

POINT OF VIEW

IKEA: Green and Clean can also make dollars and sense

IKEA is such an incredible story on so many different levels that it is difficult to fathom the full scope and impact of the company. The Swedish firm was started in 1943 by Ingvar Kamprad, a farmer's son who as a teenager began selling pens, Christmas cards and packets of seeds in Småland, the forested area making up much of southern Sweden. The name IKEA comes quite simply from the founder's initials (I.K.) plus the first letters of Elmtaryd (E) and Agunnaryd (A), the farm and village where he grew up.

Hugh O'Brian

In 2008, turnover at IKEA was around €22 billion (USD 30 billion) from nearly 280 stores worldwide. This means that each store, on average, is a USD 100 million business in itself! The IKEA group employs 130,000 co-workers in 39 countries, and many more through the thousands of sub-suppliers it works with.

Since 1982 IKEA has been owned by the Stichting INGKA Foundation, based in the Netherlands. Today Kamprad is still going strong at 82 years young as a senior advisor and is said by some sources to be one of the world's wealthiest people.

Anders Dahlvig has been President and CEO of the IKEA Group since 1999. Under his tenure, the company has grown enormously not only in terms of turnover and size but also in its commitment to Corporate Social Responsibility (CSR) and Sustainability. He spoke with Perini Journal about what these issues mean to IKEA and how the company is putting the ideas and principles into practice in the real world.

WHAT IS CSR AND WHAT IS SUSTAINABILITY? DO THEY OVERLAP OR IS ONE ABOVE THE OTHER? I guess you can say that CSR is the headline but sustainability is what we are really doing, with the aim to have the least negative impact on the planet, people and resources. It is an ever widening area that is clearly growing in scope and importance each day.

WHY HAS IKEA TAKEN SUCH A HIGH PROFILE ON THESE ISSUES? When I became CEO in 1999 I realized that we had to be more active on these issues. Of course the number one motivator is that we don't want to leave a deteriorated planet to the next generation. So that is the overriding goal, but then it can be broken down into many actions to try to achieve this.

Another motivator is the fact that, as a Swedish company with our roots in the forests of Småland, both the protection of resources and consideration for people's health and well-being are basic core values that are extremely important to us. So we initially took strong action a decade ago on what we saw as the two top issues in CSR for IKEA: the exploitation of developing countries and the sourcing of wood.

Exploitation of developing countries by the Western countries, in terms of both labor practices and environmental protection, was quite rightly gaining a lot of attention. We decided that we needed to be more active in understanding and influencing how our sub-suppliers were working. We began cooperation with groups like Unicef and Save the Children to get their input and see how we could work together to improve things.

Forestry and wood sourcing was also becoming a big issue at that time. This is of course very important for us since wood is by far our biggest raw material. So we began working to try to insure that the wood used comes from responsibly managed forests. This meant looking at our own practices as well as those of our sub-suppliers.

In addition to the ethical and environmental aspects, I felt that there were also convincing business reasons for taking action rapidly. It was clear that customers were going to expect more transparency and activism on issues such as exploitation of developing countries.

HOW HAVE YOU DEALT WITH EXPLOITATION AND, SPECIFICALLY, CHILD LABOR ISSUES? We have put numerous routines in place that hopefully ensure things are being done in a correct manner. For example, back in 2000 we set up our Code of Conduct, called IWAY, which specifies minimum requirements that we place on suppliers. This includes among other things issues like child or forced labor; payment of minimum wages and overtime; a safe and healthy work environment; and responsibility for waste, emissions and chemical handling. Of course it is not easy to guarantee that every requirement is being met, but we are certainly making it clear what we require and what the consequences will be if these guidelines are not followed.

Child labor is certainly a complex issue, and it is still unfortunately occurring in some countries. We make it very clear that we do not accept child labor from any of our suppliers. It is, however, a lot more complicated than simply kicking the kids out of the workplace. That doesn't really help anyone or solve anything.

Instead we try to deal with the root cause and take a holistic approach. We have a very close relation with Unicef, the United Nations Children's Fund, and work with them closely on numerous fronts. Child labor is one of the most prominent and we are proud of the fact that IKEA is today the largest non-governmental financial contributor to Unicef.

We have started a program called the IKEA Social Initiative working together with both Unicef and Save the Children. The idea is that every child has the right to a healthy, secure childhood and the opportunity to get an education. We are, for example, supporting healthcare initiatives like vaccination programs to protect both children and mothers against common diseases. We also want to encourage parents to send their children to school rather than going to work at a young age. We actively support community schools in various forms to give them this opportunity.

WHAT ABOUT WOOD SOURCING? In forestry we have worked on tracing the origins of the wood we use to make sure it is not illegally felled or from intact natural forests. It must be legally harvested and coming from managed forests. This is a basic condition we impose on suppliers. We have a team of 20 forestry experts that are employed to work with tracing our wood sources.

In this area we have good cooperation with WWF, the environmental group. For example, along the Russia-China border, where there is a lot of transport of logs from Siberia to China, IKEA and WWF are financing and training inspectors to improve the border controls with respect to illegally harvested wood. We are also trying to convince Russia to tighten its laws to help stop the flow of illegal wood out of the country.

So we are working hard on it but this too is a very complicated issue. It is very difficult tracing where every single wood log going into hundreds of production sites is coming from. I think that if anyone claims that they can 100% guarantee where all raw materials are coming from in a complex supply chain, they are either ignorant or naïve.

We have a long-term aim to source all our wood from forests which are certified as responsibly managed. Right now the Forest Stewardship Council (FSC) standard is the only one we recognize.

We are also doing a lot in product development to simply get more products out of the wood we use. Solid wood is a scarce resource that is expensive, so we think it is on the way out for furniture. Instead we are making more of our furniture with the board-on-frame construction where you can get very good quality with much less wood.

ARE YOU SATISFIED WITH THE RESULTS THAT IKEA HAS HAD ON THESE ISSUES? I am proud of what we have achieved so far, but there is clearly much more to be done. Sustainability is no longer an activity that you can separate on its own, as a sideshow. It is at the heart of our product and supply strategy, and totally integrated in everything we do.

When I started as CEO I felt that we in the management team really had to push these initiatives into the organization. Today it is somewhat the opposite: I feel enormous pressures from the organization on the management team to increase our ambition level. I would think and hope that many other companies have experienced this as well.

WHAT HAS CHANGED MOST SINCE YOU BEGAN FOCUSING ON CSR IN 1999? Over the past decade sustainability has obviously picked up pace and today we are facing new issues, while at the same time continuing our work with forestry and child labor and working conditions. Clearly the CO2 and climate change topics are at the top of the agenda.

However, assessing our impact or even trying to establish what our present emissions are is difficult. Where do we place the boundaries for what is 'our' emission? It is a matter of definitions. We have set three zones that we feel are logical. The first zone concerns emissions from our stores, transport of our goods and wholly owned production operations like Swedwood, our wood company.

If you go further out with the boundaries, the second zone would be covering all emissions from production and

transport of all the raw materials and goods from our suppliers as well. This includes the entire impact from the sourcing and the supply chain.

Then a third, larger zone concerns the customers, driving to and from the stores, emissions from assembly of the goods, and use in the home of electrical appliances for example.

We are, initially at least, focusing on the first zone, our own business. We have the philosophy that you should clean up your own doorstep first before telling others what to do. But we are of course also working with suppliers to see what can be done. And for transport to and from the stores we are already active both for customers and staff to encourage low impact mass transportation whenever possible.

IS SUSTAINABILITY WORK SOMETHING OF A LUXURY THAT CAN BE AFFORDED IN GOOD TIMES BUT MAY BE SIDETRACKED IN MORE DIFFICULT ECONOMIC CONDITIONS? AND DOES IT MAKE SENSE FOR SMALL COMPANIES?

I get asked this type of question quite often. I think there is a very clear business case for being sustainable. I think CSR and low costs work hand in hand. By using less resources and saving energy and materials you are going to save money. From a market viewpoint, these days customers expect you to take responsibility, so you have to be doing it.

I think this applies to all companies, whether they be large or small. I sometimes feel that small companies have the advantage of not being in the spotlight as much but they can also certainly benefit by being active in CSR. There are other benefits such as attracting and retaining talented employees who want to work for a 'good' company.

There is also a goodwill aspect that comes with being very progressive on these issues. It can help guard against an over-reaction or backlash when something does go wrong. In large companies like IKEA there is always a risk that something is going to go wrong somewhere in your business. It will happen. But if you are known to be genuinely serious about CSR and your responsibilities it helps, when a crisis situation may arise, to get a little more understanding.

It can also go the other way, like what happened to Nike in the late 1990s when it was accused of using child labor for shoes and consumers reacted very quickly with sales dropping. That was a real black eye that we never want to experience. Today, modern acceptable companies want to do things correctly and I see this as good for society and good for the company.

WHAT ABOUT RENEWABLE ENERGY AND THE ENERGY USED IN YOUR NUMEROUS STORES? We are aiming to improve the overall energy efficiency by 25%, compared to 2005, in all IKEA stores, distribution centers, factories and offices, and ultimately to supply them with 100% renewable energy. This project is called "IKEA Goes Renewable." We already are heating one of our newest stores in Karlstad, Sweden, on 100% geothermal energy and we are looking to do more of these types of solutions.

All newly built facilities will be designed so that they can use renewable energy instead of fossil fuels. The sources will really depend on where the store is and what is available. In some of our locations solar power could make a lot of sense, while in others it could be biofuel, wind or geothermal. There is much work going on in this area and we feel 100% renewable is a realistic long-term goal.