

IKEA Address Ethical and Social Responsibility Challenges

INTRODUCTION

IKEA has become known for selling well-designed products at low prices. IKEA sells ready-to-assemble furniture, appliances, and household goods. Today the firm is the largest furniture retailer in the world, with 139,000 employees operating in 43 countries. Germany is the firm's largest market, followed by the United States and France. Its large range of products includes furniture, food, large items such as cabinetry, and smaller items such as kitchenware, décor, and small plants. IKEA also operates restaurants within their stores.

IKEA has become known for its well-designed, low cost products, its eco-friendly initiatives, and its reputation for a great workplace. Stores also contain a play area for children called Småland. Parents can drop their children off in the play area for up to 1 hour free of charge as they go shopping. This has increased IKEA's popularity with families. The company has annual sales of about EUR 27 billion (37 billion USD).

BACKGROUND

IKEA was founded by Ingvar Kamprand in Agunnaryd, Sweden in 1943 when he was only 17. His father had given him money as a reward for doing well in school, and Kamprand turned around and opened a business selling small items such as pens, wallets, and watches at reduced prices. He derived the name IKEA from the initials of his name I and K, as well as E for Elmtaryd and A for Agunnaryd, the farm and village where he grew up. In 1945 IKEA grew too large for Kamprand to make individual sales calls, which convinced him to begin advertising in local newspapers. He also started a mail-orders service where he delivered using the local milk truck as a middleman between IKEA and the nearest train station. Shortly afterward, he added furniture to his line and eventually published the first IKEA catalogue. In 1953, a furniture showroom opened where customers could see and touch the products before ordering.

IKEA is highly focused upon design, viewing it as a competitive advantage. For instance, IKEA stores have been designed intentionally to what some describe as a "maze" that encourages shoppers to go through the entire store. This strategy allows shoppers to see a variety of IKEA items, possibly leading to impulse or add-on purchases.

Design has also led the company to develop furniture that can be easily transported. One major innovation came from an IKEA employee, who removed the legs of a table to fit it into his car. From this IKEA got the idea to develop self-assembly furniture that could use flat packaging. This would not only make it easy to transport but also save IKEA costs on

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packaging large items. This ability to cut costs has helped IKEA achieve its goal of quality goods offered at affordable prices. IKEA is constantly looking for ways to cut costs on production, packaging, and transportation without compromising quality.

IKEA also has an extraordinarily complex structure. IKEA is operated by a parent company in addition to having some of its stores operating as franchises. The parent company is the private company Ingka Holding; Ingka holding is itself run by Dutch nonprofit organization Stichting Ingka Foundation. Stichting Ingka Foundation is committed toward innovation in interior design and is the largest charity in the world considering its net worth. Kamprad established the organization and gave his shares to Stichting Ingka in 1982. The nonprofit is run by a five-person committee, including Mr. Kamprad. On the other hand, the IKEA trademark and concept is owned by another organization, Inter IKEA Systems, run by Inter IKEA Holding registered in Luxembourg. This organization works with the IKEA franchises, providing permission to use the IKEA trademark. It is estimated that franchisees for IKEA pay 3 percent of their sales to the company.

IKEA'S ETHICAL CONDUCT

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 tries to create a better life for all of their stakeholders, including customers, employees, suppliers, and communities. It achieves this through the implementation of 10 core values, a strong vision statement, and its supplier code of conduct. IKEA's values have helped to direct IKEA's actions. For instance, the company tries to ensure that materials for its products are not taken from protected forests, which fits in with IKEA's value of accepting responsibility. Table 1 describes these values in more detail.

Table 1 IKEA's Core Values

<p>Leadership by example. Our managers act according to IKEA values, create an atmosphere of well-being and expect the same of IKEA co-workers.</p>
<p>Constant desire for renewal. We know that adapting to customer demands with innovative solutions contributes to a better everyday life at home.</p>
<p>Togetherness and enthusiasm. Together, we have the power to solve seemingly</p>

unsolvable problems. We do it all the time.
Cost-consciousness. Low prices are impossible without low costs, so we proudly achieve good results with small resources.
Striving to meet reality. We stay true to practical solutions to develop, improve and make decisions based upon reality.
Humbleness and willpower. We respect each other, our customers and our suppliers. Using our willpower means we can get things done.
Daring to be different. We question old solutions and, if we have a better idea, we are willing to change.
Accept and delegate responsibility. We promote co-workers with potential and stimulate them to surpass their expectations.
Simplicity. We take an easy-going, straightforward approach when solving problems, dealing with people or facing challenges.
Constantly being “on the way.” We review what’s done today and ask what can be done better tomorrow, so we can find new ideas and inspiration.

Source: IKEA, “Working at IKEA: People working together
http://www.ikea.com/ms/en_AA/this-is-ikea/working-at-the-ikea-group/index.html
 (accessed May 21, 2014).

Additionally, IKEA has developed a sustainability strategy that encompasses people and planet. The strategy consists of a number of long-term strategic goals to enhance IKEA’s impact on communities and the environment by 2020. For instance, IKEA wants to produce as much renewable energy as it consumes by 2020. To ensure that it is on the track, IKEA has developed milestone goals that it can use to measure its progress in shorter time periods. For instance, by 2015 the company wants to produce renewable energy that is at least 70 percent its rate of consumption. Throughout this process, IKEA wants to be transparent with its stakeholders, providing frequent disclosure about its progress.

IKEA ethics program has training for employees as well as codes and policies to guide ethical conduct. Perhaps its most important code of conduct, however, is its code of conduct

for suppliers. Some of IKEA's most difficult ethical risks are with their suppliers. Since so much of IKEA's business involves purchasing products, materials, and services, IKEA has adopted a strong code of ethics it calls the IKEA Way, or IWAY. IWAY provides company expectations of suppliers. Those found to be in violation of IWAY could be dropped as a supplier. IWAY will be discussed in more detail later in the case.

EMPLOYEE STAKEHOLDERS

IKEA has performed a number of unique events to display their appreciation for employees. In 1999 the company held "The Big Thank You" event in which the total of all sales on that day worldwide was divided among all employees. The total was approximately 84.85 million euros. Because IKEA wishes to demonstrate that it values employees, it refuses to designate them as such. Instead, everyone at IKEA is called a co-worker, no matter their position in the company. The company provides co-workers with uniforms free of charge, including the typical IKEA yellow polo shirt.

When recruiting employees, IKEA looks for people who can share the company's vision and values. When constructing the values, Kamprad took values that were important to him as a child being raised in the communities of Småland in southern Sweden. Simplicity, humility, thrift, and responsibility are all shared values that Kamprad grew up with in the communities of Småland. IKEA looks for employees who share similar values.

IKEA wants to understand its employees and their views toward the workplace. The company uses an independent third company to conduct VOICE, a co-worker survey to determine employee viewpoints and their satisfaction with the firm's business operations. The majority of respondents surveyed believe that IKEA is doing much in the area of sustainability (discussed in more detail in the next section). Helping employees to understand their sustainability goals is important to IKEA, which has led them to develop sustainability training materials for co-workers. IKEA has developed a corruption policy called Rules of Prevention of Corruption as well as an investigation policy providing guidelines workers can use for how to act after observing questionable activities. IKEA has also established a trust line that allows co-workers to report concerns to the firm.

COMMUNITIES AND SUSTAINABILITY

Not only has IKEA tried to create a better everyday life for their customers, but for people around the world. IKEA has partnered with organizations such as UNICEF and Save the Children to provide funding for the building of schools and educational materials to address the causes of child labor and to empower women. For instance, each year IKEA holds a fundraiser in which it donates one euro to UNICEF and Save the Children for every soft toy sold. IKEA also donates a SUNNAN solar cell lamp to these two organizations for each one

that a customer buys. IKEA strongly supports the Children's Rights & Business Principles developed by UNICEF.

Additionally, IKEA supports UNICEF programs in India and is a strong supporter of education for children across the world. The company has partnered with another organization to develop social entrepreneurship opportunities in India. IKEA also works to help its farmers improve both their incomes and sustainability; IKEA spent 1.35 million euros (\$1.84 million USD) to help cotton farmers improve their incomes and reduce their use of pesticides and water on the crop.

IKEA has also taken great strides in sustainability. It has developed a number of sustainability goals that it wishes to meet by 2015. Of particular concern to IKEA involves the sourcing of wood and paper materials. It is estimated that wood makes up approximately 60 percent of IKEA products. Because of its heavy dependence on wood, IKEA wants to make sure the wood is sourced sustainably. In 2013, one-third of its wood was certified by the Forest Stewardship Council (FSC-certified). The FSC is a nonprofit that has established standards for responsible forest stewardship. About 68 percent of the paper in its IKEA catalog is FSC-certified. IKEA also seeks to reduce waste and increase energy efficiency. About 98 percent of the main materials in IKEA's household furnishings products are recyclable, renewable, or recycled. IKEA recycles 87 percent of its waste.

In addition, IKEA is investing heavily in wind farms and solar panels, with the installation of 550,000 solar panels on IKEA buildings worldwide. IKEA will also provide discounts for consumers who wish to install a full solar panel installation for their homes. IKEA stores improved their energy efficiency by 8 percent from the previous year. About one-fourth of IKEA's stores have electric vehicle charging stations for customers who want to be more sustainable through the purchase of electric vehicles. IKEA has a full-time Chief Sustainability Officer.

IKEA also partners with other organizations in its quest to be more sustainable. For instance, the IKEA Group owns IKEA GreenTech, an organization which invests in start-ups that are involved with technologies that have the potential to increase sustainable business operations. It also works with the nonprofit Compassion in World Farming to ensure that the suppliers of its animal products are using humane practices.

IWAY AND SUPPLIERS

In terms of its suppliers, IKEA has developed a number of standards codified in its IWAY supplier code of conduct. The first requirement that potential suppliers will notice before they can even do business with IKEA is that the supplier cannot use forced or child labor. Additionally, IWAY calls for the suppliers themselves to assign at least one person whose responsibility will be to ensure that the supplier is complying with IWAY expectations. Any

sub-contractors the supplier uses must sign a document attesting that their organization will also comply with these standards. The supplier must also agree to an internal compliance audit every 12 months.

Working conditions is another important topic in IKEA's supplier code. Among its standards include limitations on how long workers can work, not exceeding 60 hours per week. IWAY also has a Forestry Standard that is included with the supplier code of conduct. The Forestry Standard attempts to ensure that all wood from IKEA suppliers is sourced responsibly and as sustainably as possible. It includes the following provisions:

- Suppliers cannot source wood from forests that have been illegally harvested
- Suppliers cannot source wood from forests involved in forest-related conflicts
- Suppliers cannot source wood from forests that are part of Intact Natural Forests or High Conservation Value forests (unless certified responsibly)
- Suppliers cannot source wood from forests in tropical or sub-tropical regions being converted to plantations or for non-forest use
- Suppliers cannot source wood from commercial genetically modified tree plantations

Through audits IKEA has determined that 68 percent of its suppliers subject to IWAY are either approved or are being phased out. Suppliers who do not adhere to these standards may be dropped; IKEA dropped nine suppliers for this reason in 2013. IKEA also developed a Supplier Sustainability Index, in which 95 percent of its suppliers participate.

QUESTIONABLE PRACTICES

Despite IKEA's popularity and its many ethical initiatives, the company has faced a number of ethical challenges in the past few decades. Many of these challenges are the result of ethical lapses that IKEA allegedly made when dealing with its stakeholders. The following section describes some of the bigger criticisms levied against IKEA.

HUMAN RIGHTS

IKEA prides itself on its strong corporate responsibility, especially in terms of human rights. However, a recent allegation surfaced that revealed some questionable practices involving the Communist regime more than 30 years ago. IKEA admitted that during this time period, it had used East German political prisoners to build some of the components of its furniture. Prisoners that refused were punished. Even though it occurred many years ago, this revelation has put a blight on IKEA's human rights track record. On the other hand, the fact that it acknowledged its wrongdoing and updated its values on issues such as prison labor is

a good sign that the firm wishes to avoid the semblance of any similar type of misconduct in the future.

Despite IKEA's commitment to human rights, it is difficult for the firm to monitor its entire global supply chain. A report conducted by a Harvard adjunct professor claimed that IKEA, along with a number of other retailers, were sourcing rugs from a company in India that uses child labor. However, IKEA claims that it sources hand woven carpets from India from only four suppliers, and past audits found that each of these suppliers were adhering to IWAY standards.

SPYING ON EMPLOYEES

After a document was published during a court case, it came to light that IKEA was allegedly conducting private investigations on certain employees in France. Further reviews of the situation determined that IKEA had been using investigators to investigate potential job applicants, employee misconduct, and even consumer complaints. One higher-level employee in France was let go after an extended sick leave. According to complaints, IKEA assumed that this employee was not actually sick and launched an investigation. Eventually, she was fired. When evidence of the investigations came to light, she pressed charges. This issue of infringing on employee privacy is especially problematic in France, which tends to have stricter privacy laws than the United States and other countries. Although IKEA has not publicly commented on the scandal, an internal investigation was launched and several key executives were terminated. The court in France required IKEA to post a bond of 500,000 euros (\$680,850 USD).

PRODUCT QUALITY

Another scandal that occurred at IKEA involved product quality. In 2013, the company pulled all of its famous Swedish meatballs from stores in Europe. The company was accused of selling meatballs that contained horsemeat. Authorities in the Czech Republic claimed they had tested the meat and detected horse DNA. IKEA launched an investigation and found that the problem originated from one Swedish supplier. They claimed the supplier had bought the meat from two slaughterhouses in Poland. The company pulled the meatballs off the shelves throughout Europe, apologized to customers, and reiterated that it does not accept ingredients that are not stated in its recipes. It also made sure to assure people that horse meat itself is not dangerous.

Additionally, IKEA filed a police report against the supplier in question (the supplier was also dropped). Soon Swedish meatballs were once again being sold in stores, but to ensure they were not tainted IKEA provided temporary DNA testing of the products. The

organization is working toward developing a better traceability standard that will improve the tracking of meat from farmhouse to store.

CORPORATE GOVERNANCE

Critics have also cited IKEA's complex corporate structure as an ethical issue. As mentioned earlier, IKEA's corporate structure is incredibly complex, run by a private company that is in turn run by a Dutch nonprofit. Critics have called the management structure opaque and highly hierarchical. Some believe that Kamprad has too much power as he chairs the committee overseeing the nonprofit. They also claim that the reason for involving a nonprofit is so that IKEA will be exempt from taxes that would normally apply to it. If true, this could be seen as an underhanded way to avoid taxes. However, IKEA vehemently denies these accusations. They claim instead that the structure makes IKEA more competitive. Tax efficiency is key to this competitiveness, including keeping costs of products low for the customer. IKEA did agree to make its financial information more publicized.

IKEA also faced problems in Russia. For some time IKEA has opposed corruption in Russia, in which it maintains 12 stores. It went so far as to freeze its investments as a protest. Afterward, two senior IKEA executives in Russia were fired after they allowed bribes to be paid in exchange for electricity supplies. Although IKEA should be admired for its attempts to resist corruption in different countries, it is important for the firm to carefully monitor its own operations to ensure that managers and employees are adhering to ethical standards.

CONCLUSION

IKEA has a strong reputation for selling quality products at low prices. The company's ability to come up with innovative design concepts and keep prices low provide it with a significant competitive advantage. The organization is highly popular in Europe and the United States. It has also demonstrated a strong tendency toward philanthropy, innovation, and sustainability.

On the other hand, like most companies IKEA faces many ethical challenges. Some of these challenges—such as the accusation it used special investigators to investigate employees in France—represent serious ethical lapses if true. IKEA must continue to obey all applicable laws and best practices in the countries in which it does business. The horse meat Swedish meatball scandal caused a major outcry among consumers, reflecting the difficulty it takes to carefully monitor a business's supply chain. IKEA reacted immediately to the revelation by pulling the products, implementing DNA testing to reassure consumers, and dropping the supplier responsible. As a result of this ethical challenge, IKEA's supply chain management might significantly improve as the organization is now taking greater measures to ensure the authenticity of its products.

IKEA has strong ethical values that it uses to guide company decisions. These values appear to resonate with employees and consumers alike as many are very loyal to IKEA. IKEA must maintain a strong values-based culture while also carefully monitoring its operations in different countries.

QUESTIONS

1. Describe how IKEA's values and treatment of stakeholders contribute to its ethical culture.
2. What might be some of the ethical issues with IKEA's complex form of organization?
3. How does IKEA's reaction to the Swedish meatball scandal demonstrate effective crisis management?

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