

Market driving supplier strategy: IKEA's global sourcing network in two developing markets

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Abstract

For more than a decade, market orientation approach has been most prevalent in marketing literature. According to this approach firms reactively respond to market conditions and customer trends. The market driving approach is characterised by an ability of the firm to proactively shape the market structure and offer completely new value propositions through its unique business process, thus changing the existing market conditions. The purpose of this paper is to explore how a global supplier network is developed to support the market driving strategy. IKEA is considered one of the leading market driving firms. We have studied its activities in establishing supplier networks in Russia and Poland. Findings confirm IKEA's market driving strategy and how it has been able to restructure the market and successfully develop an efficient supplier network as a part of its market driving strategy.

Keywords Supplier strategy; networks; IKEA

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Introduction

The market driving approach is gaining an increasing attention in recent marketing and management literature (Harris and Cai, 2002; Jaworski, Kohli and Sahay, 2000; Kumar, Scheer and Kotler, 2000; Slater and Narver, 2004; Tuominen, Rajala and Möller, 2004). It is developed as a reaction and response to the more general research on market orientation that has dominated the marketing area for over a decade (Deshpandé, Farley and Webster 1993; Greenley, 1995; Harris, 2000; Homburg and Pflesser, 2000; Kohli and Jaworski 1990; Matsuno and Mentzer 2000; Narver and Slater 1990). The market orientation approach was claimed to promote a defensive and reactive view upon the firms as an actor that passively responds to current market trends and existing customer preferences (Christensen and Bower, 1996; Kumar, 1997; Slater and Narver, 1998). It is also argued that market orientated firms would only offer incremental adaptations and rarely any innovative or radically new products, while in order to develop a long term, strong and sustainable competitive position, a market driving approach is often required.

The market driving approach is based upon changing the existing conditions. Among other things, market driving firms are characterized by an ability to develop unique internal business processes, to shape the market structure, to lead customers and offer them completely new value propositions (Carrillat, Jaramillo and Locander, 2004; Jaworski, et al, 2000; Kumar, et al, 2000). To a large extent, the previous literature discusses firms with strong brands, operating on consumer markets. However, the literature also implies that a firm needs to be innovative with regards to the value chain that supports the final and unique market proposition. A market driving approach can often be expected to require that the firm

restructures the activities within the value chain and the relationships to different types of actors providing critical resources. Such a proactive approach, aiming at strongly influencing the structure of the supply chain and the relationships to different business partners also suggests a link to the network perspective (Ghauri, Hadjikhani and Johanson, 2005).

The theoretical view in the network approach is that firms develop a network of long-lasting relationships with other actors in the market (such as suppliers, distributors etc.) thereby using each other's resources for a joint competitive position (Johanson and Mattsson 1988; Ghauri and Prasad 1995 and Hadjikhani and Ghauri 2001). This approach, having its origin in social network and behavioural theory is now extensively studied in the fields of business to business marketing (Ford 1990; Ghauri 1999; Allajoutsijarvi et al 2001), in internationalisation studies (Chetty and Blankenberg-Holm 2000; Buckley and Ghauri 1999; Forsgren 1995; Ghauri and Holstius 1996) and in MNE-government relationships (Ghauri and Cuo 2006). This approach is particularly relevant for our study as we combine the buyer-supplier (business to business) relationships with the internationalisation process (firms in foreign markets) to explore how a market driving firm can achieve a successful competitive position.

This study thus analyses the development of a global supplier base, including long term relationships with a number of trusted suppliers, as a significant part of a market driving approach to international marketing. We investigate how such a supplier base can be developed into a unique competitive factor that is very difficult to copy for competitors and that can offer firms' unique advantages in terms of competitive prices and consistent product characteristics offered to consumers world wide. We will especially discuss how such supplier relationships can be developed and maintained, based upon different types of activities and the exchange of a number of critical resources in order for the market driving firm to be able to drive its suppliers in a particular direction.

The aim of this study is therefore to contribute to the integration of the market driving approach and the network perspective by investigating how a global supplier network can be developed in order to support the market driving strategy. We especially investigate the interaction between a market driving firm and the suppliers and the mechanisms that will stimulate the development of the suppliers. The implications for the suppliers in terms of new competencies and a support for their efforts to enter new markets and become international actors are investigated.

Our research covers IKEA's corporate activities in order to develop a strong supplier base, as well as relationships to five specific suppliers representing different types of stages and types of relationships. The case reveals a set of critical resources and activities that can support the development of market driving supplier relationships. IKEA is very relevant to study as a critical case. It is often referred to in the literature as a good example of a market driving company (Carrilat et al, 2004; Jaworski et al, 2000; Kumar, 1997). Furthermore, the firm's unique business system is especially recognized. According to Kumar et al (2000, p 131), *'To deliver a discontinuous leap in customer value IKEA had to radically reconfigure the industry business system'*.

Theoretical background

Since the late nineteen eighties market orientation has been one of the most studied areas within marketing (Stoelhorst and van Raaij, 2004). It was introduced as an empirical approach for investigating the practical relevance of the marketing concept (Houston; 1986; Kohli and Jaworski 1990; Narver and Slater 1990; Webster 1988). Since then, numerous market orientation studies have investigated various aspects. An important insight was that market orientation appeared to have a positive influence on performance (e.g., Becker and Homburg 1999; Deshpandé, et al 1993; Jaworski and Kohli 1993; Narver and Slater 1990; Ruekert

1992). Furthermore, the impact on performance was confirmed for different markets and industries (Appiah-Adu 1998; Liu, Luo and Shi, 2003; Pitt, Caruana and Berthon 1996; Slater and Narver, 1994; Tse et al, 2003). Exporting firms and international marketing aspects have also been related to the market orientation approach (Cadogan, Diamantopoulos and deMortanges, 1999; Cadogan et al 2001; Hooley et al, 2000), although the direct link has also been questioned (Langerak, 2003). Some authors have suggested that different mediating factors should be considered, such as innovations (Han, Kim, and Srivastava, 1998), stakeholder influence (Greenley and Foxall 1998), type of business strategy (Noble, Sinha and Kumar, 2002; Matsuno and Mentzer 2000) and learning (Baker and Sinkula 1999). Though not given much attention in previous literature, relationships to critical actors in the supply chain can be regarded as an additional mediator, since they may to a large extent support the firms' market orientation activities (Avlonitis and Gounaris 1999; Elg, 2002; Ghauri et al., 2005; Grunert et al., 2005).

Furthermore, the impact of the market orientation perspective on firms' behaviour has been discussed, including the view that it implies a market driven strategy that accepts status quo, leads to passive adaptations and blocks innovation (Christensen and Bower, 1996; Day, 1999; Slater and Narver, 1998). The distinction between a market driven and responsive approach and a market driving, proactive strategy that leads the customers and actively reshapes the firm's environment has therefore been suggested (Jaworski et al., 2000; Kumar 1997; Kumar et al., 2000; Slater and Narver, 2004). A market driving approach can be characterized based upon the firm's internal as well as external activities (Harris and Cai, 2002). According to Kumar et al (2000) successful market driving firms have developed a unique internal business system that offers customers a leap in the value proposition in terms of, for example, new price points or a superior service level. Jaworski et al. (2000) stress the external activities of market driving firms. They argue that a market driving firm can reshape

the industry value chain through the elimination of players (deconstruction), the addition of players (construction) or by changing the players' functions (re-construction). According to Jaworski et al (2000), market driving firms may also shape the behaviour of key actors such as customers or competitors by influencing their behaviour, incentives and preferences.

Even though these authors stress partly different dimensions in the market driving approach, some of the key features that they identify are nevertheless similar (Carrillat et al., 2004; Harris and Cai, 2002). For example, a market-driving firm can be expected to educate and lead the consumer, and change the conditions for the competitors within the industry. In addition, the market driving firm's ability to develop unique alliances and relationships to partner firms in the value chain has been argued to be a key feature. Kumar et al (2000) argue that market driving firms have introduced innovative distribution and channel management practices in their industries, while Jaworski et al. (2000) argue that a firm can reshape the value chain and the relationships to different key actors using the three generic approaches discussed above.

In their study of De Beers in China, Harris and Cai (2002) further stress the importance of strong vertical relationships in support of the market driving strategy. They found that strong, cooperative relationships with retailers and suppliers were a key element in De Beers' success in China. Some authors have stressed the importance of relating inter-firm relationships to market orientation in general, showing that inter-firm properties can influence a firm's market orientation (Langerak, 2001; Sigauw et al, 1998), that inter-firm market orientation should be considered a property of networks and value chains (Elg, 2002; Grunert, 2005) and that the nature of market orientation will be different in business to business relationships (Helfert et al, 2002). Stressing that market orientation studies previously looked mostly upon single firms, Tuominen, et al (2004) further investigate how a market driving vs. a market driven business logic influences a firm's customer relationship. They found that a

market driving approach requires collaborative learning and close partnership with important customers and other actors in the vertical chain.

However, as noted by these authors much more in-depth understanding is required of the nature of business to business relationships in relation to the market driving approach. We argue that this should include the different mechanisms required in order to drive these relationships and the implications and the requirements of market driving supplier-retailer relationships for the involved parties. Furthermore, previous authors mention companies such as Swatch, IKEA, Wal-Mart, De Beers, Amazon.com, the Body Shop, CNN, Benetton, Virgin and Tetra Pak as examples of the market driving companies (Harris and Cai, 2002; Carrillat et al, 2004; Jaworski et al., 2000; Kumar, et al, 2000). In fact, companies regarded as market driving appear to be almost exclusively global or at least international firms. Still, this dimension is not discussed very explicitly in the literature, and has received very little attention. We aim to contribute further by discussing market driving supplier-retailer relationships from an international perspective, especially stressing the fact that these relationships can be an important support as a firm drives markets in different parts of the world. Additionally, we argue that the market driving area should be more systematically integrated with the network approach in order to understand the development and role of supplier-retailer relationships.

- INSERT FIGURE 1 HERE -

As figure 1 shows, we have adopted central tenants of the network approach; actors, activities and resources (Cova and Salle 2000; Håkansson and Johanson 1992 and 2002) and have conceptualised buyer-supplier relationships in multi-national markets. The actors (buyer and seller) are placed on both sides sharing activities and resources.

Research method

The research is based on an in-depth case-study of IKEA at a corporate level and its local market activities in Russia and Poland, which is the first reported market driving study of a global organisation in two of the world's fastest developing economies. IKEA with its global supply base of 1,300 suppliers in more than 50 countries represents a critical case of a market driving company with a long history of value chain innovations and pro-active supplier relationships (Yin, 2003). The empirical study is focussed on two strategically important supplier markets: Russia and Poland. Russia represents a fairly new purchasing country (less than 1% of the global output) with just 50 suppliers mostly in solid wood industry and a great untapped potential to become one of the company's major purchasing country after China. Poland is IKEA's oldest purchasing country producing about one third of all products from the range (12% of the global output) and about 135 suppliers in various industries. These two countries have been thus chosen as *different* cases as regards the history and level of supplier relationships as well as their *existing* and *future* strategic importance for the company's global supply base.

Overall, the single case study has been chosen to generate insights into how a global retail company developed the supplier relationships to support its market driving strategy in different markets (Ghauri and Grønhaug, 2005). An embedded case design has allowed illuminating some critical issues of supplier relationships in the company's market driving approach (Yin, 2003). In-depth interviews were used as the major data collection technique supported by an extensive use of secondary sources and observations at both IKEA's premises and supplier locations (Ghauri, 2004). On the whole, four interviews were conducted on the corporate level, four interviews at local organisation in Russia and three interviews in Poland. In addition, three Russian and two Polish suppliers were interviewed.

Each interview lasted for approximately one and a half hours and covered a wide range of discussion topics in accordance with a general interview guide based on the preliminary theoretical framework (Ghauri and Grønhaug, 2005), such as; different issues of retailer-supplier relationships, satisfaction with the relationship, plans for future as well as the issues of change (in production, HR, etc) initiated by the relationship with IKEA. Each interview was transcribed and analysed using the conceptually clustered matrix coding techniques recommended by Miles and Huberman (1994, p. 20) and Ghauri (2004).

Given the nature of the research method and techniques applied, an analytical generalization of findings from a single critical case to theory can be justified (Eisenhardt 1989; Yin, 2003; Ghauri and Grønhaug, 2005). However, the findings should be viewed as exploratory in nature and implications only tentatively generalisable until additional research is conducted.

IKEA's strategy for developing the supplier base

In 2006 IKEA had 46 trading offices in 32 countries. Among the company top five purchasing countries are China (18%), Poland (12%), Sweden (8%), Italy (7%) and Germany (6%)¹. The company also has 28 distribution centres in 16 countries that supply to IKEA stores. In addition to having a large base of supplies all over the world, the company also buys its products from Swedwood, an industrial group owned by IKEA.

The rationale of IKEA's relationships with suppliers lies in the company business idea of producing low price products in a socially responsible and environmentally friendly way. All IKEA products are manufactured in accordance with a specially designed Code of Conduct "The IKEA Way on Purchasing Home Furnishing Products" (IWAY), which also provides a basis of the company's relationships with its global suppliers. Prior to

¹ The IKEA Group in brief 2005.

starting business relationships with IKEA, all its suppliers must fulfil the basic requirements in terms of legal issues, working conditions, prevention of child labour, external environment and forestry management. Suppliers also have to prepare an action plan with the time schedule for meeting other criteria of IWAY demands. Representatives from IKEA's Trading offices are in charge of looking for new suppliers in their respective markets as well as developing personal relationships with the existing suppliers. As stated in the corporate materials, *"being close to our suppliers is the key to rational, long-term cooperation."*²

In Russia, first contacts with suppliers were made during Soviet times in middle 80's by Ingvar Kamrad (the Chairman and owner of IKEA), and since that time the search for new potential partners has never stopped. This search has proven to be a hard endeavour since, according to managers, there is still a lack of local managers with "the right management style" and "right spirit". Commenting on the difficulties of finding partners in Russia, Supply Manager explained that *"they have to go from city to city, from door to door, looking at factories to find entrepreneurs to work with"*. The process of finding new partners in Russia was compared by other respondent with *"vacuum cleaning Russia"* in order to find the entrepreneurs.

The relationships with suppliers were built on a very personal level, with IKEA representatives becoming actively involved in different issues of factories' production, supply and sometimes even human resource management (HR). The respondents stressed the importance of building long-term and trustworthy relationships and explained that a major factor was *"keeping promises"* given by IKEA to suppliers. These relationships were always based on the principle of the Code of Conduct and reflected an overall status of a local supplier as regards his compliance with its requirements. Since in Russia most suppliers only satisfied steps 1 and 2 of the four-step IWAY process, the respondents were talking about

² IKEA Group Social and Environmental Report 2005

“*pushing*” Russian suppliers to increase their general standards and, as a result, increase the efficiency of production.

It is interesting to note that the tone of managers’ voice when talking about Russian suppliers was often quite directive and normative: “*make sure that the product is developed*”, “*we want the manufacturer to understand the rules*”, “*we are not happy with the development of the industry*”, “*they don’t challenge themselves*”, “*we demand that manufacturers fulfil the standards*”. This might have been due to the generally low level of suppliers’ compliance with the norms of the Code of Conduct. Another reason could have been the strategic importance of Russia in IKEA’s global supply chain. The speed of supplier development was, therefore, considered critical for IKEA’s success in other markets.

Poland was IKEA's first purchasing market outside Sweden, where IKEA started buying as early as in 1961. The IKEA Group’s own factories are also well represented in Poland (14 Swedwood factories). According to the respondents, one of the reasons to have own factories was to provide good examples for suppliers in other markets. As commented, the general level of industry development in Poland was very high. Since all IKEA’s Polish suppliers were internationally competitive and exported to other IKEA markets, in relationships with them the company followed the principle to “*develop those who want to be developed*” while “*letting go*” those, which were either too small and/or were not interested in the long-term cooperation. The goal for Poland was to decrease the numbers of suppliers to the largest and most price-competitive ones. Giving more responsibility to existing suppliers was mentioned by the respondent as a major focus in relationships between IKEA Trading organisation and Polish suppliers. Besides, local managers reported being “*forced*” to start looking for new suppliers “*outside Poland*”, for instance in Ukraine and Belorussia due to the intensifying competition in the industry, the rise of prices for raw materials and the market saturation in Poland.

The requirements from suppliers in Poland were reported to be higher than in other developing markets such as Russia and China due to their high level of development. One of the key issues with Polish suppliers was helping them to switch to a direct (to the stores) delivery system. Supporting suppliers in these new challenges, IKEA managers offered them different kinds of help including efficiency training and access to the company's electronic data bases. At the same time, managers limited their involvement to recommendations since the ultimate decision was always left to a supplier. A strong focus was also on training of IKEA's own business developers who would, in their turn, develop local suppliers. This was due to the high pace of industry development in Poland and the demands that IKEA organisation placed on local suppliers.

Similar to Russia, IKEA was carrying out the project called "*Push Poland*" – "*trying to purchase local articles of a good price to help our Retail organisation to be competitive in the market.*" That was considered important due to the intense and still increasing competition in the furniture industry as well as the growing indirect competition for "*customer wallets*".

Presentation of the studied suppliers

Supplier 1 (Russia)

Konakovo factory, founded in 1880 and situated 200 km to the south of Moscow, is one of the biggest and oldest factories in Russia. The factory acquired a strong market position both at its home market and in Europe. Its products won numerous Russian and international competitions while its "*famous color range*" made it into a well-known brand both in Russia and abroad. The factory had a diverse assortment of products created by in-house designers many of whom represented families working at the factory for several generations. The relationship with IKEA started in 1999 and developed successfully but slowly since that time.

At the time of the interviews, Konakovo plant was producing four different items for IKEA's Moscow stores. The factory also started exporting to other IKEA markets, becoming IKEA's principal supplier of ceramics in Russia (*"Every fifth plate produced in Russia is from Konakovo!"*). IKEA was one of the factory's biggest clients at the time of our interviews, however, the amount of production for IKEA constituted only 2% of the factory's total turnover. It was expected to grow up to 10% in the coming years. The relationship with IKEA was marked by a very good contact on a personal level between IKEA representatives and the Director who, however, showed a rather cautious approach to increasing the share of IKEA production in the factory's output. One of the reasons for that was the fear of dependency on IKEA and the risk for the factory to lose its historical profile, which could lead to a social catastrophe in the small town with the whole population employed at the factory.

Supplier 2 (Russia)

The relationship with the Priozersk factory started in the 70s, in the Soviet time, and it was always marked by IKEA active involvement in the production process. The first chair produced by the factory was manufactured in accordance with IKEA's sketches. In 2004, five different chair models were produced for IKEA – the factory's biggest client – and some new products were under discussion. According to the Director, his factory almost reproduced the IKEA's business idea of flat package production and delivery. Meeting the demands of four newly opened IKEA's stores, the factory significantly increased its production volumes, reaching in 2004 its maximum capacity. The long relationship with IKEA had its ups and downs. At the time of the interview, this relationship was undergoing a certain crisis due to the serious problems in communications between the owner and IKEA representatives, the supplier's overall dissatisfaction in IKEA's pricing and HR policy as well as the perceived lack of mutual understanding between the parties. These problems affected further plans to

increase production and forced the Director to diversify the business and actively look for other clients. Besides supplying IKEA, the factory actively developed new products such as country cottages for its local clients in the North-West region of Russia.

Supplier 3 (Russia)

Lenrauma is a large and modern production plant in St: Petersburg that was planned for working with IKEA. According to Director, Lenrauma was an enterprise with 100 per cent Russian capital, but nevertheless, “*a westernized enterprise*”. The relationship dated back to 1994 and it had gone through different phases such as a temporary termination of relationship followed later by the decision to resume it in 2003. As explained by the Director, the reason behind the decision to terminate the relationship with IKEA was the incompatibility of the factory’s price formation policy with IKEA’s low price policy. Since the factory decided to apply IKEA’s principle and tied its price to the volume, the negotiations with IKEA re-started and ended up in about 40% of all factory products being produced for IKEA. During this time, the factory was totally restructured. The goal in 2004 was to increase the volume to 60%, making IKEA the factory’s biggest client. The relationship between the factory and IKEA was marked by a very good personal understanding and the desire on the factory’s side to copy almost all elements of IKEA’s business concept. Thus, IKEA was perceived as a “*role model*” of a modern Western company with a strong concept. At the same time, the factory’s Director was taking an active position in “*pushing IKEA*” to become an equal partner through a pursuit of mutual interests.

Supplier 4 (Poland)

PROFIm is the Polish factory established in early nineties. In 2006, PROFIm had two production plants and the total output of over 70 thousand chairs a month. About 50% of

factory's products were exported to different European markets including Russia. The factory did not have its own stores; it worked with wholesalers and the furnishing companies. In 2004, PROFIm became the main manufacturer of office chairs in Poland. At their web site³, the company described itself as the “*best producer of chairs in the Polish market*”. A dynamic growth of the company made it to the brand, which was well known in the industry and recognized as a guarantee of high product quality. The factory was the first Polish office chair manufacturer that received a quality certificate compatible with ISO 9001 standards in 2000⁴. Since 1992, the factory has been participating in a number of prestigious fairs in Poland and abroad and received a number of awards. The cooperation with IKEA started in 1997 and was referred to by the Director as “*promising*”. In 2004, the factory produced three different types of office chairs for IKEA, which accounted for 20-30% of the total output, making IKEA the factory's major customer. The relationship with IKEA was marked by a good understanding between the factory's management and IKEA's local representatives but some problems with the corporate IKEA. This latter factor caused a somewhat cautious approach taken by the factory's management, which, otherwise, perceived the relationship as “*promising*” and demonstrated a pro-active position, striving for a shared responsibility for production process, a pursuit of mutual interests and improved competitiveness for both the factory and the retailer.

The critical actors, activities and resources and their roles in developing the relationships

The empirical findings have been analysed and categorised with the help of the conceptual model (Figure 1). The specific actors, activities and critical resources that have been actively

³ www.profim.pl

⁴ The ISO 9001 standards correspond to the fourth and highest stage in IKEA's Code of Conduct.

used in retailer-supplier relationships have been identified. The activities and resources used by corporate managers have been compared with those used by suppliers to identify those most critical for the successful relationships.

The managerial accounts have provided examples of various company's *actors* involved in the interactions with the suppliers. Since relationships with suppliers were a primary responsibility of IKEA Trading organisation, local Trading and Supply managers were among those most actively involved in the day-to-day interactions. Often a Trading manager supervised several local suppliers within a specific area. IKEA technicians were also involved in the technical support and control via regular visits to the factories. Technicians were often referred by factories' representatives as most trustworthy people with a lot of technical expertise. In new markets like Russia, where the search for supplier was an on-going process, the higher level managers such as Country manager and even Mr Kamprad, company's founder were sometimes involved at earlier stages of relationships. Thus, Kamprad's contacts with Soviet and Russian officials were invaluable for building up contacts in this market. In Poland, managers stressed the role of Business Developers – people combining the knowledge in product development, finance and logistics – who helped suppliers to develop necessary competences. Involving third parties, for example consulting companies, were also a frequent practice in both Russia and Poland, however, in Russia it concerned mainly HR issues while in Poland it concerned the production related issues.

Among reported *activities* on the company's side in both markets, the respondents stressed the importance of building up personal relationships with factories' managers and technical personnel. They also reported the extensive exchange of the norms and standards in accordance with the Code of Conduct; an on-going education process in the Code of Conduct (adjusted to a factory level), and control of the progress was exercised. Among major *resources*, the respondents mentioned technology, new (environmentally

friendly) materials, expertise in flat-pack production and delivery, quality testing and control, training, global network of suppliers and financial support.

Some country-specific activities were also identified, for example, in Russia IKEA managers mentioned cooperation with other international retailers to increase the local production standards. That was considered an important trigger for local industry development as well as the necessary support in the country where certain standards (environmental⁵ or technological) were still much lower than the international ones. In Poland, where standards were high, managers practiced cooperation with other professional companies to help suppliers increase efficiency within the overall strategy of low price creation.

The *focus* of corporate activities was also different in two countries: in Russia the focus was on “*pushing*” suppliers to increase their technical standards, improve efficiency and increase the price competitiveness of their products. In Poland, where the level of supplier development was already high, the focus was more on developing the most promising suppliers and decreasing the amount to the biggest and most price competitive ones. “*Pushing*” the low price via locally produced articles was a common strategy in both markets where the image of IKEA brand was still far from being “the low cost”.

As far as local suppliers were concerned, the relationships with IKEA were a joint responsibility of the factories’ *directors/managers* and *technicians*. All suppliers have mentioned the involvement of *factory workers* in the relationship with IKEA. Although workers were not directly involved in interactions with IKEA managers, they were aware of the importance of IKEA as the factory’s customer as well as of the requirements (production, working conditions, environmental) set up by IKEA. For example, supplier 3 stressed that at

⁵ One example included the usage of materials that cause high formaldehyde emissions. These materials were replaced at Ikea by more environmentally friendly ones produced in Europe.

his factory “*every worker knew what is required of him. Because the worker works better, if he knows it. If he comes to work with a purpose.*”

Another reason for a low level of satisfaction perceived by some suppliers (e.g. Supplier 2) was the perceived lack of expertise on IKEA’s side resulting from the company’s practice of appointing “*people from the street*” to deal with suppliers. It is not a coincidence that among most trusted and respected by all suppliers were IKEA’s technicians – people with most technical knowledge and expertise in production. The common IKEA’s practice of staff rotation was also mentioned by Supplier 2 as affecting the continuity and quality of relationships and referred to as “*an unknown law*” the company was living with.

The *technical side* of relationships was mentioned by all suppliers. This interaction involved activities on the company’s side to introduce the main business idea and upgrade of factories’ production with modern technologies, effective solutions as well as change the factories’ packaging and delivery systems to fit IKEA’s norms. All suppliers reported certain technological changes that took place at their factories. Thus, all suppliers have adopted the IKEA’s packaging and delivery systems, and some of them started the direct delivery to stores. This was considered important in spite of the “*headache*” it brought about for the workers at production sites. At the same time, a certain adjustment of IKEA products to local factory conditions was also reported. In most cases, IKEA’s products were slightly modified in size and shape, while in other cases some locally produced items were used by IKEA to support its local assortment. Most suppliers expressed the desire to participate more in the product development *together* with IKEA, however, only two suppliers (3 and 4) reported the positive results.

While the Code of Conduct constituted the basis for relationships at all suppliers, the achieved level of technical standard and the level of motivation to go further with it were very different. Thus, Supplier 1 was in the earliest stage of working with the

Code of Conduct, Supplier 2 was between levels one and two, Supplier 3 was at level two while the Supplier 4 achieved the fourth and highest level of ISO 9001. The importance of technical (product, material) knowledge and environmental expertise received by the factory from IKEA was mentioned by all respondents. Thus, Supplier 1 mentioned the improved working conditions and safety standards; Supplier 3 appreciated new technologies and environmentally “pure” materials while Supplier 4 talked about the “*borrowed*” from IKEA quality testing laboratory. This laboratory and the exchange of expertise in quality testing allowed this supplier to reach the status of a high quality office chair producer in Poland and abroad. This supplier also mentioned the impact of cooperation with IKEA on the new technical solutions and, especially new materials that his factory started to use due to IKEA. It is interesting that Supplier 2 had also introduced many IKEA’s quality and environmental standards, however, talked about them with a great deal of scepticism, which shows how personal relationships affect other aspects of cooperation.

The motivation on the suppliers’ side to further increase their standards differed from a proactive desire to go forward at Supplier 4 to a strong motivation to increase standards at Supplier 1 and 3 and a deep scepticism in the relevance of IKEA’s rules at Supplier 2. In the cases of a strong motivation on the part of a supplier, the supplier exhibited both a good general understanding of IKEA’s norms and standards and a strong confidence in the relevance of these rules for their respective factory’s development.

The *local contacts* that all suppliers were willing to share with IKEA were mainly used by IKEA managers as sources of local market data about customers and competitors. Suppliers’ suggestions to use local partners as sub-suppliers for IKEA products were often rejected by IKEA managers who had their own ideas of partners from the company’s global supply base. As commented by Supplier 4, by rejecting the local partners who “*were cheaper and faster*” than the ones suggested by IKEA, the retailer was creating a

difficult situation for his people who lost time in negotiations and could not deliver the expected results in terms of quality and efficiency. This particular supplier was aiming at increasing efficiency of its production for IKEA, which required more flexibility with choosing the sub-suppliers.

Among other issues, the *financial support* received by factories from IKEA was discussed by all respondents. Some of them (Supplier 2, 3 and 4) have already received a lot of support in loans while others (Supplier 1) were only aiming at getting this support. For some of them (Supplier 2) they received help “*helped the factory to survive all crises*” during the turbulent perestroika times in Russia in the 90-s. Supplier 4 stressed the importance of a joint investment into new projects *together* with IKEA. This factory was preparing a business plan and calculation for a new assembling unit that would serve mutual interests and allow increasing efficiency not only for this particular supplier but also for other IKEA’s furniture producers in Poland and other neighbouring markets. A *proactive* and positive attitude of this supplier was clear in spite of the anticipated problems in negotiations with IKEA. On the contrary, the problems in relationships perceived by Supplier 2 hindered this factory to receive the planned loans from IKEA. As explained by the Director of this factory, “*the unfortunate situation with IKEA personnel*” forced his factory to find another investor, an Italian company.

As far as *training* at IKEA facilities was concerned, all suppliers reported participating in some courses at IKEA of Sweden, Swedwood or at their own premises. Supplier 2 mentioned receiving an extensive HR training and coaching while Supplier 4 mentioned the technical training at the quality testing laboratory in Sweden. Although appreciating the possibility to get training for management and workers, some suppliers expressed the wish that IKEA should adjust it more to the factories’ real needs and conditions:

“*Training and learning should be down here, on the spot, in the specific situation!*” (Supplier 2).

Discussion

As stated by the literature, the market driving approach is characterised by restructuring of the value chains of market actors involved in the retailer network and a specific type of relationships (Jaworski et al, 2000; Hills and Sarin, 2002). Using these theoretical assumptions, we can analyse the empirical data. As mentioned earlier, a certain restructuring of a value chain has taken place with all suppliers. The most strongly affected were Suppliers 2 (adapted technology, packaging and delivery), 3 (adapted volume, low cost production) and 4 (adapted quality testing, technology, packaging and delivery). These changes can be characterised as functional modification of the existing local production. As far as the nature of relationships between the retailer and its suppliers is concerned, they were characterised by a strong *personal bonding* and an ongoing collaboration involving *exchanges* of vision and business ideas, technology, and, in some cases, finances. The strongest bonding was on the level of technicians (corporate and factories) and factory directors – IKEA’s local (Trading) managers, which is explained by the similar expertise of the former and the regular contacts between the latter. The collaboration between the retailer and its suppliers was always guided by the norms and principles of the Code of Conduct, which have proven to be effective in leading suppliers towards a higher level of development.

It is clear that personal bonding and the suppliers’ satisfaction of it has played a crucial role in the speed of development process and the technical level achieved by the suppliers. The exchange of technology was among most appreciated by suppliers corporate activities while the local knowledge and expertise shared by suppliers was not always used to

its full potential by the retailer. Among activities which were carried out by the retailer but not used sufficiently by suppliers were training and financial supports.

As far as the exchange of resources were concerned, among most shared and effective corporate resources were; product technologies, materials, knowledge on production process, quality issues, loans and lease of equipment. Those resources have helped suppliers to develop new competencies (e.g. speed of production, high and consistent product quality, efficiency in production and delivery) and become more competitive. Among least effective were training and global network of partners – those resources were under-used by the suppliers due to the perceived difficulties to adjust them to their local conditions. As far as local suppliers' resources were concerned, among most shared with IKEA were knowledge of local customers and market situation, local technologies, contacts, and capital. However, they were not always fully used by IKEA. For example, local contacts and local industry norms and standards were frequently under-used by the retailer leading to a certain lack of local cultural sensitivity. It might be summarised that a retailer was “driving” its suppliers via personal bonding, share of ideas, principles and technology, using the Code of Conduct as guidelines.

From a market driving perspective, it is interesting to discuss what activities and resources are *most critical* for a successful relationship. The related question is which type of supplier can be a goal for a market-driving company to pursue, which is a border-line case and which should be avoided. According to the market driving literature (Kumar et al, 2000; Jaworski et al, 2000), the *leap* in customer and stakeholder value is one of the main characteristics of this approach. The perceived relationship value by a supplier is closely related to the supplier's decision to introduce changes in behaviours and structure of the business, which, according to Jaworski et al (2000) serve as a measure of the market impact by a market-driving company. Thus, it might be argued that those suppliers with a highest

satisfaction from the relationship and/or most visible changes in their business processes are most strongly “driven” by a retailer. According to this logic, the suppliers were categorised as: Defensive – Supplier 1; Opportunist – Supplier 2; Follower – Supplier 3 and Proactive – Supplier 4.

In Figure 2, the major outcomes of activities taking place in the network between the retailer and its suppliers are marked with “+” or “-“, depending on whether the supplier perceived them as beneficial and satisfactory or not. In the cases of the mixed attitude, the “+/-“ or “-/+” symbol are used. The symbol “p” is used to stress the proactive nature of activities, an attempt to “drive” the relationship by the supplier.

- INSERT FIGURE 2 HERE -

It is interesting to compare all “positive” relationships – they all are characterised by a strong *personal bonding*, which might be argued to influence the suppliers’ intentions to share knowledge and expertise, participate in training and the possibilities to get the financial support. Similarly, the lack of personal bonding seriously affected the outcomes of other activities as shown by the case of Opportunist supplier. Among other critical activities were *sharing of vision and technology* and the ability to reach a consensus. The effectiveness of sharing depended on the *regularity* and *stability* of contacts between the parties. An issue common for all “positive” relationships was the desire of both partners to pursue *mutual interests* in the relationship. This lead to a feeling of *trust* with a supplier, which motivated him to invest more internal resources into the cooperation with a retailer.

Compared in terms of the *outcomes* of the retailer’s market impact on suppliers, the Follower was most “driven”, while the Proactive was both “driven” and “driving” the retailer. The Follower might represent the most desired case for a retailer while the Proactive

is a much more promising cooperation from a long-term perspective since it allows the retailer to learn more actively from its global network. By listening to a Proactive supplier, a retailer can change certain corporate norms and standards in accordance with the changing market situation, and, thus, bear more fruits from the “real” market development. The Opportunist supplier represents the worst-case scenario since the knowledge, technology and human resources invested into this supplier by a retailer might be completely wasted. The border-line case of a Defender represents a good potential for a successful relationship that can be developed into either a Follower or a Proactive supplier - both are the cases of a favourable cooperation.

Conclusions and implications

This study enhances our understanding about the market driving firms’ strategies and confirms our proposition that development of a long-lasting and trustworthy network (relationships) with suppliers is one of the important factors enabling the firm to achieve a global competitive position.

In all cases, the relationships between suppliers and IKEA were built up over several (3-5) years and developed on a very *personal (actors) level*. The closeness and informal character of relationship as well as their continuity and regularity were mentioned by several respondents as the important success factors of relationships. Thus, Supplier 1 explained that his IKEA’s contact became for him the “*IKEA’s face*”, contributing to his feeling of trust towards the whole organisation. Supplier 3 commented on the easiness of reaching understanding with IKEA’s contact persons due to their good knowledge of factory conditions. Supplier 4 reported regular (several times a day) telephone contacts with his local IKEA’s representative and stressed that all problems were possible to solve via these contacts.

On the other hand, when the relationship was marked by the occasional contacts, changing contact persons, formality and the lack of trust (Supplier 2), other issues of the factory relationships with IKEA were also directly affected. For example, perceived lack of dialogue with the corporate IKEA by both Supplier 2 and 4 resulted in the supplier's cautious approach to increase production for IKEA.

All suppliers demonstrated a certain level of understanding of IKEA's vision and mission. It is interesting to note that the most successful relationships (Suppliers 4 and 3) were marked by the very good understanding and even adoption of IKEA's vision and mission by factories. Thus, Supplier 3 explained that his factory had undergone a radical change "*from no mission to IKEA's mission of saturation of the market with high quality and inexpensive goods*" and that closeness of goals was decisive for a successful relationship. On the other hand, the less successful relationship marked by an opportunistic behaviour of the supplier (Supplier 2) was characterised by a strong scepticism towards IKEA's vision and (environmental) strategy referred to as "*marketing tricks*".

As far as the IKEA's auditing and control work with the Code of Conduct was concerned, most suppliers expressed understanding of the relevance of this practice. However, not all of them were satisfied in the way the auditing and control was done. In most cases, a feeling of dissatisfaction was caused by a perceived inefficiency of auditors' visits ("*They visit the factory and speak with technicians, speaking, speaking, speaking!*") and the unwillingness on IKEA's part to take into account the existing industry norms and standards adopted by the supplier: "*..a guy comes from Sweden and say it should be done in this way, or in some other way. But excuse me, there is the forest code, forest legislation. And you can tell the supplier a lot about how to stock timber, but all the same he will follow the existing code and coordinate his actions with forestry.*" (Supplier 2).

INSERT TABLE 1 HERE

Table 1 shows a summary of the network dimension; actors, activities and resources for all the four suppliers. We can see that in all cases top management, from both sides, were involved in developing relationships. IKEA has been very successful in conveying and convincing its suppliers to follow its values and visions and business ideas. IKEA also provided financial supports; loans etc, and training needed to comply with IKEA's code of conduct and standards. This convinced the suppliers about its long-term commitment in the relationship as it invested a lot of resources in these relationships. However, the suppliers' perspective that lack of personal understanding between the parties and the perceived irrelevance of some corporate activities for suppliers' specific situations in the industry and market are important factors. This suggests that more focus should be placed by managers on the specific supplier situations and the actual market conditions in order to find a better fit between the corporate and local market norms and standards. By increasing a managerial understanding of suppliers' conditions via more thorough market learning, a retailer can make a better use of its own resources invested in the supplier relationships as well as activate and utilize the suppliers' resources for the mutual benefit of the parties.

Managerial Implications

The study provides certain implications for both managers of a retailing company and their local partners. First of all, managers need a better understanding of the local conditions, under which the suppliers operate, which can be achieved by establishing good personal relationships built on regular contacts, trust and expertise. Second, they need to decide early

in the relationship what model of relationship with a particular supplier is optimal for both parties, for example, a pro-active retailer – a follower supplier or a pro-active retailer – a pro-active supplier. In the first case the power is on the retailer's side and it has more control while in the second the power is more equally shared and the retailer has less control. However, in the second case, the retailer has more opportunities to learn from its suppliers and can design a more culturally sensitive strategy. From a strict market-driving perspective, the first case can be most desirable since it leads to the most adjusted to the retailer norms and standards (market driven) supplier network.

This study reveals that in global markets, adaptation and market orientations are not the only success factors. Companies can be market driving, thus making the markets adapt to their products and strategies. However, for this strategy to work fully, the companies need to be consistent in its networking, backward and forward. And, even more importantly convince the market that it is providing an extra value, in comparison to competing offers.

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Figure 1: A conceptual Model of Market Driving Firm and its Relationship with its Suppliers

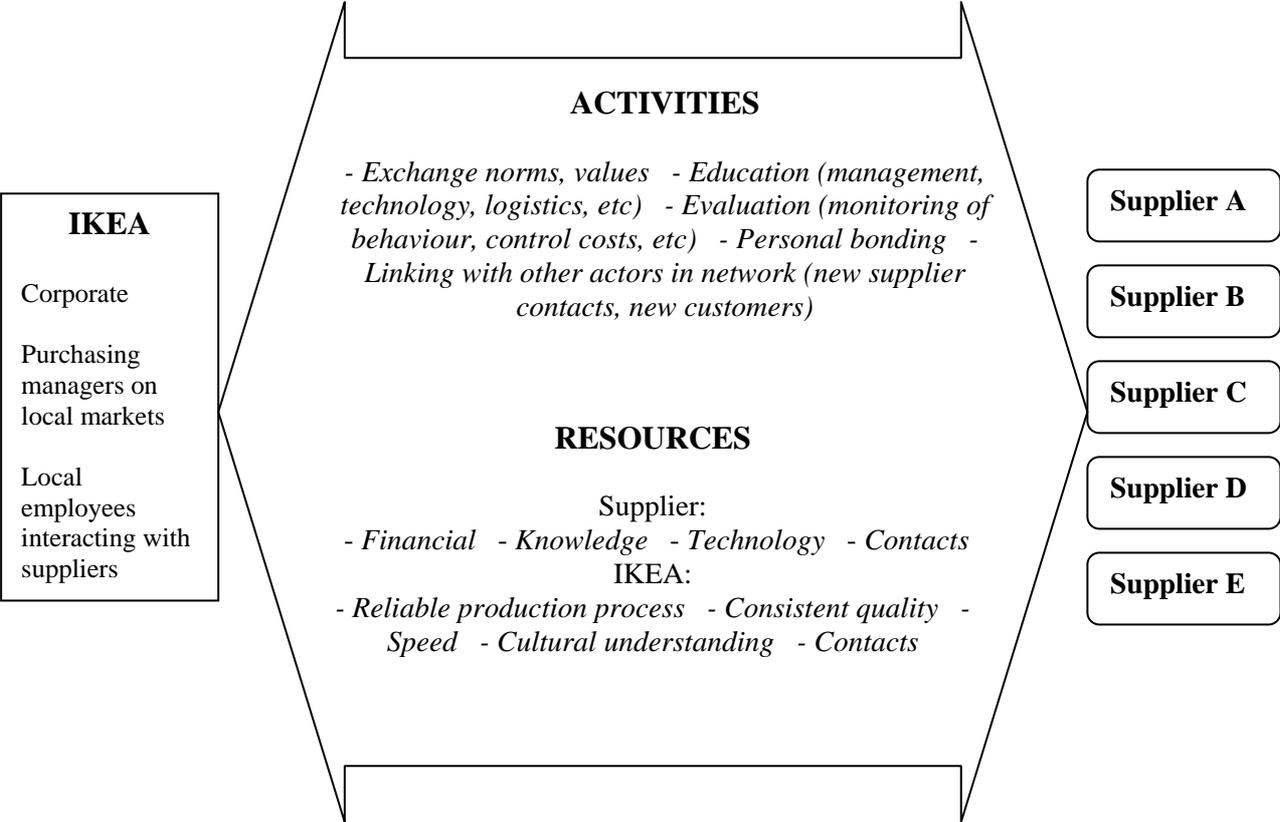


Figure 2: Market driving outcomes for different types of suppliers.

<i>Activities</i>	<i>Defensive Supplier 1</i>	<i>Opportunist Supplier 2</i>	<i>Follower Supplier 3</i>	<i>Proactive Supplier 4</i>
Exchange of values & vision	+/-	-	+	+
Exchange of business idea & technology	+/-	-/+	+	+/-p
Education with the Code of Conduct	+/-	-/+	+	+
Personal Bonding	+	-	+	+/-
Training	+	-	+	+
Linking with other local actors	+	-	+	+
Financial	+	-/+	+	+/-p
Local Resources Shared	many	few	many	very many

+ = beneficial, - = not beneficial, +/- = mixed, p = proactive

Table 1: Actors, activities and resources in the relationship building in a market driving firm

<i>Network dimensions</i>	<i>IKEA corporate and local organisations</i>	<i>Supplier 1</i>	<i>Supplier 2</i>	<i>Supplier 3</i>	<i>Supplier 4</i>
Actors	The company's founder; Country manager; Trading & Supply managers, technicians, business developers	Director, technician, workers involved in production	Director, technician, workers involved in production	Director, technician, workers involved in production	Manager, Director and technicians, workers at the factory (involved and non-involved)
Activities: Exchange of values and vision	Explaining vision "for many people" and core values of cost-efficiency, simplicity, etc.	Understanding IKEA's vision as "pushing" customers with different products	Understanding IKEA's vision and strategy as "marketing tricks"	Adaptation to IKEA's mission of large volume at low price;	Good understanding of IKEA's mission and vision to consumers
Exchange of business idea and technology	Introducing changes to fit IKEA's business idea; new technological solutions	Reluctance to decrease assortment and increase volumes at the expense of quality Introduction of own products that fit IKEA's style	Opposition to IKEA's pricing policy and to not taking into consideration the local market situation	A pro-active assortment reduction to increase volumes; Modification of IKEA's product designs to lower the prices Introduction of own products that fit IKEA's style	Actions towards more joint responsibility in production Active involvement in a new product development together with IKEA Suggestions to build a new assembling unit for several factories working with IKEA
Personal bonding	Developing personal relationships with factory representatives	An informal, trustworthy relationship with one contact person at IKEA. Formal contacts with other IKEA representatives	Good understanding and cooperation in the past; lack of understanding in the present due to the changing contact persons	A desire to reach mutual understanding on all issues; a trust-worthy relationship	Regular contacts and meetings with IKEA's local contact persons; problems in communication with the corporate IKEA
Training	Assistance with HR issues; training possibilities	Informing workers about IKEA concept and range, visit to IKEA stores	Skepticism towards training	Information about IKEA principles to factory workers; visit to IKEA stores	Training of staff at Swedwood and IKEA of Sweden

Resources	Product technologies; Environmental materials; Production process; Flat pack packaging, delivery and logistics; Quality testing and control; Training at Swedwood and IKEA of Sweden; Global network of sub-suppliers; Loans and lease of equipment	Knowledge of local customer needs and local contacts; Technology, know-how, long traditions in ceramics;	Knowledge of local market situation Local norms and standards in the industry	100% own capital; Production technologies and know-how;	100% own capital; innovative product ideas, new technical solutions; own price calculations; local market information; information on local customers; a net-work of sub-suppliers
Financial help	Different kinds of loans, lease of equipment	Considered as an issue to discuss	Received financial help Missed an opportunity to get loans due to the problems in relationship	Received financial help	Prepared business plans and proposals for IKEA to invest in a new assembly unit.

Fig. 2. Actors, activities and resources in the relationship building in market driving firm

