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IKEA'S Ethical Procurement Practices

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"Sustainability is a fantastic business survival strategy.... Good quality doesn't mean high prices. And today we have choices. We can make beautiful, functional, affordable sustainable products."

– Steve Howard, Chief Sustainability Officer, IKEA, 2013.¹

INTRODUCTION

In February 2014, the Forest Stewardship Council² (FSC) withdrew certification to Swedwood Forestry, a subsidiary of Swedish furniture retailer IKEA³. FSC alleged that in Russia's Karelia forests, IKEA was harvesting old growth trees in regions that were protected. According to the FSC representative, "IKEA's departure from this part of Karelia, with its high concentration of old natural forest, clearly shows that it is not ecologically, socially, or economically sustainable to harvest old-growth forest, which are a non-renewable resource."⁴

IKEA, the world's largest furniture retailer, specialized in stylish but inexpensive furniture in Scandinavian designs. The majority of IKEA furniture was made from wood, which the company sourced from different countries. IKEA's business had earlier involved the large-scale cutting of trees. There was also a widespread use of chemicals in the manufacture of its furniture.

In the mid-1980s, when IKEA's furniture products were tested and found to be made of particle boards from which there were excessive formaldehyde emissions, the company was the target of a lot of negative publicity. However, this proved to be a turning point for the company. IKEA started working toward better procurement practices, which led to the launch of environmental and social standards, 'IWAY', in 2000. IWAY was an attempt by the company to improve its operations and processes and minimize the negative impact of its activities on society and the environment.

IKEA's suppliers, who were spread across the world, were required to adhere to IWAY that specified the requirements for procuring raw material, maintaining environmental balance, and disposing of wastes. IKEA also issued a set of directives regarding forestry, where the details regarding procuring wood from well-managed forests were specified.

Right from the time a new product was designed, factors like the material to be used to make the product and sourcing the material in a responsible way were given a great deal of importance. This, of course, was apart from the importance given to its affordability and price. IKEA worked in tandem with the suppliers to plan and execute their procurement and manufacturing processes better, thus saving on costs and logistics expenses. At the same time, it ensured that all the suppliers met the standards stipulated by IWAY by conducting regular audits at the suppliers'

¹ Brue Upton, "How to Stop Three Billion New IKEA Customers from Wrecking the Planet" www.forbes.com, June 12, 2013.

² FSC is an international non-profit organization that promotes responsible management of the world's forests. FSC provided certification for verifying forestry management practices.

³ IKEA is registered in the Netherlands

⁴ Jan Lee, "Forest Stewardship Council Pulls IKEA Certification for Violations," www.triplepundit.com, February 28th, 2014.

facilities. There were several cases where the contracts with the suppliers were terminated due to non-compliance with IWAY. IKEA found that while the suppliers in Europe more or less adhered to the IWAY standards, very few suppliers in China, India, Bulgaria, and Vietnam complied with the code.

Apart from IWAY, IKEA followed other standards like the supplier quality standard and associated itself with the International Federation of Building and Wood Workers (IFBWW)⁵, which was the federation of trade unions in building, forestry, and allied industries. High procurement standards helped IKEA reduce costs and provide furniture at an affordable price all across the world.

At the same time, it faced several allegations such as lack of transparency in IWAY standards, inability to ensure implementation of IWAY in China, its questionable forest management practices, failure to share information on wood sources, and unsustainable logging. IKEA needed to find a balance between ethical procurement and low price and profitability.

BACKGROUND NOTE

IKEA was established in 1943 by a youngster of 17, Ingvar Kamprad (Kamprad). Kamprad came up with the name IKEA by combining the first letters of his name (Ingvar Kamprad with the first letters of the farm and village in which he grew up (Elmtaryd and Agunnaryd). IKEA began in a shed that was just two square meters in size. Kamprad started his business by buying pens, Christmas cards, matches, cigarette lighters, nylon stockings, and other items in bulk. He sold these items to the residents of Smaland⁶ at a reasonable price, but still made healthy profits. To save more money, Kamprad used the trucks that delivered milk to transport his packages. IKEA soon started making money. In 1945, Kamprad started promoting his business through mail order catalogs as conducting individual sales calls had become impossible because of the volume of business.

Furniture was introduced in IKEA's product portfolio in 1947. By 1951, the furniture sales had increased so much that Kamprad decided to discontinue all other products and concentrate solely on selling furniture that was stylish yet low priced.

In 1953, the first IKEA shop was opened in Älmhult. By 1955, IKEA had begun designing its own furniture. It also introduced flat packaging at around this time. In 1955, IKEA's sales were at SKr⁷ 6 million. In 1958, the first IKEA showroom was opened. The sales rose to SKr 40 million by 1961. In 1963, IKEA ventured overseas by opening its first store in Norway. In 1965, the first suburban store was opened on the outskirts of Stockholm. That was the time IKEA introduced several concepts like self-service and distributing catalogs. IKEA ventured into Denmark in 1969.

By 1973, seven stores had been opened across Scandinavia and sales were at SKr 480 million. However, the sales stagnated at this level owing to the low population growth in Scandinavia. Kamprad then realized the necessity of exploring non-Scandinavian countries in order to sustain growth. The first such venture was Switzerland, where an IKEA store was opened in 1973. IKEA's simple and contemporary designs gained immediate acceptance in Switzerland. In 1974, IKEA entered West Germany and opened a store in Munich. Despite opposition from the German

⁵ The International Federation of Building and Wood Workers, IFBWW, is the Global Union Federation (GUF) representing more than 10 million members in 287 trade unions in 124 countries around the world in the building, building materials, wood, forestry, and allied industries. The IFBWW's mission is to promote the development of trade unions in these sectors throughout the world and to promote and enforce workers' rights in the context of sustainable development.

⁶ Smaland literally means 'Small Country.' It is a province in southern Sweden.

⁷ As of June 18, 2014, 1 US\$ ≈ SKr 6.66 (Swedish krona).

retailers, IKEA gained popularity and in the next five years it opened 10 new stores across West Germany. During the late 1970s, IKEA opened stores in Austria and the Netherlands. Subsequently, it ventured into other markets like the US, Canada, Australia, the UAE, and China.

Over the years, the company launched some highly successful products such as the POÄNG armchair, the SKOPA chair, the ÖGLA chair, the BILLY Bookcases, the KLIPPAN sofa, the LACK table, the MOMENT sofa, and the STOCKHOLM furnishings.

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

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

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

IKEA did not have its own manufacturing facilities. Instead, it used subcontracted manufacturers in different parts of the world for its supplies. All the research and development activities were centralized in Sweden. No matter how good a design was, it was not used if it could not be made affordable. To achieve this affordability, IKEA engaged designers along with freelancers to work in tandem with the production teams to identify materials and suppliers. IKEA strove hard to project itself as an environmentally conscious, ethical company. It took measures to ensure that the materials it used were sustainably sourced and the labor it employed met international labor regulations.

Over the years, IKEA won several awards for its ethical practices. As of 2010, it had been recognized by the Ethisphere Institute⁸ as one of the "World's Most Ethical Companies" in specialty retail for four consecutive years.

As of 2013, IKEA had 345 stores in 42 countries. It recorded a turnover of € 29.2 billion for the year. It employed 151,000 people and attracted 775 million visitors.

IKEA CULTURE

When IKEA was founded, Sweden was witnessing a transformation with the creation of a welfare state with generous pensions, health insurance, and child allowance. The company also inherited its culture and vision from its native land. The company's logo sported blue and yellow, colors from its country's flag. The fresh and healthy way of life was reflected in IKEA products that ranged from blond woods and natural textiles to untreated surfaces. The retailer while bringing in modernism also carried forward the Swedish home furnishing traditions.

Right at the beginning, IKEA developed its vision 'to create a better everyday life for many people'. The vision was backed by the business idea of offering a wide range of well designed furniture at affordable prices.

⁸ The research-based Ethisphere Institute based in New York is concerned with the creation, advancement, and sharing of best practices in business ethics, corporate social responsibility, anti-corruption, and sustainability. It publishes a quarterly called the "Ethisphere Magazine".

Moreover, IKEA's vision was based on its partnership with its customers and suppliers on a global scale. The company believed that manufacturing expensive fine furniture did not require much effort — it was just spending money and recovering that money from the customers. Inventing low-priced, beautiful, and durable furniture, on the other hand, required a different approach. This unusual approach demanded a hunt for simplified processes and stepwise savings.

IKEA admitted that during its initial years, the design of its products was not affordable for many people. However, very soon, the company built up its mission to offer products with a 'democratic design' that would suit the thin wallets of middle class families.⁹

IKEA was aware of its surroundings, responsible toward the environment, and regarded as a pioneer in sustainability efforts and initiatives.¹⁰ At IKEA, ensuring environmental, economic and social well-being of the present and future was defined as sustainability. Therefore, the company aimed to focus on the long-term interests of people.¹¹ In order to fulfill its responsibility toward the environment, IKEA gradually developed its own processes and code of conduct for the suppliers.

Since its inception, IKEA had been popular for its unique products and product range; however, in the mid-1980s, the company faced its first environmental problem¹² when a new law was passed in Denmark regulating the maximum permissible emissions from formaldehyde off-gassing¹³ in particle boards¹⁴. The government tested IKEA's products and found that the formaldehyde in some of the products was above the limit allowed. IKEA was sued and a fine was levied on it. Sales in Denmark went down by 20% and the company's image suffered as a consequence. In 1986, IKEA introduced guidelines for formaldehyde in wood-based materials and a test facility was opened in Älmhult to test the formaldehyde levels.

In the late 1980s, IKEA was again criticized by environmental groups in Germany for its packaging wastes and the use of PVC¹⁵ plastic. The company was criticized for cutting down trees to make its catalog and for using chlorine to bleach the pulp. The then president of IKEA, Andres Moberg (Moberg), asked the head of quality, Russel Johnson (Johnson), to chart out the environmental issues that were relevant to IKEA. The first report was presented in 1990, which stated that IKEA needed to adopt a wholesome environmental policy and that an environmental task force was required to spread environmental awareness across its global operations. The first environmental policy was approved by the board on a trial basis in 1990; in 1991, the environmental policy was adopted, which specified that the environmental task force had to develop an environmental action plan.

⁹ "IKEA Group Sustainability Report FY 12" www.ikea.com

¹⁰ Walter Loeb, "IKEA is a World-Wide Wonder" www.forbes.com, May 12, 2012.

¹¹ "People & Planet Positive IKEA Group Sustainability Strategy for 2020" www.ikea.com

¹² "IKEA Case Study" www.naturalstep.org, Accessed on May 13, 2014.

¹³ Formaldehyde is a chemical used widely to manufacture building materials and household products. It is also a by-product of combustion and certain other natural processes. Formaldehyde by itself or in combination with other chemicals, serves a number of purposes in manufactured products. For example, it is used to add permanent-press qualities to clothing and draperies, as a component of glues and adhesives, and as a preservative in some paints and coating products. It is a volatile organic compound, which turns into gas at room temperature. Due to this property, the products that contain formaldehyde, release gas into the air, which is known as off-gassing.

¹⁴ Particle board or chipboard is an engineered wood product manufactured from wood chips, saw-mill shavings, saw dust, and a synthetic resin or some other suitable binder. The binder is pressed and extruded.

¹⁵ PVC is a widely-used plastic. The world over, 50% of PVC manufactured is used in construction. As a building material, PVC is cheap and easy to assemble. However, despite appearing to be an ideal building material, concerns have been raised about the environmental and human health costs of PVC. It is believed to cause skin related problems and even cancer. Combustion of PVC also releases toxic gases such as carbon dioxide and carbon monoxide.

Even as IKEA was planning its environmental policy, another incident of excess formaldehyde presence was reported in Germany, IKEA's largest market. In 1992, an investigation team from a TV channel reported that the formaldehyde in one of IKEA's popular products, the Billy Bookcase, was slightly higher than the prescribed limit. IKEA found that the formaldehyde was due to the lacquer used on the shelf. One of the German newspapers, which picked up the story, used the headline, 'The Killer Bookshelves'. IKEA stopped further sales and production of the Billy Bookcases and this cost the company US\$ 7 million. Moreover, the negative publicity, with the Billy Bookcases being called 'the deadly poisoned bookshelves' tarnished the reputation of the company.

IKEA realized that it was important to be environmentally friendly in order to appeal to the customers, who did not want to deal with companies that polluted the environment, wasted resources, or caused harmful emissions. In April 1992, Möberg hosted a two-day seminar to increase environmental awareness among the top brass of IKEA. At the seminar, the environmental task force reported that IKEA was not showing any concern for sustainability and environmental conservation. According to the task force, "We discovered that we at IKEA were environmental gangsters, that we were a threat to the environment. We were violating the possibilities of having a sustainable society."¹⁶ It was reported that with the growth in revenues, the waste IKEA released into the environment had increased and that in one single year, IKEA produced and distributed more than three million cubic meters of waste. The task force added that the company was transforming a lot of natural resources into waste and polluting the environment.

In 1992, IKEA came out with the Environmental Action Plan, which focused on specific implementation tasks in the areas of management and personnel, products and materials, customers, suppliers, buildings equipment and consumable materials, and transport thus bringing about substantial environmental improvements. IKEA started off with a 'train the trainers' approach to spreading environmental awareness across the organization. Trainers chosen from each department attended a weeklong training course. IKEA then decided to provide training to employees involved in product design and those who were in direct contact with the customers from the purchase, distribution, and retail departments. In 1993, it initiated basic environmental training for all its employees.

Since most of the company's products were made of wood, IKEA also explored suitable forestry practices. This led to the company taking an active part in establishing the FSC in 1993. This association helped IKEA in procuring timber and other resources only from well-managed forests¹⁷.

IKEA felt that it was not enough just to focus on making a few environment friendly products; it was necessary to concentrate on all the products and to integrate environmental responsibility into its day-to-day operations. In 1996, IKEA adopted a program called 'small green steps' to achieve this integration.

In 1999, another version of training was introduced where the trainees were introduced to IKEA's environment policy and its plans. There were other specific programs where training was provided in the areas of sorting waste, transport, in developing environment-friendly products, etc.

Every IKEA store had an environmental checklist covering a range of topics like training of co-workers, waste management, etc. The stores also had an environmental group, in which all the departments in the stores were represented. The activities of the group included finding better ways to dispose of waste, encouraging colleagues to use environmentally friendly transport methods, and spreading environmental awareness across the stores and customers.

¹⁶ "Small Green Steps to Harmonize with Nature," Econews, July- August 1999.

¹⁷ well-managed forests are forests that are sustainable. These forests provide raw material such as wood, bark, and roots from their ecosystems without a degradation in the quality of the forests and without a decline in the yield of raw material over time.

ENVIRONMENT FRIENDLY PRODUCTS

IKEA's major product development activities were carried out in Älmhult, Sweden. As far as possible, IKEA used renewable and recycled raw materials. However, it took care to maintain the functionality and appearance of the product. The design team of the company considered several aspects of the product like price, quality, function, material, and the technical aspects before designing the product. The team ensured that the products were free from substances that caused allergies or those that were harmful to health and the environment. The designers were encouraged to review the environmental consequences of their designs. The other considerations were economical use of materials, ease in transportation, and use of renewable and recycled material. Over the decades, IKEA stopped using some harmful substances in its products (Refer to Table I for Ikea's approach for developing product range).

While developing new products, IKEA used a method called 'the eWheel.' The eWheel included four phases in the lifecycle of a product – raw material, manufacturing, use, and recycling. Using the eWheel, IKEA could evaluate the environmental impact of its products by determining which materials were environmental friendly, while being functional and safe. eWheel also helped IKEA in determining if the product could be recycled and to assess the optimal lifespan of the product.

IKEA believed that meeting the different needs of different customers with different tastes, dreams, aspirations, and wallet sizes, was a tough task and required a unique approach. With its philosophy of following different paths and finding solution to different challenges, IKEA successfully invented a new range of designs and prices in its products. It offered a wide variety of products in terms of function and style. From the living room and kitchen, to toys and plants, IKEA offered something for everyone. In terms of style, the company measured all the possible tastes. As a consequence, it developed its library of stylish products. For offering a vast product range, IKEA developed a different procedure. (Refer to Table I for Approach of IKEA for Developing Product Range)

Table I

Approach for Developing Product Range
Designing Price tag: The designers studied and understood the whole production process from checking the materials used, logistics, labor, and transport costs. They intended to come out with extremely low-priced, high quality, and beautiful designs.
Different view: The product developers at IKEA had a different way of looking at things; they believed in innovating and creating cost-efficient and environmentally friendly products.
Flat packing: The flat packing enabled customers to assemble and dismantle the products themselves, thus reducing labor, shipping, and storage costs.
Environment and people friendly: IKEA worked to innovate products which were acceptable to the people and to the environment
Products and materials: While designing a product, IKEA always insisted on using materials wisely and strove to use renewable and recyclable materials.

Source: www.ikea.com

Apart from offering stylish and exceptionally designed products, IKEA maintained its distinctive feature of high quality at affordable prices. Low prices became the keystone of IKEA's vision, business idea, and concept. The company considered that all the IKEA units had contributed toward creating low priced home furnishing furniture. IKEA also believed that its inexpensive products would help people enjoy a better everyday life.

In search of better quality, design, and affordability, IKEA had been experimenting with different materials. In 1980, a series of sofas – Klippan — was invented.¹⁸ While the initial production was done in Sweden, it was later on outsourced to low cost suppliers in Poland. Klippan proved to be a kid-proof stylish sofa with clean lines, bright colors, simple legs, and compact size. The sofa set was a result of IKEA's constant experimenting zeal, when a cheaper and light weighted mix was finally achieved through a combination of particleboard, fiberboard, and polyurethane foam.

In 1996, IKEA entered into an alliance with a Sweden-based construction company Skanska¹⁹, and brought in a groundbreaking housing concept.²⁰ Kamprad and Melker Schörling (Schörling), Skanska's Chairman of the Board, met at a housing fair and discussed how all the newly built houses were very expensive and unaffordable. Thus, both decided to develop affordable houses for ordinary people. In 1997, their first development of BoKlok was created. Taking into consideration the price factor, Kamprad and Schörling succeeded in giving life to many dreams. According to them, "Everyone should have the same opportunity to live well".²¹

The underlying concept of IKEA's building arm was offering more for less. BoKlok homes were created with a perfect balance of space and affordability. By 2005, BoKlok had become popular with the public, and it had sold 2,500 units in Sweden, Finland, Norway, and Denmark since the launch. However, the company believed that it had expertise in home furnishing products and house construction was a different concept. The then CEO of IKEA, Anders Dahlvig, said, "(BoKlok) generates a lot of buzz for the brand. We are not a house builder ourselves, so we have to be cautious".²²

In the Sustainability Report 2010, IKEA said it was developing a tool for more sustainable product development and purchasing. The tool 'IKEA Sustainability Product Scorecard', it said, would help it determine if it was stocking enough sustainable products. In 2011, the card was introduced.²³ The sustainability product scorecard had 11 criteria on which the products were given points. Based on these points, the product and its packaging were classified as more sustainable or less sustainable compared to other competitive products that were present in the market.²⁴ (Refer to Exhibit I for IKEA Sustainability Product Score Card Criteria). Since the scorecard was an internal tool, the scores of the products were not communicated to the public.

BUILDING AWARENESS

IKEA's products were manufactured at the facilities of 1600 suppliers spread across Europe, North America, and Asia. Almost two-thirds of its suppliers were in Europe, one-third in Asia, and about 3% in North America. The products were made by the suppliers according to IKEA's specifications.

In 1998, in order to promote workers' rights, IKEA entered into an agreement with the IFBWW.²⁵ It aimed to ensure better working conditions, health and safety for workers at enterprises that manufactured and supplied goods for IKEA. (Refer to Exhibit II for more about the agreement).

¹⁸ "What a Sweetheart of a Love Seat" www.businessweek.com, November 13, 2005.

¹⁹ Skanska is a Sweden-based multinational construction and development company. Its head office is in Solna, north of Stockholm. As of 2014, it was also the largest construction company in Sweden.

²⁰ "The BoKlok Concept" www.boklok.com

²¹ "The BoKlok Concept" www.boklok.com

²² "Need a Home to go With That Sofa" www.businessweek.com, November 13, 2005.

²³ "IKEA Introduces Sustainable Product Score Card" www.sustainablebusiness.com, March 31, 2011.

²⁴ "Sustainability Report 2010" www.ikea.com

²⁵ "IFBWW Experiences with Global Company Agreement" www.newunionism.net, February 2004.

IKEA's main activity was furniture retailing, which required huge quantities of wood. The company relied on its suppliers to obtain the wood. It realized that if the suppliers obtained the wood from illegal sources and protected forests, it could considerably damage its own reputation. Hence, in the late 1990s, IKEA felt the need to develop a code of conduct for the suppliers in order to ensure strict adherence to environmental regulations. This led to the introduction of 'The IKEA Way on Purchasing Home Furnishing Products', also known as IWAY, in the year 2000. The principal aim of IWAY was to follow a set of standards for procuring raw materials and processing them into finished products. The IWAY standards were framed in accordance with the UN Universal Declaration of Human Rights 1948²⁶, International Labor Organization (ILO) Declaration on Fundamental Principles, Rights at Work 1988²⁷, and the Rio Declaration on Environment and Development 1992²⁸. IWAY specified the working conditions, labor, environment and forestry management practices that were expected of the suppliers. Forming a part of the IWAY were seventeen different standards handling ninety specific issues (*Refer to Table II for the list of IWAY standards*).

Table II
IWAY Standards

1. General Conditions and Legal Compliance
2. Environment – Air, Noise, and Water Pollution
3. Ground Contamination
4. Chemicals
5. Hazardous and Non-Hazardous Waste
6. Fire Prevention
7. Worker Health & Safety
8. Housing Facilities
9. Wages, Benefits, and Working Hours
10. Child Labor
11. Forced & Bonded Labor
12. Discrimination
13. Freedom of Association
14. Harassment, Abuse, and Disciplinary Actions
15. Continuous Improvements
16. Routines for Procurement of Wood, Bamboo, & Rattan
17. Fulfillment of IKEA and Legal Forestry Demands.

Source: IWAY Standard issued by IKEA Trading and Design AG

²⁶ The Universal Declaration of Human Rights (UDHR) is a declaration adopted by the United Nations General Assembly in 1948. The declaration outlines the UN's views on human rights guaranteed to all people. It has thirty articles outlining human rights.

²⁷ In 1988, the ILO adopted the Declaration of Fundamental Principles and Rights at Work, which showed the commitment by the governments, employers' organizations, and workers' organizations to upholding basic human values that are vital to social and economic lives. The declaration covered four areas — freedom of association and right to collective bargaining; elimination of forced and compulsory labor; abolition of child labor; and elimination of discrimination at the workplace.

²⁸ The Rio Declaration on Environment and Development has 27 principles to guide sustainable development across the world.

In order to encourage smaller suppliers to adopt environmental friendly operations, IKEA introduced an environmental management system called 4-point Supplier Environmental Assurance (4SEA) in 1996. The suppliers who operated at the 4SEA level had control over the environmental impact of their work and strove toward continuous improvement (*Refer to Table III for IKEA's 4SEA*).

Table III
IKEA – Four Point Supplier Environmental Assurance

• The suppliers shall develop an environmental policy, describe the environmental organization and its responsibilities. • The suppliers shall, in a well organized way, create relevant systems, routines, and documentation in order to comply with laws and legislation affecting the operations, show compliance with permits from authorities, etc. • The suppliers shall understand their impact on the environment and then set objectives and targets to achieve reductions. • The suppliers shall document routines and instructions on how to prevent and handle possible near-accidents and accidents.
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Source: IKEA Environmental and Social Issues, 2001

All the suppliers were required to sign an agreement with IKEA agreeing to comply with its directives, which included preserving the environment by minimizing emissions, handling hazardous waste safely, and ensuring that wood did not originate from intact natural forests²⁹. IKEA provided the suppliers with a map of the intact natural forests in their areas and advised them not to cut trees from those areas.³⁰

IKEA worked with the new suppliers to help them meet quality and price requirements and IWAY standards. It provided the suppliers with extensive technical support including assistance to choose the production equipment. Delegations from the new suppliers visited furniture factories in Europe in order to understand how the old suppliers operated and met the standards specified by IKEA. Auditors from IKEA visited the new suppliers several times in a year to ensure their adherence to IWAY and quality standards.

IKEA's suppliers were spread across the world and some of them were located in countries where awareness about environmental issues was not widespread. In order to educate the suppliers and constantly remind them of the IWAY standards, all the personnel from IKEA who visited the suppliers regularly monitored them.

IKEA used the staircase model for suppliers, covering social conditions, outside environment, and forestry (Refer to Table IV for the staircase model for suppliers). Before suppliers could start business with IKEA, they needed to fulfill some minimum requirements. They were not supposed to use any forced or bonded labor or to employ child labor. The suppliers had to be able to trace the origin of the material (wood, veneer, plywood, rattan, glued wood, bamboo) that they supplied. After they had fulfilled these conditions, the suppliers entered the first level of the staircase.

²⁹ Intact Natural Forests are intact, i.e. unfragmented with a minimum block size of 50000 hectares, where no systematic forest management has been carried out within the area and where access to the area is restricted (no roads, mines, pipelines, etc).

³⁰ IKEA used the data provided by Global Forest Watch, a non-profit organization, which mapped the locations of intact natural forests. IKEA encouraged the suppliers not to supply timber from these locations.

Table IV
Staircase Model – Suppliers

Level 1	Action plan to achieve Level 2
Level 2	IKEA Way on purchasing home furnishing products and outside environment
Level 3	4 SEA – Supplier Environmental Assurance
Level 4	ISO 14001 or equivalent

Source: www.ikea.com.

At the first level, the suppliers had to be able to verify the country and region of origin of the timber; an action plan to achieve the second level was then decided on. At the second level, it was specified that the timber must be cut according to the prevailing national and regional legislation and that the timber must not be from protected areas. At the third level, the 4SEA standards had to be fulfilled by the suppliers. At the fourth level, the suppliers were required to meet the ISO 14001³¹ standards or certification by the FSC.

In the ‘Social and Environmental Responsibility Report — 2003’, IKEA mentioned its ambition to work for social and environmental issues. For example, for product development, IKEA expected efficient use of raw materials, restricted and limited substances, and efficient packaging. In 2011, IKEA voiced its belief of doing more for less, and listening to and learning from others.

In 2011, it became evident that more than half of IKEA’s sales were from wood constituted products.³² IKEA, for the several years previously had been committed to increasing the proportion of responsibly harvested wood. FSC certified wood accounted for 25% of the total wood supplied. For responsible sourcing of wood, IKEA came out with a two-stage approach, where first, all the requirements and legal issues were considered and then, continuous sourcing of ‘preferred wood’ was assured.

In the first stage, basic requirements were fulfilled. The basics included all the legal issues and ensuring that the harvesting of wood did not cause any damage to the conservation values. The second step involved the type of wood sourced where FSC certification formed the basis of wood selection. For IKEA’s range of products, it looked only for FSC certified wood which it called ‘preferred wood’. In order to meet the minimum requirements throughout the world, IKEA focused on procuring recycled wood.

As of 2011, IKEA had a team of 16 foresters, who worked to control the wood sourcing at the suppliers’ end. For the supply chain, these foresters conducted audits regularly. For example, for sustainable sourcing of timber, all the forest suppliers were required to meet minimum requirements. As per the IWAY standards, the suppliers of solid wood, layer-glued, plywood, and veneer were also required to fulfill the requirements. Even the origin of their wood was required to be documented. All wood used in IKEA products met IWAY standards, according to which it should not be illegally harvested, not be acquired from forest-related social conflicted operations, and not be procured from geographically identified intact natural forests or uncertified high conservation value forests. IKEA’s top five wood-sourcing countries were Poland, Sweden, Russia, Lithuania, and Germany.

³¹ The ISO 14000 environmental management standards help organizations minimize the negative effects of their processes on the environment by complying with the existing laws and continually improving the environmental standards. ISO 14001 is the requirement standard against which organizations were assessed.

³² “Spotlight on IKEA: Commitments and Challenges of Responsible Procurement...”
www.isealliance.org, November 03, 2011.

The purchasing teams at IKEA were assigned two major functions: to search for new suppliers and to evaluate and develop the existing ones. They were actively involved in supporting suppliers to improve working conditions and minimize environmental impact.

In order to encourage new suppliers, IKEA developed a separate portal for its suppliers, where fresh and aspiring individuals or companies could apply to become IKEA's partners. Different types of suppliers like component or raw material suppliers and indirect materials & services suppliers could apply through this portal and could collaborate with IKEA.³³

One of the suppliers said, "One thing we learned by working with IKEA is that the stock in a warehouse is not enough to secure availability – it is better planning that does this! We have been able to reduce our logistics costs by 35% while increasing our direct delivery share to the share by 75%. These are big contributors and drivers which enable us, together with IKEA, to lower the prices for our customers in the store".³⁴

As of 2013, IKEA had 1,046 home furnishing suppliers across 52 countries.³⁵ In its vision, it indicated that it was keen on maintaining a long-term relationship with its suppliers and that its suppliers and good relations with them were a great asset to the company.

In the Sustainability Report 2013, IKEA laid emphasis on responsible sourcing, where its partners and suppliers should commit themselves to protecting natural resources and safeguarding future supplies at affordable prices. From 2010 to 2013, the percentage of wood procurement from more sustainable sources increased from 15.8% to 32.4%. The sourcing of other raw materials like cotton, leather, palm oil etc, from sustainable sources also increased considerably.

SYMBIOSIS WITH SUPPLIERS

With the introduction of IWAY in 2000, IKEA had very rigid terms and conditions for its suppliers. IWAY was applicable to all the suppliers of IKEA, and the suppliers were required to communicate the code of conduct to their co-workers and sub-suppliers. It was mandatory for the suppliers to acknowledge and accept the IWAY requirements and sign the IWAY Compliance Commitment document.

In order to ensure that various environmental, social, and working conditions requirements were implemented as per the IWAY standards, the suppliers were required to appoint one or several persons who would be assigned defined responsibilities and the authority to ascertain the implementation. The sub-suppliers were also required to sign a document acknowledging and accepting the IWAY terms. Under IWAY, it was mandatory for IKEA suppliers to conduct an internal IWAY audit once every 12 months and the results and corrective measures taken had to be documented and provided to IKEA, whenever asked for. (Refer to Exhibit III for detailed IWAY Standards).

IKEA conducted the first IWAY audit even before the suppliers delivered their first product at IKEA. The audit began with a meeting between the auditors from IKEA and representatives of the supplier. The auditors, accompanied by a representative from the supplier, conducted a tour of the factory. From time to time, the auditors questioned the employees of the suppliers to check their conformity with IWAY. The auditors also checked the general working conditions at the factory.

Compliance with IWAY and with local laws was checked by examining documents which included permits from the authorities, training records, list of chemicals used, and employees' pay records. Another important part of the IWAY audit was interviews with the employees. A few of

³³ <http://supplierportal.ikea.com>.

³⁴ "Partnership with IKEA" <http://supplierportal.ikea.com>

³⁵ "Company Information" www.ikea.com

the employees, selected at random during the walkthrough, were interviewed without factory management representatives being present. After the audit, a meeting was conducted with the management of the factory.

The management was also presented with a written audit report, which had details about the areas that needed improvement. If any deviations were found, IKEA demanded a written action plan from the supplier about corrective actions. The action plan which included the corrective plan, and the person responsible for carrying out the task, had to be sent to IKEA within two weeks of the conclusion of the audit. After the audit, IKEA followed up with the interviewees to ensure that they were not being harassed in any way by the management.

After corrective action had been taken, IKEA's auditors followed up and verified with the supplier. When all the deviations had been addressed and accepted, the supplier was IWAY approved. From time to time, IKEA conducted re-audits and inspections.

IKEA deployed IWAY inspectors to visit the suppliers and ensure that they adhered to the code of conduct specified by it. Apart from regular checks, complete IWAY checks were carried out about once in two years. The complete IWAY check was a comprehensive check that took a few days to complete.

IKEA was sourcing almost 30% of its 9,500 products from Asian countries. However, for global sourcing, the company decided to go with the local approach. Greg Priest (Priest), Head of supply chain and procurement compliance, IKEA, said, "We're looking to do more on the local sourcing side of things. It makes sense from both a business and environmental perspective. For example, for our stores in North America we're looking to areas such as Mexico as much as possible. We want to do what's best for our consumers, suppliers, and the company itself. We have long-standing relationships with a number of our suppliers, and it's these relationships that allow us to work closely to implement improvements where necessary."³⁶

In 2011, IKEA conducted 993 audits, out of which 711 were unannounced. It terminated its partnership with 19 suppliers, when they did not conform to IWAY standards while others had some non-compliance issues.

However, by 2012, IKEA discovered that there were more suppliers who did not abide by the mentioned code of conduct. Out of its total suppliers, only 60% were IWAY approved while the rest did not comply with IWAY standards.³⁷ It was also found that 90-94% vendors in Europe and America followed IWAY. However, in countries like China, only 11% suppliers complied with IKEA's code of conduct.

In order to meet customers' quality requirements, apart from IWAY standards, IKEA established another quality standard for its suppliers. Under the IKEA supplier quality standard, there were certain minimum requirements that the supplier had to fulfill before its first delivery to the company – the requirements were called GO/NO GO requirements. (Refer to Exhibit IV for detailed GO/NO GO Requirements). Under this set of standards, there were certain minimum process control requirements, which had to be followed by all suppliers and sub-suppliers. Selected production processes like gluing, packing, inorganic coating of metal substrates, etc., were also outlined by IKEA under the GO/NO GO requirements.

IKEA FOR CUSTOMERS

By 2005, IKEA had evolved into a one-stop store where customers could pick up environmentally sensitive and styled products. Icon, a British design magazine, named the founder of IKEA, Kamprad, as the most influential tastemaker in the world and wrote, "If it wasn't for IKEA, most

³⁶ "IKEA Looks to Local Sourcing" www.procurementleaders.com, March 26, 2009.

³⁷ Paul Snell, "IKEA Prepares to Drop Non-Compliant Suppliers" www.supplymanagement.com, February 25, 2012.

people would have no access to affordable contemporary design.”³⁸ By end of 2005, IKEA had become a global middle class shop that offered affordable products like the Billy Bookcase, the Lack sidetable, and the Ivar storage system for US\$120, US\$13, and US\$190 respectively. A manager at IKEA described the company’s strategy as looking at the competition, knowing their prices, and finally slashing them to half.

By 2008, offering low priced products became a part of IKEA’s strategy. Commenting on this strategy, Lars Diethelm, Chief Information Officer at IKEA, said, “Being specialized in supplying low-cost home furnishings, we work hard to ensure that cost management and procurement are highly developed skills inside our organization.”³⁹ Apart from low cost, IKEA also concentrated on quality, design, and functionality of the products.

To offer transparency to its stakeholders, IKEA released its first yearly summary for FY 2009, as the company was not listed on any stock exchange. The results of 2009 for IKEA showed revenue of € 21.85 billion.⁴⁰ The move proved that IKEA was running strong and made its co-workers confident about its future performance.

From time to time, IKEA came out with innovative products that benefited the customers, company, and also the environment. For example, energy-saving building setups had lowered the negative environmental impact and benefitted IKEA as well. In 2011, IKEA changed the doors of frame cupboards, using honeycomb fiber instead, which used 40 percent less material but was equally strong. Therefore, the cost as well the price of the cupboard came down.

In the Sustainability Report 2011, IKEA mentioned its local, national, and global responsibility, where it paid credit to its culture for adopting the sustainability approach. In areas of their respective responsibilities, IKEA managers and co-workers had included sustainability in all their works. The sustainability managers and environmental and social experts were dedicated to supporting the IKEA stores in all areas like chemicals, forestry, code of conduct, and auditing.

The other industrial groups owned by IKEA, Swedwood, and Swedspan, also followed the sustainability approach, where production units were producing energy through waste.

IKEA retail outlets as well as distribution centers hired social and environmental coordinators, who provided sustainability training and managed and reviewed the working conditions, safety issues, and water & energy conservation at these centers. The sustainability managers reported to the line managers, who in turn reported to the Chief Sustainability Officer (CSO). The CSO was a member of the IKEA executive management and reported to the CEO of the company.⁴¹

CHALLENGES

In 2002, in order to get a general picture of IKEA, the Dutch trade union confederation FNV conducted research on the company. FNV found that IKEA lacked transparency in its IWAY standards and provided very little information to the public. The monitoring process for checking IWAY compliance among its suppliers was also very vague, according to the union confederation. As per the research study, “The case studies in India, Bulgaria, and Vietnam although showing a different situation in each country, make it clear that there are still numerous violations of IKEA’s code of conduct in all three countries in all factories researched.”⁴² Thus, the major challenge for IKEA was to ensure successful implementation of IWAY.

³⁸ “IKEA” www.businessweek.com, November 13, 2005.

³⁹ “Improving Non-Core Costs at IKEA Systems B.V.” www.franchisebusiness.com.au, July 23, 2008.

⁴⁰ “IKEA CEO Focuses on Customers’ Needs in Hard Times” <http://dailycaller.com>, October 28, 2010.

⁴¹ “Sustainability Report FY 2011” www.ikea.com

⁴² “IFBWW Experiences with Global Company Agreement” www.newunionism.net, February 2004.

In 2007, IKEA mentioned the problems in China, where it was facing challenges from suppliers, as only 4% of the suppliers were IWAY approved. As per the report, “The most difficult labor-related issues in China are wages, working hours, overtime compensation, and social insurance. One factor contributing to the difficulty in implementing change is the high presence and mobility of migrant workers whose main goal is to make money and then return home.”⁴³

Solid wood and wood-based board materials were basic raw material of many IKEA’s products. In 2012, IKEA used 13.56 million cubic meters of such raw material, which was almost 1% of global commercially used wood.⁴⁴ With a global certification scheme, FSC, IKEA aimed to improve forest management. However, it failed to meet the target of sourcing 35% of all solid wood from preferred sources. Moreover, a Swedish NGO, Protect the Forest, opposed IKEA’s operations in the Karelia region of north-west Russia where the world’s largest furniture retailer was blamed for cutting down thousands of hectares of ancient old-growth forest. Viktor Säfve, Chairman of Protect the Forest, in 2012, said, “The FSC label is promising sustainable forestry and wood that does not come from high conservation areas and in many cases this is simply not true. There are too many examples of flawed FSC accreditation. It is not enough for IKEA to say it is only cutting down trees that have been accredited through locally-agreed FSC standards when the system itself is inadequate.”⁴⁵

In the US, an amendment was made in 2012 to an environmental law called the Lacey Law. With this amendment, it became mandatory, while importing any plant product, to declare to the border services the type of plants used to make it and country from where they came.⁴⁶ As per the amended law, it became illegal to import plants or plant products that had been harvested in violation of foreign laws. The law became a challenge for IKEA’s operations and many analysts opined that IKEA was reluctant to share information about its wood sources; the company also argued that complying with the law would raise costs and lead to increasing prices for customers.

With sustainable procurement on one side and profitability on the other, IKEA began undertaking rigorous analysis to overcome some of the huge challenges it faced. It had to maintain a tradeoff between ethical procurement and profitable business.

⁴³ “IKEA Looks to Local Sourcing” www.procurementleaders.com, March 26, 2009.

⁴⁴ Annie Kelly, “IKEA to go ‘Forest Positive’ – but Serious Challenges Lie Ahead” www.theguardian.com, December 14, 2012.

⁴⁵ Annie Kelly, “IKEA to go ‘Forest Positive’ – but Serious Challenges Lie Ahead” www.theguardian.com, December 14, 2012.

⁴⁶ Sarah Laskow, “IKEA Won’t Tell Where It Gets Its Wood — and Congress is About to Give it a Pass” <http://grist.org>, June 21, 2012.

Exhibit I**IKEA Sustainability Product Score Card criteria**

- Using less material in the product; More for less
- Renewable material
- Recycled material
- Environmentally better material
- Separable and recyclable material
- Product quality
- Transport efficiency, which measures the number of products per container.
- Energy efficient production
- Use of renewable energy in production
- Raw material utilization at suppliers
- Product use

Source: *IKEA Sustainability Report . 2010*

Exhibit II**IKEA IFBWW AGREEMENT**

Code of Conduct regarding the rights of workers

1. Employment must be freely chosen

No coercion may be used, including forced labor, slavery, or non-voluntary work in prisons. Nor must workers be asked to make "deposits" or leave their ID as pledges with their employers.

2. No discrimination in employment

There will be equal opportunities and equal treatment regardless of race, color, gender, creed, political views, nationality, social background, or any other special characteristics.

3. Child labor must not be used

Child labor must not be used. Only workers aged 15 and over, or over the age of compulsory education, if higher, may be employed. Exceptions to this rule may only be made if national legislation provides otherwise.

4. Respect for the right to freedom of association and free collective bargaining

The right of all workers to form and belong to trade unions shall be recognized. Workers' representatives may not be discriminated against and must have access to all the workplaces necessary to exercise their functions as trade union representatives. Employers shall adopt positive views of the activities of trade unions and an open attitude to their organizing activities.

Contd...

Contd...

5. Adequate wages must be paid

Wages and conditions of work must fulfill at least the requirements laid down in national agreements or national legislation. Unless wage deductions are permitted by national legislation, they may not be made without the express permission of the workers concerned. All workers must be given written, understandable information in their own language about wages before they take up their work, and the details of their wages in writing on each occasion that wages are paid.

6. Working time must not be unreasonable

Working time should follow the appropriate legislation or national agreements for each trade.

7. Working conditions must be decent

Working environments must be safe, hygienic, and the best health and safety conditions must be promoted considering current knowledge of the trade and any special hazards. Physical abuse, the threat of physical abuse, unusual penalties or punishments, sexual or other forms of harassment, and threats by the employer shall be strictly forbidden.

8. Conditions of employment must be established

Employers' obligations to workers according to national labor legislation and regulations on social protection based on permanent employment must be respected. Apprenticeships that do not truly aim to provide knowledge must not be permitted. The parties shall work toward creating permanent employment.

Source: <http://www1.umn.edu>

Exhibit III

IWAY STANDARDS		
Environment	Outdoor air pollution	IKEA suppliers should comply with the laws and regulations applicable for emissions.
	Outdoor noise pollution	IKEA suppliers should comply with the laws and regulations related to noise pollution.
	Ground & Water pollution	Suppliers should comply with applicable laws & regulations. Effluent treatment plants should be properly operated and maintained.
	Ground contamination	Along with compliance to applicable laws & regulations, IKEA suppliers must investigate any possible risks of ground contamination due to their activities.
	Energy Reduction	The suppliers should set targets annually for energy reduction and should measure and record energy consumptions for their building and processes.
	Contd...	

	<i>Contd...</i>	
	Reduction of other environmental impacts	Suppliers must prepare practical plans to reduce environmental impacts from their production and operations.
Hazardous & Non-Hazardous Waste	Legal Compliance	Laws and regulations related to handling, storage, transportation, recycling, and disposing of hazardous and non-hazardous waste should be complied with by IKEA suppliers.
	List of Wastes	In order to monitor the type and quantity of wastes, the suppliers must maintain a list of hazardous and non-hazardous wastes.
	Procedure for waste	For prevention of harmful emissions into the air, ground, and water, and to ensure the safety of workers, IKEA suppliers were required to establish a procedure for handling, storing, transporting, and disposing of waste.
	Competence and training	Workers handling waste should have the right competence and should be trained well.
	Licensed contractors	As per the applicable legislation, the contractors for transporting, storing, and disposing waste should be licensed.
Chemicals	Legal Compliance	Laws and regulations related to purchasing, storage, handling, transportation and use of chemicals should be complied by IKEA suppliers.
	List of chemicals	Mentioning the name of the chemical product and purpose of use, the suppliers should prepare and maintain a list of the all the chemicals used.
	Storage, handling and transportation	IKEA suppliers had to store, handle, and transport chemicals in such a way as to prevent harmful emissions into the air, ground, and water.
	Procedure for chemicals	For purchasing, storage, handling, and use of chemicals, IKEA suppliers should have documented procedures.
	Competence and training	Before starting work, workers involved in purchasing, storing, handling, and using chemicals, had to be properly trained. Records of such training had also to be maintained.
Workers' health and safety	Labeling of chemicals	The containers should be properly labeled with appropriate danger symbols and chemical names.
	Training	Workers operating machines, equipment, or carrying out hazardous operations should be adequately trained.
	Accidents and incidents	All the accidents and incidents should be properly recorded, along with the corrective measures taken.
<i>Contd...</i>		

	<i>Contd...</i>	
	Classification, reporting & inspection	There should be compliance by suppliers with applicable laws & regulations relating to health and safety issues including classification, work place risk analysis, reporting, and inspections by authorities.
	Machine safety devices	In order to prevent work injuries, the required safety devices should be in place.
	Safety instructions	Safety instructions and/or warning signs should be clearly and visibly posted at designated work area(s).
	Personal protective equipment	The IKEA supplier should provide appropriate Personal Protective Equipment (PPE) and specific protective clothing to all workers and visitors in any harmful or potentially risky work areas without any charge.
	First Aid	The suppliers should have stocked first aid equipment and at least one first aid trained personnel.
	Temperature, Internal Air, Lights and Drinking water.	IKEA suppliers should comply with all relevant and applicable laws, legislation, and regulations relating to air quality, temperature levels, workplace lighting levels, and drinking water.
Child labor and Forced & Bonded Labor	Prevention	The IKEA supplier should not make use of child labor and act appropriately to prevent it. IKEA's suppliers should ensure that young workers are treated according to the law.
		The IKEA supplier should not use forced, prison, bonded, or involuntary labor.
Wages, benefit, working hours and housing facilities	Requirements	Suppliers should comply with the legal requirements of housing facilities. There should be proper maintenance of records of payroll and attendance of the workers. Wages should be paid to its workers, including compensation for overtime and working hours. Working time and overtimes should be within legal limits.
	Leaves and breaks	Workers should be given one day off in seven, and should be provided with appropriate time off for meals and breaks.

Source: www.ikea.com

Exhibit IV

GO/NO GO requirements to be followed by all IKEA Suppliers	
Product	Product should be well designed, customer friendly, durable, & functional as well as safe to use.
Inspection	All products should pass through a final inspection, which is to be carried out by an inspector having knowledge of all IKEA products & their standards. The inspector should calibrate with an IKEA representative.
Special processes	Before the start of production, suppliers must implement some special processes mentioned in the appendices. They are: • Following the process scheme • Ensuring the measurements are within tolerance limits • Recording the actual measurements • Issuing a verification test report
Segregation	The suppliers should identify and segregate the products which don't conform to the specifications outlined in the appendices
Test Status Summary	The supplier should have a documented test status summary with all required tests reports, statements, and certificate of compliance.
Sub-suppliers	The relevant requirements and conditions of IKEA should be communicated and agreed to with the sub-suppliers.

Source: <http://supplierportal.ikea.com>

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