other sessions this opening might be an interesting alternative.
3. When using the case with multi-national participant/student groups, you will probably face some discussion around the positioning of IKEA as a low-cost provider. In several markets IKEA is usually perceived as a quality leader and as having rather high prices. You might want to refer to the fact that the same is true for Russia where IKEA is also not perceived as low-cost provider. But at the same time, you could/should refer to the fact that a low-cost philosophy is part of IKEA's self-conception (see e.g. IKEA webpage "Our vision and business idea" [www.ikea.com/ms/en_SG/about_ikea/our_business_idea/index.html; accessed 2 February 2016] listing "low prices" as "the cornerstone of the IKEA vision and our business idea").

Keywords:

Creativity,
Business ethics,
Corporate social
responsibility,
International business,
Corporate values/philosophy,
Governance guidelines

4. When using the case in a one-session format, I suggest moving the discussion from the *look back* to the *look forward* by introducing a distinction as the one below, and asking the students to allocate IKEA in Russia to these categories: (Bad) companies that are systematically engaged in corruption; Companies that don't want corruption to happen, but in which it happens; individuals participating in corrupt practices for the benefit of the company; related parties facilitating corrupt practices (e.g. partners, consultants, suppliers etc.); individuals participating in corruption for their own benefit; during the discussion, the idea will surface that IKEA might not have spent sufficient time and effort in preventing corruption.
5. United Nations Global Compact; World Economic Forum; ICC and TI (2011). *Resist: Resisting Extortion and Solicitation in International Transactions: A Company Tool for Employee Training*, New York: UN, 25. (can be downloaded at: www.transparency.org/content/download/43250/690884/RESIST_21_03_2011.pdf (accessed 12 July 2010)).
6. Additional sources (especially articles from newspapers) that formed the basis of this case series are mentioned in the individual cases.

References

- Bush, J. (2009), "Why IKEA is fed up with Russia", *BusinessWeek*, 2 July, available at: www.spiegel.de/international/business/flatpack-nightmare-why-ikea-is-fed-up-with-russia-a-634087.html (accessed 23 March 2015).
- Cockburn, P. (2000), "Have roubles, want sofa-bed", *Independent*, 10 April, available at: www.russialist.org/archives/4237.html##11 (accessed 23 March 2015).
- Fuerbringer, J. (2000), "The business world; a miffed Moscow means headaches for Ikea", *New York Times*, 9 April, available at: www.nytimes.com/2000/04/09/business/the-business-world-a-miffed-moscow-means-headaches-for-ikea.html (accessed 23 March 2015).
- Fundinguniverse (2015), "IKEA International A/S History", available at: www.fundinguniverse.com/company-histories/IKEA-International-AS-Company-History.html (accessed 23 March 2015).
- Hansegard, J. (2011), "Early frugal nature guides today's IKEA innovations", *Wall Street Journal*, 4 June, available at: www.wsj.com/articles/SB10001424052702304584004576417691081469746 (accessed 20 April 2015).
- Hartmann, J. (2003), "Du musst an Russland glauben (Interview with Lennart Dahlgren)", *Die Welt*, 24 October, available at: www.welt.de/print-welt/article268160/Du-musst-an-Russland-glauben.html
- IKEA Australia (2010), "Facts and figures", available at: www.ikea.com/ms/en_AU/about_ikea/facts_and_figures/ikea_group_stores/index.html (accessed 21 December 2010).
- IKEA Ireland (2015), "Our business idea", available at: www.ikea.com/ms/en_IE/about_ikea/the_ikea_way/our_business_idea/index.html (accessed 23 March 2015), available at: www.ikea.com/ms/en_US/about_ikea/facts_and_figures/index.html
- IKEA (2010), "2009 facts and figures", available at: www.ikea.com/ms/zh_HK/about_ikea/pdf/FactsandFigures_202009_PB09_webFINAL.pdf (accessed 23 March 2015).
- Inflation.eu (2016), "Worldwide inflation data", available at: www.inflation.eu/inflation-rates/russia/historic-inflation/cpi-inflation-russia.aspx (accessed 16 February 2016).
- Jungbluth, R. (2008), *Die 11 Geheimnisse des IKEA-Erfolgs*, Verlagsgruppe Lübbe, Bergisch Gladbach, p. 113.
- Kramer, A.E. (2009a), "Ikea tries to build public case against Russian corruption", *New York Times*, 12 September, available at: www.nytimes.com/2009/09/12/business/global/12ikea.html?pagewanted=all&r=0 (accessed 23 March 2015).
- Kramer, A.E. (2009b), "IKEA plans to halt investment in Russia", *New York Times*, 24 June, available at: www.nytimes.com/2009/06/24/business/global/24ruble.html (accessed 23 March 2015).
- Kramer, A.E. (2010), "IKEA fires two officials in Russia bribe case", *New York Times*, 15 February, available at: www.nytimes.com/2010/02/16/business/global/16ikea.html (accessed 23 March 2015).
- Lovasz, A. (2014), "Dashed Ikea dreams show decades lost to bribery in Ukraine", *BloombergBusiness*, 31 March, available at: www.bloomberg.com/news/articles/2014-03-30/dashed-ikea-dreams-in-ukraine-show-decades-lost-to-corruption; (accessed 16 February 2016).
- MEGA Mall (2013), "Unfolding your potential", available at: http://megamall.ru/r/_content/0582da5490f611f6b1a303f0f6221692/IKEA_SCR_corporate_brochure_en.pdf (accessed 23 March 2015).

N.n. (2015a), "IKEA stops online Russian magazine due to gay propaganda law", *DailyMail*, 14 March, available at: www.dailymail.co.uk/wires/ap/article-2994651/IKEA-stops-online-magazine-Russia-gay-law.html (accessed 16 February 2015).

N.n. (2015b), "Ukraine wants an Ikea, 'symbol' of anti-corruption fight", *Yahoo News*, 14 October, available at: <http://news.yahoo.com/ukraine-wants-ikea-symbol-anti-corruption-fight-181629613.html> (accessed 16 February 2016).

Odynova, A. (2011), "IKEA mired in bribery scandal", *Moscow Times*, 20 December, available at: www.themoscowtimes.com/news/article/ikea-mired-in-bribery-scandal/450201.html (accessed 17 April 2015).

Radio Sweden (2012), "Man imprisoned over Ikea bribery attempt", 11 July, available at: <http://sverigesradio.se/sida/artikel.aspx?programid=2054&artikel=5189216> (accessed 17 April 2015).

Rankin, J. (2015). "Ikea marches on as sales rise to €32bn", *Guardian*, 10 September, available at: www.theguardian.com/business/2015/sep/10/ikea-marches-on-as-sales-rise-to-32bn (accessed 16 February 2016).

Sagdiyev, R. and Popova, A. (2010), "IKEA masters rules of Russian business", *Moscow Times*, 14 May, available at: www.themoscowtimes.com/business/article/ikea-masters-rules-of-russian-business/405948.html (accessed 23 March 2015).

Semenenko, I. (1999), "Feud over IKEA import duties ends", *Moscow Times*, 13 October, available at: www.themoscowtimes.com/news/article/feud-over-ikea-import-duties-ends/271385.html (accessed 23 March 2015).

Steiner, E. (2010), "Wartest Du noch, oder zahlst du schon?", *Die Welt*, 20 March, available at: www.welt.de/welt_print/wirtschaft/article6853553/Wartest-du-noch-oder-zahlst-du-schon.html (accessed 23 March 2015).

TheLocal (2011), "It was a Swedish TV documentary that first reported about this structure", You can find the information reflected, available at: www.thelocal.se/31650/20110126/ (accessed 12 September 2011).

Torekull, B. (1998), *Leading by Design*, Harper Business, New York, NY, p. 117.

Transparency International (TI) (2010), "Corruption perception index 2009", available at: www.transparency.org/research/cpi/cpi_2009/0/ (accessed 23 March 2015).

Transparency International (TI) (2011), "Frequently asked questions about corruption", available at: www.transparency.org/news_room/faq/corruption_faq (accessed 12 July 2011).

United Press International (UPI) (2011), "Russia in pursuit of former IKEA executive", 20 December, available at: www.upi.com/Business_News/2011/12/20/Russia-in-pursuit-of-former-IKEA-executive/16061324400404/ (accessed 17 April 2015).

Ward, A. (2011a), "IKEA takes cautious approach in China", *Financial Times*, 13 January, available at: www.ft.com/cms/s/0/f3ee8a40-1f42-11e0-8c1c-00144feab49a.html#axzz3VCbeGuWe (accessed 23 March 2015).

Ward, A. (2011b), "IKEA still strong on the home front", *Financial Times*, 14 January, available at: www.ft.com/intl/cms/s/0/52ba4636-1f43-11e0-8c1c-00144feab49a.html (accessed 23 March 2015).

Webarchive (2008), "Tendencies in furniture consumption in Russia", Furniture.ru, available at: <https://web.archive.org/web/20080504023333/www.furniture.ru/en/news/detail.php?ID=1636> (accessed 23 March 2015).

Webarchive (2010a), "IKEA History 1960s-1970s", IKEA.com, available at: https://web.archive.org/web/20130924031143/www.ikea.com/ms/en_US/about_ikea/the_ikea_way/history/1960_1970.html (accessed 23 March 2015).

Webarchive (2010b), "IKEA History 1990s", IKEA.com, available at: https://web.archive.org/web/20130924031143/www.ikea.com/ms/en_US/about_ikea/the_ikea_way/history/1990.html (accessed 23 March 2015).

Worldbank (2016a), "Russia's population in 2000 amounted to 146.6 million inhabitants according to the Worldbank", available at: <http://databank.worldbank.org/data/reports.aspx?source=2&country=RUS&series=&period=> (accessed 16 February 2016).

Worldbank (2016b), "World data bank of the World Bank on Russia for 1990-2000", available at: <http://databank.worldbank.org/data/reports.aspx?source=2&country=RUS&series=&period=#> (accessed 16 February 2016).

Exhibit 1. Development of IKEA's turnover

Figure E1

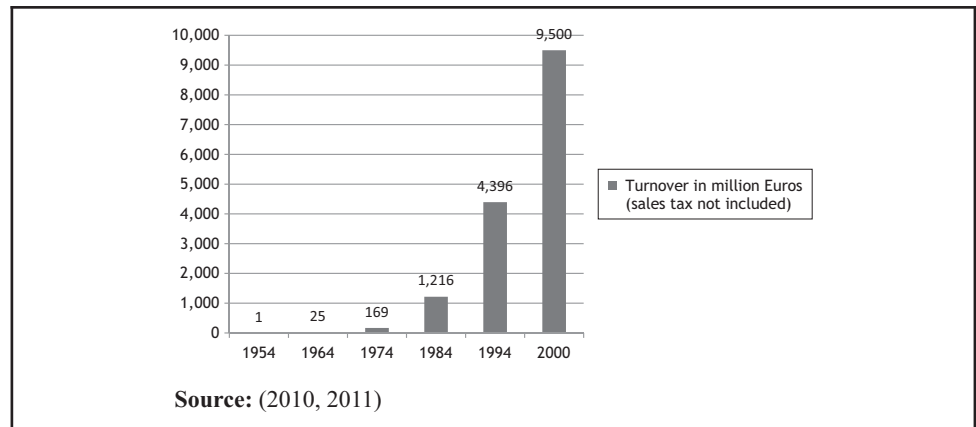


Exhibit 2. List of countries with IKEA presence (incl. year of entry and number of stores end of 2000)

Table E1

<i>Year of entry</i>	<i>Country</i>	<i>No. of stores end of 2000</i>
1958	Sweden	13
1963	Norway	4
1969	Denmark	4
1973	Switzerland	6
1974	Germany	25
1975	Australia	3
1976	Canada	7
1977	Austria	5
1978	Singapore	1
1980	Spain	6
1981	Iceland	1
1982	The Netherlands	7
1983	France	11
1983	Saudi Arabia	2
1984	Belgium	3
1984	Kuwait	1
1985	USA	15
1987	Hong Kong	3
1987	United Kingdom	10
1989	Italy	7
1990	Hungary	2
1991	Poland	6
1991	Czech Republic	2
1991	United Arab Emirates	1
1992	Slovakia	1
1994	Taiwan	1
1996	Finland	1
1996	Malaysia	1
1998	China	2

Source: IKEA (2010)

Exhibit 3. List of stores in Russia with year of opening

Table EII		
<i>Location</i>	<i>Year of opening</i>	<i>Size in m²</i>
Moscow (Khimki)	2000	33,000
Moscow (Teply Stan)	2001	34,000
St. Petersburg (Kudrovo)	2003	32,000
Kazan	2004	23,500
Moscow (Belaya Dacha)	2005	37,700
Yekaterinburg	2006	26,000
Nizhniy Novgorod	2006	26,300
St. Petersburg (Parnas)	2006	26,210
Novosibirsk	2007	25,900
Rostov-on-Don	2007	25,800
Adygea (Krasnodar)	2008	26,000
Sources: MEGA Mall (2013), and IKEA (2010)		

Exhibit 4. Transparency international corruption perception index (CPI) 2009 for selected countries

Table EIII

<i>CPI rank</i>	<i>Country/territory</i>	<i>CPI score^a</i>	<i>First IKEA store</i>	<i>No. of stores</i>
1	New Zealand	9.4	NA	NA
2	Denmark	9.3	1969	4
3	Singapore	9.2	1978	2
3	Sweden	9.2	1958	17
5	Switzerland	9.0	1973	7
6	Finland	8.9	1996	3
6	The Netherlands	8.9	1982	12
8	Australia	8.7	1981	5
8	Canada	8.7	1976	11
8	Iceland	8.7	1981	1
11	Norway	8.6	1963	5
12	Hong Kong	8.2	1987	3
12	Luxembourg	8.2	NA	NA
14	Germany	8.0	1974	45
14	Ireland	8.0	2009	1
16	Austria	7.9	1977	7
17	Japan	7.7	2006	5
17	United Kingdom	7.7	1987	18
19	USA	7.5	1985	37
20	Barbados	7.4	NA	NA
21	Belgium	7.1	1984	6
...	(as of here only selection)			
24	France	6.9	1983	26
27	Cyprus	6.6	2007	1
30	United Arab Emirates	6.5	1991	2
32	Israel	6.1	2001	1
32	Spain	6.1	1980	15
35	Portugal	5.8	2004	2
37	Taiwan	5.6	1994	4
46	Hungary	5.1	1990	2
49	Poland	5.0	1991	7
52	Czech Republic	4.9	1991	4
56	Malaysia	4.5	1996	1
56	Slovakia	4.5	1992	1
61	Turkey	4.4	2005	4
63	Italy	4.3	1989	15
63	Saudi Arabia	4.3	1983	3
66	Kuwait	4.1	1984	1
71	Greece	3.8	2001	3
71	Romania	3.8	2006	1
79	China	3.6	1998	7
84	India	3.4	NA	NA
106	Argentina	2.9	NA	NA
111	Egypt	2.8	NA	NA
139	Pakistan	2.4	NA	NA
146	Kenya	2.2	NA	NA
146	Russia ^b	2.2	2000	12
154	Yemen	2.1	NA	NA
168	Burundi	1.8	NA	NA
176	Iraq	1.5	NA	NA
179	Afghanistan	1.3	NA	NA
180	Somalia	1.1	NA	NA

Notes: ^aIt is important to observe that the CPI only measures the *perceived* level of corruption in a country. Obviously perception might be fairly different from factual reality. A high CPI score indicates a low level of perceived corruption in the respective country and vice versa. The scale ranged from 0 to 10 for the 2009 CPI. (Later CPIs used a scale from 0 to 100); ^bCountries tying at rank 146: Cameroon, Ecuador, Kenya, Russia, Sierra-Leone, Timor-Leste, Ukraine and Zimbabwe
Source: [Transparency International \(2010\)](#), [IKEA \(2010\)](#)

Exhibit 5. Average CPI 2009 for countries according the decade of first IKEA opening

Table EIV

<i>Decade</i>	<i>Countries entered during this decade</i>	<i>Average CPI score^a</i>
1950s-1970s	Sweden, Norway, Denmark, Switzerland, Germany, Canada, Austria, Singapore	8.7
1980s	Spain, Australia, Iceland, The Netherlands, France, Saudi Arabia, Belgium, Kuwait, USA, Hong Kong, United Kingdom, Italy	6.9
1990s	Hungary, United Arab Emirates, Poland, Czech Republic, Slovakia, Taiwan, Finland, Malaysia, China	5.4
2000	<i>Russia</i>	2.2
2000s	Israel, Greece, Portugal, Turkey, Japan, Romania, Cyprus, Ireland	5.8

Note: ^aIt is important to observe that the CPI only measures the *perceived* level of corruption in a country. Obviously perception might be fairly different from factual reality. A high CPI score indicates a low level of perceived corruption in the respective country and vice versa. The scale ranged from 0 to 10 for the 2009 CPI. (Later CPIs used a scale from 0 to 100)

Source: [Transparency International \(2010\)](#), [IKEA \(2010\)](#)

Corresponding author

Urs Müller can be contacted at: urs.mueller@esmt.org