
IBS Center for Management Research

Teaching Note

IKEA'S Ethical Procurement Practices

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SUMMARY

The case discusses the ethical procurement practices of the world's largest furniture retailer, Sweden-based IKEA, a specialist in stylish but inexpensive furniture in Scandinavian designs. Initially, the company was accused of large-scale cutting of trees and using chemicals in furniture manufacturing. Thereafter, IKEA started working toward better procurement practices. In 2000, in an attempt to improve its operations and processes and minimize the negative impact of these on society and the environment, IKEA launched a set of environmental and social standards called the 'IWAY'.

Under IWAY, a set of directives was specified for IKEA's suppliers; it was mandatory for all the suppliers to abide by IWAY that outlined the requirements for procuring the raw material, maintaining environmental balance, and waste disposal, among other things. IKEA terminated its contract with some of its suppliers due to their non-compliance with the IWAY standards.

IKEA's design team considered the price, quality, function, material, and technical aspects of the product, and ensured that the products were free from substances that caused allergies or were harmful to health and to the environment. The designers were encouraged to review the environmental consequences of their designs. IKEA deployed IWAY inspectors to visit the suppliers to ensure that they adhered to the code of conduct specified by it.

Despite its stringent IWAY code of conduct, research on IKEA revealed that the company lacked transparency in the IWAY standards and provided very little information on them to the public; also, the monitoring process for checking IWAY compliance among its suppliers was vague. On several occasions, IKEA was also questioned for its forest management practices.

TEACHING OBJECTIVES AND TARGET AUDIENCE

This case is designed to enable students to:

- Understand IKEA's Ethical Procurement Practices
- Study IKEA's IWAY code of conduct that its suppliers were expected to follow
- Examine the various factors which led to establishment of IWAY
- Study IKEA's relationship with its customers and suppliers
- Discuss the pros and cons for customers, suppliers, the environment, and for IKEA itself of having a stringent code of conduct like IWAY
- Discuss the ways by which IKEA could strengthen its relationship with suppliers and customers

TEACHING APPROACH AND STRATEGY

The case can be used effectively for classroom discussion as well as in distance learning programs. The moderator can initiate the discussion by examining the following aspects / issues:

- Business ethics in general and various ethical practices followed by companies
- Major players of the home furnishing industry and their contribution to society
- The balance between ethical business and profitable business
- Ethical business: a win-win situation for the company and the environment

The following questions may be used to aid the discussion:

1. List the various practices followed by IKEA and classify each as ethical or unethical
2. What are the challenges in implementing an inflexible code of conduct like IWAY?
3. How did IKEA develop environment friendly products?

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