

## **The integration of environmental responsibility in corporate strategy: the case of IKEA.**

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**Abstract.** The integration of social responsibility into corporate strategy ensures the competitiveness of companies in the 21st century zero impact market. Such strategy is based on the idea that the environment affects the organization of business. The aim of this work is intended to demonstrate how the assumption of environmentally friendly behaviors can ensure a positive economic impact for the company. The analysis will examine the behaviors and strategies of Swedish multinational IKEA through direct interview with top management, as well as through the analysis of the project “Tender”, implemented by the business area Logistics. This study will demonstrate the positive effects of environmental sensibility both in terms of business, traditionally understood, both in terms of redefinition of the internal production processes. One can see that company’s results are strictly related to the ability of IKEA to develop an approach based on the creation of synergies with suppliers and sub-suppliers.

**Keywords:** Responsibility, environment, logistic, strategy.

### **1. Introduction**

This work will demonstrate how the integration of social responsibility into corporate strategy is a factor of competitiveness in the market. Such an integration internalizes the positive externalities generated, achieving the full involvement of all stakeholders. A prime example of this is found in the world’s leading furnishing company IKEA. Widely regarded as one of excellence in the field of environmental responsibility, IKEA is a Swedish company which aims to make sustainable development the core business value. Among the company’s many activities, we will be examining IKEA’s transportation infrastructure; as it has the greatest impact on the environment.

The quantitatively increasing scarcity of natural resources, dwindling due to rapid population growth, has made sustainable development the common objective for contemporary economics and politics. Reducing the environmental impact through the reduction of CO<sub>2</sub> emission is the long-term challenge that the Swedish multinational intends to accept, on the basis of the most advanced contributions of social responsibility.

### **2. From the stockholder to the stakeholder: corporate social responsibility**

Given the changing nature of the economic system and the different corporate approaches necessary for a more efficient relocation on the market by business realities, we have been recording a lively debate on the role of companies in society with the confidence that a static view of their work in the economy of the planet is no longer sustainable from neither a logical point of view nor a productive and environmental one. One can see that business success is the natural outcome of a social and economic process of interception of market instances (Rinella, 2011). No longer understood within the confines of the simple relationship manufacturer-end user, business success is widely representative of a social reality in search of products and

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services that meet environmental, social, and ethical needs beyond the traditional material usefulness. Accepting this change means that companies have to rewrite their missions so as to be routed on dynamic binary, which has been more challenging than in the recent past. They have to be willing to accept the role of business as a testing ground for productive new socially responsible strategies. During this period of profound change in the paradigm of production, many companies are faced with the attempt to shape the so-called Corporate Social Responsibility (CSR). Based on the theory of the stakeholder view, D'Orazio describes it as a management approach aimed to integrate an "ethical judgments in everyday business decisions" (2003). Far from being a purely philanthropic exercise, this approach is based on the idea that the main objective of the company is to meet the primary stakeholders. It asserts that one must at first respect their moral rights, increasing and in some ways overcoming the stockholders perspective that the only company only respects the investors' property rights (Caroli, Tantalò, 2009). Even before contextualizing the alleged social purpose enterprises, it seems only right to highlight how the debate between these two schools of thought is closely linked to the recognition, or lack thereof, of a primacy for investors' property rights over the power of stakeholders to influence and direct decision makers towards more congenial positions to the needs of the market. In his article "The social responsibility of business is to increase its profits", M. Friedman oversimplifies this position on several occasions (1970). This tends to limit the CSRs of enterprises in that their ability to generate profits and ensure a minimal assumption of commitments to the market is almost exclusively limited to the creation of economic prosperity, on whose target and entity could be advanced much criticism. Although the idea that the management of a company is legally responsible primarily for investors is conceptually shared, we can't exempt those who manage the company from a series of obligations to all those who participate in various ways to the life of the business (Evan, Freeman, 1984).

Defining the limits of one's actions is of fundamental importance for so as to inspire a management through a principled synthesis equity and efficiency. Such a realistic definition of limitations strategically creates an appropriate approach to the evaluation of the company performance (Caroli and Tantalò, 2009). In establishing its responsibilities, it is therefore necessary to ask specifically how, and to what extent, the company has to intervene. The implementation of best practices aimed at accomplishing the project we have identified generically as Corporate Social Responsibility is inspired by the basic principle of the company as represented by the dynamic economic environment in which it operates. We therefore need to reconcile the three phases of "social responsibility":

- Social responsibility;
- Social responsiveness;
- Evaluation of social performances (Preston, 1975; Carroll, 1979).

So, this principle supports the already partially evidenced attempt by Wartick and Cochran in 1985 to emphasize the "interaction between the principles of social responsibility, processes of social responsiveness and social policies and programs developed to address social problems" (M. Clarkson, 1995). Once individual responsibilities of corporations are identified, the need to engage in strategic business processes is based not on the mere passive acceptance of responsibility, but on the real proactiveness, understood as the ability to anticipate and exploit them to their advantage (Wood, 1991).

In this positively unstable scenario, the responsibilities of businesses tend to assume a rather complex configuration. On the one hand, environmental, social, and ethical concerns external to this configuration require a revision of certain well-established paradigms in business practice. While the same lead to the creation of a regional economic-productive system that is not only a response to external stimuli, but which might also serve as a stimulus for all the other actors who are involved to varying degrees in this general process of accountability.

Companies with both a strong vocation to create synergies with stakeholders, and who anticipate change, are equipped with ethical codes that are increasingly being promoted in sharing to their employees (Airoldi, Brunetti, Coda, 2005).

If sacrifices that companies ask their customers are limited or easy to implement in the light of an exclusively voluntary-based commitment, then, according to the typical logic of green public procurement, the suppliers' goal assumes very strict and positively discriminating outlines. There is no doubt about the

importance of a company policy based on preliminary analysis of its impacts on the surrounding environment. On the basis of its position along the production chain and its proactive power on stakeholders, forward-thinking companies plan their own programs of social responsibility concentrating on either the single moment that turns out to be more important, or the entire production phase. The initiatives to be implemented begin operating where the improvement margins manifest in a clear and sensitive way and are naturally extended to those who, although not part of the business reality itself, participate in this segment of the production. In agreement with the assumption that there are different formulations of CSR, the choice becomes weighted by a cost-benefit analysis tool in the traditional form of a matrix known as "social relevance / convenience business" (Molteni, Todisco, 2008). The planning of a CSR strategy does not consist simply of a check of the different components of the cost or benefits arising from the process of integrating ethical obligations within the business programs. One has to evaluate the various initiatives in light of the business convenience for the company and the benefits generated for the various stakeholder groups. If the use of the traditional cost-benefit analysis has a considerable importance on the result of the convenience business, then the assessment of the social relevance of the action is the synthesis of three orders of evaluation: the significance reported by management, the importance reported by stakeholders, and finally the relevance arising from the prevalence of a certain practice in context. The different paths that management can take range naturally from softer and somewhat poorly formalized approaches, to processes of integration of CSR into corporate strategy.

The factor of increased competitiveness for 21<sup>st</sup> century companies is the ability to offer a *zero impact* product on the market. Those who can come close to this standard inevitably captures the benefits of the communion of productive rationalization with the assumption of ethical commitments. They, in turn, fully exploit the enormous potentials of environmental marketing. As stated by Martucci and Schirone in their 2011 paper; "the adoption of more expensive industrial strategies, as more attention to environmental protection, doesn't have precluded the achievement of the economic business' target" in the case-study of IKEA.

### **3. Transport: Strategy and environmental impact**

IKEA's transport operates in many countries on all of the continents. It has become an aspect of the company that assumed strategic importance ever since the publication of the work which gathers clear statements on the subject entitled "Movies in the Right Direction" (1996). Together with factors such as flexibility, cost, and identification of suppliers and subcontractors, the environmental issue has become part of the fundamental criteria for the selection of the best mode of transport for the company. The sensitivity of this argument is clear also from the fact that in 1997, IKEA created a program seeking to make their transportation more efficient and more environmentally friendly entitled: "IKEA, transport and the environment". In order to limit the pollution caused by the movement of customers, a first concrete action was the correct placement of megastores in the design stage. Strategic placement shortens the overall route travelled (Martucci, Schirone, Servodio, 2011). Still, a second operation to curb pollution and cut the cost of transport, is the use of flat packs. One of the most significant insights of business logistics, flat packs allow the optimization of the available space on public transport, preferring the more controlled rate of filling for the means of transport. The ambition of the Swedish multinational is two-fold. Not only does IKEA promise to reduce CO<sub>2</sub> emissions by intervening in the most influential business areas, but also to attempt to create synergies with stakeholders. More specifically, IKEA wants to create relationships with both suppliers and subcontractors involved in the transport sector. The conglomerate is confident in its ability to make a system containing an undisputed catalyst function for achieving the above objectives. Well-thought out strategy is a key component in IKEA's transport program. It is evident that in several elements of that program which are not properly linked to transport; the primary objective of reducing CO<sub>2</sub> emissions passes through a series of ancillary initiatives.

Secondly, the company focuses its attention on the internal company element most relevant in terms of environmental impact: transportation. Thanks to the autonomy of choice that the company has implemented in its strategic plan, one can understand the reason why Swedish multinational interventions have focused primarily on the transport sector. The matrix "Social Relevance / Convenience Business" proposed by

Molteni and Todisco (2008) demonstrates this idea, asserting that the act of reducing the environmental impact of transport is not only the most desirable from an environmental point of view, but also the most convenient in both economic and business terms. Therefore, this justifies IKEA's need to expand and share their own ethics and environmental code with their suppliers. Serving over 170 carriers around the world, in 2001 IKEA started asking their suppliers to meet certain requirements. For example, IKEA recommended they update transport vehicles to more modern models. They also required a switch to less polluting fuels as well as the establishment of environmental protection policies and action plans to control pollution. Each year, all providers and carriers must complete a self assessment checklist of their environmental performances; the so-called Environmental Performance Sheet. Suppliers engage, year by year, in improving their positions. They most commonly renew the fleets and change the type of fuel used by their companies. All this is formalized through the IWAY Code of Conduct (IKEA Way on Purchasing Home Furnishing), introduced in 2000, which requires different performance standards concerning not only the protection of the environment.

The firm's objective is intended to satisfy two important conditions; cost reduction and the reduction of CO<sub>2</sub> emissions.

The goal of reduction of harmful emissions promoted by the IWAY code of conduct for the transport, is 190gr/km by 2010 and 160 g / km by 2015. These objectives are particularly challenging and are set for very different types of transport. So the first step that the company wants to do is to take a realistic approach to the situation. They must map the media type (emissions g / km depended upon) and consider also the average mileage of each half in a day. The suppliers' ability to optimize the speed of delivery to minimize toxic emissions plays a very important role in this phase of the transport. Starting in April of 2011, the first analysis showed an average number of trips that develop about 220 km with emissions g / km that are around about 200 g / km. The aim is to establish a baseline on which to set the medium and long term goals, that is both concrete and achievable as well as consistent with the business. One can see that these objectives will be achieved if they are fully subject to the synergies with the suppliers, the subcontractors, and remains in accordance with the principle that the implementation of an inter-company system significantly increases the real possibility of achieving expectations. Looking at the IKEA's profile, the draft revision of the transport system can be placed on the right side of the matrix. Demonstrating the high convenience for a firm, the redefinition of one of the more interesting areas is in terms of strategic importance. This observation is justified by the fact that in recent years, IKEA has launched a series of policies aimed not only to stabilize the flow of goods in and out by megastores using the above method of loading of couriers through the "flat packs"; but also to streamline the flow of customers and co-workers in general. These insights, in some ways already well established in business, have not only allowed to reduce costs strictly related to the loading and unloading of goods , but have allowed to cut significantly the emissions of carbon dioxide. With the corresponding increase in the percentage of carriers filling and raising the threshold of capacity utilization resources, comes the decrease in the number of actual distance traveled in meeting the delivery obligations. The ambition of the Scandinavian multinational has gone far beyond the achievement of these results. So that at the logistical level, the paths of gradual improvement continue to be routed as demonstrated by *Project Tender*. The main goal of the project is found in an interview with top managers of IKEA's Italy *Distribution*. The suppliers' research has been conducted by IKEA both within and outside of the national territory. They have the skills and the structure to manage businesses related to transport at competitive prices, though not at just any cost. There are many barriers to entry consisting of the presentation of accurate and proven documentation, showing a series of requirements that IKEA considers essential: - Acceptance of all regulations on subcontracting; - Acceptance and commitment to maintain the standard I-way; - Definition of a concrete policy of CO<sub>2</sub> reduction and presentation of a plan to develop eco-friendly business. The *ratio* behind this new project supports the idea that, assuming the proper responsibilities, the cooperation with IKEA suppliers has a propulsive force able to strengthen the evidence already obtained and uses channels that would otherwise be extremely difficult to explore. The search for partners who can meet the above requirements was recently put in place through regular tender. The participating companies bid to supply not only a single store, but many stores, geographically close to one another. This not only ensures the strategic logistical organization of the transport system, but will also pay off for these contractors in

financially. This is because of the greater commitment necessary to satisfy the afore mentioned requirements. IKEA's intuition was not so much to involve some vendors in this program, but more so to formalize this synergy through the sharing of a ethical code. A code whose purpose is not only practical in terms of production, but also symbolic of the ability of the Swedish corporation to use its brand as a means to ensure the work of all those with whom it collaborates.

The choice of this working method is the direct result of a cost-benefit analysis. It has been conducted by IKEA on potentially suitable alternatives to achieve the desired result.

A possible alternative would have been to invest in multiplying the distribution platforms within the territory, in order to reduce the distance between the store and these platforms. The economic consequences would have clearly been disadvantageous because of the high cost of implementation and start up of new structures. This approach would have downgraded the beneficial effects of systemic collaboration with stakeholders.

Only the sharing of the IWAY code of conduct would provide results both qualitatively and quantitatively measurable from an environmental perspective. Thus, the Swedish multinational considered synergistic collaboration with suppliers and subcontractors the choice the most effective in reaching a significant result from the environmental and economic point of view. As evidence of the commitment of the reduction of CO<sub>2</sub> emissions, the company has steadily, over a period of time, given birth to numerous initiatives experimented in different stores in Italy. This initiative has obtained results in line with management expectations.

The result of these actions, combined with the strategies employed in transport, has given rise to a path of CO<sub>2</sub> emission reduction that has been consistent over time. In particular, the optimization of space on the carriers, as well as the distribution of different types of transport, has had a significant impact on the results obtained. In 2010 there was a decrease from seventy five to sixty five percent in the use of road transport, as compared to an increase of rail from ten up to twelve percent.

The emission of CO<sub>2</sub> for the Italian stores in the 2009 fiscal year (FY), was 8,604.41 tons. This is 784 more than the previous year; a figure that clearly shows growth of about 12,382 tons for the 2010 FY. This data is in contrast with the analysis since the trend of reduction in CO<sub>2</sub> emissions is positive, but we have to take into consideration the adjustment due to the impact of the new openings of Salerno, San Giuliano Milanese and Villesse.

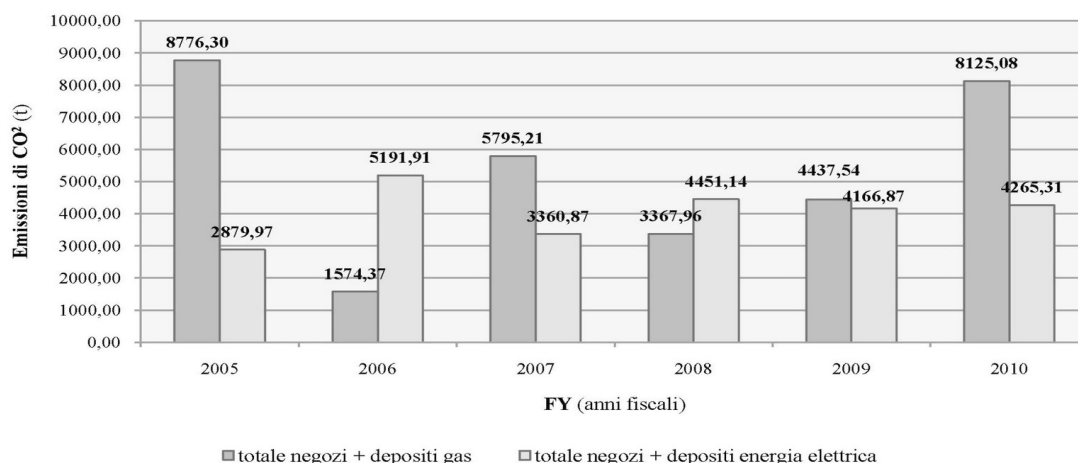


Fig. 1: Direct emissions calculated in tons of CO<sub>2</sub> (fiscal years 2000-2010).

Given the above data, the social significance of the IKEA's strategy seems to conquer space at the top right of the matrix. This is where "socio-environmental orientation and tension to the competitiveness and profitability are combined synergistically" (Molteni, Todisco, 2008). It is likely that *Project Tender* will serve to strengthen the favoured position.

#### 4. Conclusions

The environment affects the organization of business, several ways of which include the scarcity of resources, the socio-demographic context, and the presence of competitors. This has the direct consequence that companies are required to elaborate well-defined projects in the planning and construction of the plants. This process requires the minimization of environmental impact through timely and efficient production techniques, raising the external environment.

For a proper understanding of management's business, it is necessary that promotion of environmental protection consists not only towards the reduction of toxic substance emissions. This must be completed while also using appropriate processes and creating synergies with suppliers and sub-suppliers. This entire theory is not easy to quantify; as the sustainable culture, adopted by the Swedish multinational, has had an impact on economic results.

In the crucial year of the recent crisis, ie in 2009, IKEA has made profits for 2.58 billion euros. Along with data concerning business volume (23.1 billion euros, an increase of 7.7% over fiscal year 2009), this statement about profits asserts that IKEA's objective is achieved despite the use of the more costly industrial strategies. The attainment of this goal is because of the cautionary atmosphere taken towards environmental protection.

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