

Can you do good business while being a good business?

The Ikea way of taking social and environmental responsibility in developing countries

Presentation at the Greenpeace Business Conference in London, by Anders Dahlvig, President, the IKEA Group

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Should companies do business in developing countries? On the face of it, this may not seem like such a good idea.

Communication and PR advisers advise me against the risks of being exposed to child labour issues and associated with suppliers with bad working conditions; of feeding corrupt governments and unscrupulous factory owners; of westernising local cultures and making developing countries more dependant on us.

Environmental specialists tell me how wood may not be coming from well-managed forests; how goods will be transported long distances with environmentally negative effects.

Financial advisors tell me about politically unpredictable situations and weak currencies. Logistical advisors tell me about unstable and long delivery times. Human resource advisors tell me about cultural problems and uneducated staff. Unions advise me on the risks of moving production and losing jobs on the home markets. Our product developers raise the risks of quality problems, lack of proper working procedures and technology.

One or two worries then. So why on earth do business in developing countries, you ask?

It may certainly seem strange that a company like IKEA is not only doing business in these countries – but is actually increasing it.

We have recently opened up stores in China and Russia, and, in spite of making losses, have ambitious plans for more. In developing countries and countries in transition, we have increased our total share of purchase from 32% to 48% over the last 5 years. We have 27 purchase offices and 1000 co-workers working with 1400 suppliers in countries like Russia, China, India, Vietnam, Pakistan, Romania, Indonesia and many more.

And the reason for this, of course, is that we see a very different picture. One of hope and opportunities, rather than hopelessness and problems.

Doing business in developing countries is, in our opinion, a hugely positive thing to do – for our customers, for our company and for the society at large.

By using suppliers in developing countries, our production costs are lower, our customers are getting better prices and so Ikea remains competitive. I do not deny that this is a big driving force for us.

But by placing demands on suppliers and by working with them to meet them, we are helping them to reach a higher standard of working conditions, a lower level of environmental impact and to develop sustainable competitiveness. And in this way, I believe we are contributing to a better living standard in the countries where we are present.

Business objectives on the one hand, social and environmental responsibilities on the other. We do not believe there has to be a conflict between the two. Let me stress this again, we do not believe there has to be conflict between the two.

Now you ask yourself of course, isn't this just another publicity talk? Isn't it what a company president does these days - stands on a stage like this, talking about what an exceptionally ingeniously caring sharing company he or she is lucky to lead? I agree that in representing IKEA I am not an independent objective observer. But let me spend a few minutes trying to explain how we feel we can make traditional business objectives and social and environmental responsibility work together to the benefit of all stakeholders – our customers, our co-workers and the society at large.

The IKEA Way

First of all, and most importantly, the fundamentals on which our business is based must work in harmony with our social and environmental ambitions.

And we're lucky, because our business idea, values and vision all actually help us and point us towards taking social and environmental responsibility. It's in IKEA's DNA, so to speak. Let me explain.

First, the business idea

We are a production-oriented company. Our business idea is to "offer 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", and our concept of achieving low prices is built on being efficient with resources. Of course, we will always try to optimise the use of raw material in the product design phase, but we will also try to optimise it in the production phase too. If we design a chair and then find that we can use a more economical size of wood by making the seat just 10mm shorter, then we'll make the seat 10mm shorter. To save resources and expense, we think it's worth it.

We also save on resources by sending many of our products flat packed, which helps us minimise cost of course but also the environmental impact of transport. For example, one truck of flat pack chairs corresponds to 6 trucks of ready assembled chairs. Same amount of chairs, fewer trucks, less fuel, less carbon dioxide emissions.

Because of this focus on being efficient with resources, we take a very hands-on approach to production, and this inadvertently helps us too. I was sitting next to

a purchaser for a Swedish shoe retailer on the flight back from India once. I asked her if they had any problems with child labour in their factories. No, she answered. How do you know, I asked. My agent tells me so and I didn't see any problems when I visited our factories this week, she answered. Apart from showing some naivety this shows the difficulties of many companies. Having limited resources, having to rely on local agents, and being on the spot a couple of times per year at most.

That is not our way. Our way is to have our own people and purchase offices close to the suppliers. We have 4 offices on Mainland China, 2 offices in India, offices in Bangladesh, Pakistan, Malaysia, Taiwan, Thailand, Vietnam, Indonesia and most eastern European countries. Daily and weekly contact with our suppliers is a huge advantage in working with social and environmental issues. Checking, monitoring, working with suppliers to meet our standards.

So you can see perhaps how our business idea and our way of achieving low prices support our work.

Secondly there are our values

The IKEA culture is built on values like cost consciousness, being different and being humble enough to listen and learn from others.

Well, cost consciousness and being efficient with resources, we were just talking about and I probably needn't say any more.

Being different. Well one very safe thing to do, in some ways an obvious thing to do, would be to buy where environmental ISO standards are fully implemented. Where the risks of being exposed to social and environmental problems are zero.

But that is not our way. We go to places no one else or few others have been. By being in difficult places we feel we contribute to a positive development. Not just taking advantage of what is already sorted and fixed.

And listening and learning. Well, when being criticised or asked to do more, the normal reaction may be to defend our actions - to protest that raising standards is impossible without damaging our business.

Again, this is not our way. Listening to people – whether they're customers or NGOs – comes pretty easily to us. We do not think that we have all the answers. When we believe in something we stick with it. But we're also quick to admit mistakes and to set about correcting what is wrong.

We have a long tradition of co-operating with different NGOs, and these partnerships have helped us enormously. In the ten years we have been co-operating with Greenpeace, for example, Greenpeace has been like a roving conscience for us, spotting issues faster than we would spot them, raising issues where it might be easier for us to overlook them.

For example, it was Greenpeace who drew our attention to the harmful nature of the chlorine we were using to bleach paper for our printed materials. With their

help we managed to achieve something many people, especially those within the paper industry, claimed would be impossible – to print the IKEA catalogue on Totally Chlorine Free paper.

More recently, Greenpeace has helped us to understand the alarming loss of ancient forests. Today just one-fifth of the world's original forest cover is left, and almost half of that forest cover is currently under threat. As a result, we no longer source any solid wood from natural intact forests unless the forests are certified by the Forest Stewardship Council. All this as a result of listening to someone who maybe sees more and knows more than we do, and learning from that.

So hopefully you can see how it's not just our business idea but also our values that support our work towards social and environmental responsibility.

And thirdly, and perhaps most importantly, the vision

We have a strong vision. "To create a better everyday life for the many people". This gives our work a meaning beyond profit. It is a main motivator for many of our co-workers and managers. And it is certainly a main motivation for me, why I work in this company. Our vision was initially meant for our customers only. But now it feels natural for us to extend it to include all our stakeholders - our customers, our own co-workers and society at large. Our vision and our job is to create a better everyday life for all these people.

"The IKEA WAY on purchasing home furnishing products"

So I've given you a little background to our thinking. But what do we actually do?

Well an important part of what we do is outlined in the document, "The IKEA WAY on purchasing home furnishing products", or I-way, as we call it.

The document is our code of conduct for our work with our suppliers. It defines our requirements regarding social and working conditions, child labour, environment and forestry.

It's only a three page document, but it took a huge effort to agree upon - countless meetings over the length of a year. We feel that the way a code like this is developed is as important as the content of it, so let me share with you some reflections on the process.

When putting the code of conduct together, we choose to involve many parts of the organisation in order to get a real sense of ownership and commitment. After all, these are issues that go to the core of our values. And as the meetings went on, it became clear that you saw these issues very differently depending on if you worked close to the suppliers or if you worked close to the end users. Emotions ran high and there were many heated discussions. It was lengthy and sometimes a little painful, but it was well worth it. Putting all differences on the

table and working through them has given us a strong platform that everyone owns across the company that we very much benefit from today.

The code of conduct we all agreed on states the minimum demands expected of a supplier, and it applies to all our suppliers. One set of standards for every supplier – an outcome only made possible by having all those meetings and heated debates.

Of course, demands are one thing, and having those demands met is quite another. So in order to ensure that our code is interpreted the same way by all involved it is supplemented by a second document, a working guideline that clarifies our policy.

The third and final document is a checklist of questions for our auditors to ask to ensure that the code of conduct is followed by the supplier.

So policy – clarification – checklist

Let me give you the example of child labour.

Our code of conduct states: "Suppliers must not make use of child labour". The guidelines clarify: "Suppliers must recognise the UN convention on the rights of the child. They must comply with all relevant laws and regulations applicable in their country. Suppliers must ensure that child labour doesn't occur at sub-suppliers. If found, corrective actions shall take the child's best interest into consideration." And finally the checklist asks for points of verification such as the age of the youngest worker, then gives procedures for how to verify this.

All our suppliers are audited by our purchase organisation. We then have a separate compliance organisation that reports directly to me and is responsible for ensuring that all auditing is done in the same way with the same quality. They train the auditors in the purchase organisation. They conduct their own control audits. They are responsible for the data base system and for collecting the results and summarising them at IKEA group level. In order to ensure objectivity we then use an external auditing organisation to control our working methods and results. So, check – double check – triple check.

Our code of conduct in its present form has been valid for little more than a year now, and already I feel we are making some good progress.

We have met every single one of our 2000 suppliers world-wide face to face to explain the code of conduct, to explain its consequences on their business and to discuss how we can work together to reach the standards we have asked for. We have asked the supplier to fill in a first step questionnaire - a self-assessment on how well they live up to our code. We have started to train our retail people so they're aware of the social and environmental issues. We have trained more than 1000 people directly or indirectly involved with the iway work, including auditors, who have so far audited 40% of our suppliers, where also an approved action plan has been put in place. We have chosen 3 independent auditors to do external verifications – PriceWaterhouse Coopers, KPMG and Intertech Testing System. And we also have set up an internal council at IKEA to solve any difficult

issues where a supplier cannot or will not comply. Initially I am chairing this council so I can learn a little more about the type of issues that come up. One learning here is that no issue is ever quite as clear-cut as you hope.

In auditing, we have found that some suppliers meet the conditions straightaway while others fall short, and for these suppliers we have drawn up action plans to help them meet the standards we ask. As a result, many suppliers have started to make changes, and in a way, this is the most rewarding part.

And the benefits are not all one-way. The suppliers make these changes, and sure, we gain, but so do they. Suppliers who manage these issues in a clear and committed way also experience long-term economic benefits. More motivated and satisfied workers, better product quality, clean and tidy production facilities, reduced energy and waste costs. Just to mention a few positive side effects.

Putting demands on our suppliers is one thing. But we must be prepared to improve the situation with our own actions too. That is why we are presently working in India with UNICEF with school projects in 200 villages close to our suppliers. This is one way to get to the root cause of child labour. That is why we support World Resource Institute and Global Forest Watch in their project to identify intact natural forests all over the globe. That is why we work with WWF to develop sustainable forestry. That is why we contribute to the education of forestry experts in developing countries also.

But no matter what we at IKEA do, the real heroes in this are our suppliers. They are the ones who are up against poor functioning infrastructures and local governments, wars, famine and poor education. They are the ones that, in spite of this, manage to create world-class competitive production while implementing our social and environmental demands. They are the ones that will make the difference at the end of the day. And this is something we must recognise.

Conclusion

IKEA exists for a purpose. To create a better everyday life for the many people. And what's interesting is that this vision statement isn't compromised by an emphasis on social and environmental responsibility – in fact it's made richer. 'The many people' is now much wider.

But I'd like to emphasise that we are only at the beginning. The job in fact has no end – it needs to be an integral part of everything we do from now on, and we're not at that point yet.

But we have an awareness of, and commitment to, social and environmental responsibility across the company, which is a good and important foundation for increased levels of action in the future.

For that reason, I am optimistic about our work, and the contribution we can go on and make. And by working together with other companies, authorities and NGOs with the same attitude, I believe we can make a difference.



To conclude, let me get back to where we started. Can we make traditional business objectives and social and environmental responsibility work together to the benefit of all stakeholders?

I believe we must, and I believe we can.

Thank you.

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