

Building sustainable business : The IKEA story

Introduction

IKEA International is the largest furniture retailer in the world. Modern architectural designs of appliances and home furniture are the most adored trademark of IKEA. Foundation of IKEA's culture is the 'spirit of togetherness, enthusiasm and fun'. IKEA's interior design is world famous for its eco-friendly simplicity. IKEA treats every individual employee as a member of IKEA family and customer satisfaction is the most crucial bedrock of IKEA culture. IKEA believes in creating a better life for people. IKEA's sustainable strategy reinforces IKEA's competitiveness, which helps IKEA to access important raw materials and energy supplies in the long term.

This case study makes an attempt to throw light on some of the significant strategic aspects of IKEA, which act as the cornerstones for its well-deserved reputation.

About the company

IKEA International is the largest furniture retailer in the world (Zuvela, 2008). Modern architectural designs of appliances and home furniture are the most adored trademark of IKEA. IKEA's interior design is world famous for its eco-friendly simplicity (<http://www.scoop.co.nz/stories/WO1204/S00502/ikea-cuts-down-old-growth-forest-protest-launched-today.htm>). Ikea owns and operates 384 stores in 48 countries (<http://franchisor.ikea.com/bringing-the-ikea-concept->



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worldwide/). The company is responsible for approximately 1% of world commercial-product wood consumption, making it one of the largest users of wood in the retail sector (Ikea Group Sustainability Report FY13). The IKEA website contains about 12,000 products. There were over 470 million visitors to IKEA's websites in the year from September 2007 to September 2008 (Inter Ikea Systems B.V. November 2008).

Company history

IKEA was founded in 1943 in Sweden by Ingvar Kamprad. Kamprad was born in 1926 in Småland, one of the country's poorest regions, located in southern part of the country. The word IKEA was an abbreviation of 'Ingvar Kamprad and Elmtaryd, Agunnaryd'. It states the founder's name and the address: Ingvar Kamprad- the founder, Elmtaryd - the name of his farm, and, Agunnaryd- the name of the village it was located within (<http://www.referenceforbusiness.com/history2/37/IKEA-International-A-S.html#ixzz45mGAHfC3>).

During the initial years, IKEA functioned as a mostly mail-order sales business. It started to sell furniture five years later (Collins, 2011). The first Möbel-IKÉA store was opened in Älmhult, Småland, in 1958. In 1963, IKEA stores were opened outside Sweden for the first time, in Norway (1963). The stores spread to other parts of Europe in the 1970s. During 1970s and 2000s, IKEA stores were opened in various parts of the world, such as Japan (1974), Australia, Canada, Hong Kong, Singapore, France, Spain, Belgium, the United States, the United Kingdom, Italy, Australia, Qatar, Luthania, and so on. Germany, with 50 stores, is IKEA's the biggest market, followed by the United States, with 42 stores. The world's five largest IKEA stores are (<https://en.wikipedia.org/wiki/IKEA#History>):

1. Gwangmyeong, Seoul Capital Area, South Korea: 59,000 m²(640,000 sq ft)
2. Stockholm Kungens Kurva, Sweden: 55,200 m² (594,000 sq ft)
3. Shanghai Baoshan, China: 55,032 m² (592,360 sq ft)

4. Shanghai Pudong Beicai, China: 49,400 m² (532,000 sq ft)
5. Wuxi, China: 49,117 m² (528,690 sq ft)

In July 2014 IKEA announced its intention to open its first store in India in the city of Hyderabad (Bemotra, 2014).

Products and services

IKEA has a range of products and services. The most important ones are listed below.

Furniture – Most of IKEA’s furniture are self-assembled, which helps IKEA reduce costs. This is also a feasible option for the European customers, where public transport is commonly used for such purposes. It applies an integrated approach in manufacturing and designing its products. IKEA also implements economies of scale, using cost-effective materials and manufacturing processes (for example it uses Medium-Density Fiberboard, MDF). To manufacture flexible, adaptable home furnishings for all-sized homes, IKEA also uses wood, plastic, and other materials for furniture and other products.

Houses and flats – To help the first-time buyers, IKEA offers flat-pack houses. For example, as a result of joint venture with Skanska, IKEA launched BoKlok, in Sweden in 1996.

Solar PV systems – In 2013, IKEA ventured into the projects manufacturing solar panel packages (“residential kits”).

Retail - IKEA owns and operates a network of shopping centers MEGA.

Family Mobile – IKEA UK launched Family Mobile, in 2008, which is a virtual mobile phone network, running on T- Mobile.

Manufacturing – IKEA’s household products and furniture are designed in Sweden. However, to remain cost-effective, the same products mostly are manufactured in developing countries (for example, China).

Ikea products are identified by one-word names (mostly Scandinavian). Most product names are based on a specific nomenclature (IKEA Dictionary, <http://lar5.com/ikea/index.html#C>):

- Upholstered furniture, coffee tables, bookshelves, etc. : Swedish place names
- Beds, wardrobes, hall furniture: Norwegian place names
- Dining tables and chairs: Finnish place names
- Bookcase ranges: Occupations
- Chairs, desks: men's names
- Fabrics, curtains: women's names
- Garden furniture: Swedish islands
- Carpets: Danish place names
- Bedlinen, bed covers, pillows/cushions: flowers, plants, precious stones
- Children's items: mammals, birds, adjectives
- Kitchen utensils: foreign words, spices, herbs, fish, mushrooms, fruits or berries, functional descriptions

Culture at IKEA

Foundation of IKEA's culture is the 'spirit of togetherness, enthusiasm and fun'. IKEA treats every individual employee as a member of IKEA family. IKEA acknowledges the contribution of its employees in IKEA's growth and success, and, therefore, a combination of benefits are offered to the IKEA employees. IKEA also invests in employees' development by offering a variety of internal training programs. IKEA culture has a unique Swedish tradition called "**Fika**". **Over a cup of coffee**, Fika is a time to share, connect and relax with colleagues (<http://ikea.in/working-with-ikea.html>).

Customer satisfaction is the most crucial aspects of IKEA culture. IKEA encourages its managers to lead by example and promote IKEA values, and, create an employee-friendly atmosphere and maintain the highest ethical standards. Every year, a large number of 'home visits'

are arranged by IKEA to collect feedback and expectations from customers. These become a valuable data for future design of the products. This initiative also helps IKEA to create solutions at the 'local level'. IKEA believes in accepting and delegating responsibility. Teamwork is another cornerstone of IKEA's culture. IKEA's product developers and designers work with a diverse team of technicians, manufacturers and specialists, right from the inception stage of the design phase. This also develops and nurtures mutual respect and accountability. Cost-consciousness is another valuable dimension for IKEA culture, which helps IKEA to manufacture cost-effective products for all its customers (<http://businesscasestudies.co.uk/ikea/vision-values-and-mission-in-driving-strategy/#axzz494W9lOQy>).

IKEA Strategy : The cornerstones

Sustainability strategy

IKEA believes in sustainable long-term growth. Since 2013, as part of its sustainability drive, IKEA phased out wooden pallets from its global transport network and, has started using paper pallets and loading ledges. IKEA also uses cotton, 72% of which come from more sustainable sources. To reduce the harm to the environment, IKEA works with the cotton farmers to enhance social and environmental standards. IKEA supports projects that benefit more than 110,000 farmers helping to reduce their water and chemical pesticide usage by 50%, and cut the use of fertilizers by one third in some regions. It also strictly prohibits child labor. In 2012 it launched its People and Planet Positive sustainability strategy, as a part of its aim to achieving positive social and environmental impacts.

IKEA's strategy has always been to satisfy consumers' day to day needs, with cost-effective and value-for-money products. IKEA's sustainable strategy reinforces IKEA's competitiveness, which helps IKEA to access important raw materials and energy supplies in the long-term. For example, IKEA is one of the founding members and the largest purchaser (in the retail sector) of the Forest Stewardship Council (FSC) certified wood, which is still in relatively limited supply globally. IKEA

uses wood, which is sourced in compliance with the Company's strict sustainable forestry standards. Over 30% of the wood used to make products is currently from more sustainable sources. IKEA aims to have increased this to 50% by 2017. It also helps IKEA to maintain and develop the supplier base, and also in developing relationships with employees and customers.

The company plans to offer the most energy efficient home appliances on the market, at the lowest price. In 2013, IKEA produced renewable energy equivalent to 37% of its total energy consumption. It owns and operates 137 wind turbines globally and currently has 550,000 solar panels on its buildings. It has plans to increase the number as a part of their strategy for sustainable business. By 2016, its full lighting range will have LED bulbs, which will last for 20 years, and use up to 85% less energy than incandescent bulbs. By 2020, it plans to renewably produce sufficient energy for its operations. Additionally, IKEA encourages its customers to adopt a more sustainable life, by launching innovative products and services, which consume less energy, produce their own renewable power, save and recycle water and reduce and recycle waste.

Diversity strategy and Corporate Social Responsibility

IKEA's diversity and inclusion strategy aims to place women in 50% of all management positions, at all levels across the business. IKEA also encourages employees to participate in community involvement activities in their local area.

The IKEA Foundation is a charitable organization that donates a substantial amount to charities each year through funds set aside from IKEA profits. The Foundation supports organizations which fight the root causes of child labor in countries such as, India and Pakistan. 'I Witness' trip is a unique initiative by IKEA Foundation. Employees are encouraged to visit school and community based programs run by UNICEF and 'Save the Children', which are supported by the IKEA Foundation's annual good cause campaigns. IKEA's other socially responsible programs include women and girls' empowerment

through education; skills training; improved healthcare; and, providing a loan to set up small businesses, and such projects have already benefitted over 100 million children.

(<http://businesscasestudies.co.uk/ikea/vision-values-and-mission-in-driving-strategy/>)

SWOT analysis

Like all other corporations, IKEA has its strengths, weaknesses, opportunities and threats. They are summarized below ((<http://businesscasestudies.co.uk/ikea/swot-analysis-and-sustainable-business-planning/#axzz494W9lOQy>):

Strengths

The most important strengths of IKEA are as follows -

- IKEA is a reputed global brand, with standardized quality and product range
- IKEA envisions to 'to create a better everyday life for many people'
- Cost-effective, yet functional, products
- A 'democratic design' of products
- Satisfied customer base
- Sustainability strategy
- Economies of scale
- Image of a socially responsible company

Weaknesses

IKEA's weaknesses may include:

- The huge size and scale of IKEA becomes a matter of concern while maintaining the standards and quality of products and services.

- IKEA products are made in certain countries, where, working conditions are not in the control of IKEA. This may negatively affect the perception of the consumers about the products.

Opportunities

Some of the opportunities that IKEA takes advantage of, through its sustainability agenda, are:

- Demand for greener products
- Demand for low-priced products
- Demand for reduced water usage and carbon footprints, and environment-friendly products.

Threats

Threats to IKEA may derive from:

- Slowdown trend in the first time home buyers may become a major threat to IKEA, as this is the core market segment for IKEA products.
- Increasing number of competitors entering in the low price household and furnishings markets.
- Economic factors (such as, recession) results in to reduction in consumer spending.

IKEA has adopted a number of strategies to cope with the threats and weaknesses. Some of them are as follows :

IKEA emphasizes on the online help to its customers. It supports customers with suggestions and advices and encourages them to adopt more sustainable and environment-friendly lifestyle. IKEA staff are get trained on sustainability.

Being a huge multinational company with a varied product and customer base, IKEA aims to thrive on economies of scale. This strategy hinders the small companies to compete with IKEA.

IKEA strategically ranges its products from affordable to expensive ones. On one hand, they target consumers with low budget. On the other hand, they attract the customers, who are willing to pay more for the higher budgets through good quality and design.

Human resources management at IKEA

IKEA believes in creating a better life for people. To create organizational culture with this objective, IKEA, makes an effort to attract, develop, and retain like-minded employees, with the help of its Human Resource Management Team. Keeping this in mind, recruitment, training, benefits management and succession planning are executed at IKEA.

Following are some of the HR functions that are carried out at IKEA (http://www.ikea.com/ms/en_US/the_ikea_story/working_at_ikea/work_areas_human_resources.html, & 123HelpMe.com) :

HR planning

IKEA HR team at each unit carefully plans its employee needs. Based on the thorough understanding of the local labor market, the employee need is forecasted. All IKEA stores nurture the idea of recruiting and including people in the teams, who have the possibility to grow, both as individuals, and, in their professional roles. Keeping the labor turnover low is also a crucial responsibility of HR Teams. IKEA provides its employees with both professional retail training and personal development, keeping in mind the requirement of fulfilling the customer needs. When an employee is dismissed, it follows the appropriate legal process. For example, the Race Relations Act 1976 prevents people of one race, color, nationality or ethnic origin being treated differently than others. IKEA also follows the 'Equal Opportunities Employer' policy, and, promote fairness and justice in the organizational culture. During interview, the prospective employees are informed about the working culture and working conditions at IKEA. IKEA emphasizes on promoting healthy working condition to ensure prospective candidates' willingness to choose

IKEA as their preferred career option. Health and safety of the employees of IKEA is also carefully considered, as per the guidelines provided by the authorities.

Training and development

Training is an integral part of the HR functions at IKEA. There is a Personnel Training and Development Policy at IKEA, which states that, constant training and development will be provided to all employees. The policy also states, that employees should be given the opportunity to acquire and increase their knowledge and understanding of the IKEA Business Idea, business culture and core values. HR Department is responsible for keeping the staff training records, managing the procedures for applying for training, and monitoring the training budget. After training the employees, feedback is taken. Based on the feedback, HR team proposes modifications in the future training programs. Keeping in mind the needs to constantly developing the employees, IKEA also provides opportunities for individual development. The Training Policy is displayed on the employees' notice board, and is available in the HR Department.

Performance management

IKEA believes that employees' performance management is an essential tool to maintain the competitive edge. There are a number of methods, which are followed at IKEA to monitor the employees' performance. IKEA sets SMART (specific, measurable, attainable, realistic and timely) goals for individual employees and groups. Through performance appraisals, HR team collects feedback about the individual employees' performance. Every year, all employees' performance is reviewed, in a face-to-face discussion with their Line Managers. In the same meetings, the line managers discuss and review employees' Personal Development Plan (PDP). IKEA has performance-based- pay system in place, to motivate and encourage its employees to achieve the performance target. Employees, who have achieved their goals, receive bonus as the reward.

Generally, a Human Resources Manager in IKEA, has several responsibilities, which include the following:

- 1) Attracting, developing and retaining employees
- 2) Creating and nurturing an IKEA culture with diversity and value to the stakeholders
- 3) Helping and facilitating in the continuous personnel and professional development of the employees through training, mentoring and succession planning
- 4) Encouraging in diversity management
- 5) Promoting work life balance initiatives
- 6) Maintaining healthy employee relations
- 7) Adhering to the relevant employment laws while developing HR policies

Corporate Social Responsibilities (CSR) initiatives at IKEA

CSR has become a very crucial part of any responsible organization today. IKEA has adopted various measures to project itself as a socially responsible corporate citizen. These initiatives include the following: Some of them are summarized as under (http://www.ikea.com/ms/en_JP/customer_service/faq/help/about_ikea/social_environment.html):

- 1. IKEA Group's social and environmental responsibility work-** IKEA's moto is to make no compromise on environment or people's health. The parameters of success of IKEA, therefore, need to include the customers' trust about the 'safe' IKEA product. IKEA aims to ensure that, its products are manufactured under acceptable working conditions. Child Labor is strictly prohibited. Climate is a crucial concern for IKEA and IKEA works towards promoting a better and healthier climate by encouraging sustainable sources of raw material and manufacturing process.

2. **IWAY-** “IWAY” is the short form of The IKEA Way on Purchasing Home Furnishing Products. It abides by the requirements concerning protection of the environment, working conditions and child labor. IWAY is supplemented with a code of conduct for child labor. IKEA also has Code of Conducts for The IKEA Way on Distributing Home Furnishing Products and The IKEA Way on Purchasing Food.
3. **Child labor** - All IKEA suppliers and their sub-contractors must comply with The IKEA Way on Preventing Child Labor. In association with the UNICEF and ‘Save the Children’, IKEA strives to improve children’s rights and to tackle the root causes of child labor. All IKEA suppliers and subcontractors must comply with The IKEA Way on Preventing Child Labor. IKEA monitors the compliance process with the help of the third-party auditors.
4. **Forestry management and usage of wood** – In the process of procuring good quality wood, forestry management for sustainability is a major concern for IKEA. Suppliers to IKEA need to provide documentation about the source from where the wood has been procured. IKEA is in close association with organizations, such as, WWF, in this regard. Audits are conducted and for external verification of auditing routines, third-party organizations, such as Smartwood, are employed.
5. **Charity and sponsorship** – IKEA works with UNICEF and Save the Children to help the society, and WWF for environmental projects. Individual IKEA stores also sponsor projects, educational needs and events, to help the local communities.

Concluding remarks

This case study depicts the journey of IKEA, from an inception stage to becoming a truly global company, conscious of its role in providing excellent customer service, along with a concern for environmental sustainability and concern for its employees. IKEA reflects a hallmark of world-class company, concerned about business excellence, while

balancing its concern for social and environmental issues and people-related matters, which rightfully contributed to the growth and sustainability in its line of business and given it the global fame that it deserves.

After reading the present case, one may engage in discussion relating to the following issues :

- Innovative and customer-friendly marketing strategies of the firm for creating sustainability in business through customer retention and referral in future
- Effective employee engagement and talent deployment strategies of the firm given its people friendly practices for the future, especially in VUCA times.

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