



IKEA AND THE NATURAL STEP

Teaching Note

Synopsis and Objectives

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

Permission to reprint this case is available at the BELL case store. Additional information on the Case Series, BELL, and WRI is available at: www.BELLinnovation.org.

In the fall of 1995, Jan Kjellman formally took over the reins of IKEA's North American operations from Goran Carstedt, who had been promoted to take responsibility for IKEA's worldwide marketing and all European retail stores. Kjellman inherited a partially implemented strategy to incorporate the parent organization's environmental policy into all operations and extend it into the firm's network of suppliers. The case describes the company's growth, entrepreneurial culture, and the upcoming challenge to the furniture-retailing industry's practices.

IKEA is the world's leading furniture retailer and has set new standards for competitiveness in household furnishings. The company has achieved this position by redefining the roles and interactions between the firm and its customers and suppliers. Since 1991, corporate policies about the company's impact on the natural environment have been integrated into the parent organization. Carstedt extended this strategy into the North American subsidiary. Concepts guiding this strategy had their origins in an alliance IKEA formed with an environmental educational foundation in Stockholm, Sweden, called The Natural Step.

This case can serve a number of educational purposes, depending on the emphasis in discussion and the guidelines for student preparation. This note deals primarily with teaching the case in a course that highlights environmental concerns in business and the links between (1) leading through values and (2) achieving innovation and competitive advantage in turbulent environments. Students should discuss the differences between North American and European markets in environmental awareness and definitions of corporate responsibility. This conversation will help them better understand why IKEA's environmental policies were significantly motivated by Scandinavian and European environmental regulations and consumer concerns. In addition, the principles of The Natural Step adopted and expanded upon by IKEA are a dramatic departure from typical U.S. corporate reactions to regulations and environmental pressures, which tend to be adversarial and defensive. IKEA's success at turning environmental issues into competitive opportunities internationally offers students the chance to discuss creative responses to government policy and explore the possibilities for corporate innovation when values, culture, and competitive strategy are aligned.

IKEA's entrepreneurial initiatives in its industry need highlighting as well, which means that the case could also be used in a course on corporate entrepreneurship. The firm's progressive environmental policies can be framed within the well-established leadership role IKEA has forged in household-goods retailing. IKEA is an example of a large, yet highly entrepreneurial firm, and the case offers insights into how large companies can center entrepreneurial innovation and change on environmental issues.

Another area of pedagogical emphasis is IKEA's use of supplier relationships to enhance its environmental positioning and to generate environmentally responsible product designs. Discussion of the firm's ability to work through networks of suppliers to improve competitiveness and innovation could also be useful in a course on strategy or supplier alliances.

Finally, IKEA's reliance on the Swedish organization, The Natural Step, illustrates a new approach in corporate environmental and strategic thinking toward the formation of alliances. Although final assessments of IKEA's expansion into North America are not available, the case illustrates a seemingly practical, economically beneficial approach to these issues that holds the potential for significantly enhancing the company's future competitiveness.

Suggested Questions for Advance Assignment to Students

1. *What is the role of environmental issues in local and global corporate competitive contexts?*

This question sets the tone and generally raises student awareness of the range, nature, and severity of environmental concerns in business today. Asking executives the question generates a list of issues that can be put on the board, ranging from recycling paper to closing plants because of toxic-water effluent. With MBA students, who for the most part are more attuned to environmental issues than previous generations, the question can be posed as, What issues have companies you've worked for been concerned about? What do you personally think are the most critical environmental issues for business? A consensus likely to emerge is that environmental issues are of increasing competitive concern to companies because of a combination of (1) local and national policies and regulations, (2) consumer-demand shifts, (3) production efficiencies achievable through material reuse/recycling/substitution, and (4) aggressive players innovating to achieve competitive advantage through environmental responsibility. Note that there will always be individuals who question the seriousness of environmental concerns and want to debate the scientific evidence in support of a particular position (for example, on acid rain or ozone depletion). The points of this introductory discussion are to highlight the very real existence of

environmental issues for business and to get students to acknowledge that these concerns are not going away and are likely to become more important agenda items for companies in the future. Try to avoid having students engage in debate about the precise threat in particular environmental arenas. Instead, steer toward the general issues of public health, regulation, and concerns about clean air, water, and land use (e.g., waste disposal). This tack allows the discussion to focus on the strength of the case: one company's creative response to the uncertainties of environmental degradation and regulation.

2. *Why and how has IKEA been successful to date?*

Students need to think through IKEA's retailing strategy and assess it as a challenge to traditional household-goods retailing and even retailing in general. Obvious answers, such as good quality at a low cost and store convenience, will ultimately give way to students' observation that this firm operates as a system using nontraditional relationships with customers and suppliers. By redefining the customer and supplier roles, IKEA maintains low costs. Customers' behavior had to be changed from expecting showroom floor assistance, delays before items were delivered, and locations in cities or suburban shopping centers to traveling to stores off major highways, purchasing furniture in huge warehouse-like stores with few salespeople, carrying the furniture home in boxes, and assembling it themselves. The catalog assists consumers, explains their new role, and states why they win in this new division of labor. The stores are equipped with restaurants, strollers, child care facilities, measuring tape, and paper to help the consumer look over household products and furniture, which are brightly lit, well marked, and arranged as attractively as they would be in the home. Customers pick up the flat boxes containing furniture and, if necessary, rent or buy at cost a roof rack provided by IKEA to get their products home easily.

At the same time that customers have been asked to play a different role in the stores, suppliers have played a critical role in making the system work, because few of IKEA's products are made in-house and product components may have been provided by several different suppliers. IKEA works closely with suppliers, giving technical assistance on manufacturing to keep quality standards up as it keeps costs down. Suppliers become part of a worldwide system of IKEA-linked players, connected to new markets with high product quality and production sophistication. This network of interactions and relationships, with IKEA at the central node, departs from industry norms. It is IKEA's entrepreneurial contribution, in addition to its equally entrepreneurial environmental policies, that sets it apart as an innovator.¹

3. *What is IKEA's environmental strategy? How did the firm use The Natural Step to develop, communicate, and implement this strategy?*

Students should be pushed to describe IKEA's strategy at the higher corporate level *and* the program and operational levels. At the corporate level, IKEA derived its strategy from The Natural Step's system conditions. Make sure students understand these conditions and can talk about their far-reaching implications for product design and company operations. Note that this policy influences every aspect of the firm's retail operations and supplier network. Be sure to draw out that IKEA's progressive strategy is both consistent with its corporate culture and grew from the firm's competition in European markets, where environmental regulations are much tougher and consumer demand for corporate environmental responsibility is higher than in the United States. IKEA has used its ability to innovate through its own designers and suppliers to meet, exceed, and even use as competitive leverage these stringent regulatory requirements. This phenomenon is obvious in Scandinavian and European markets, but someone may

¹ Note the discussion of IKEA's innovative approach in *From Value Chain to Value Constellation: Designing Interactive Strategy*, by Richard Normann and Rafael Ramieriz, *Harvard Business Review* (July-August 1993).

note correctly that with the inevitable rise of consumer awareness and stricter regulatory requirements in the United States and Canada, IKEA's strategy is likely to position the company well as it expands its retail stores in this market.

The question of how and why IKEA took this stance offers the opportunity to discuss how its history of frugality and efficiency, combined with the Swedish heritage of environmental concern, enabled the company to respond affirmatively to the pressures of regulations and public sentiment. When considering IKEA, one is drawn to the ideas presented in *Built to Last*.² Collins and Porras argue that core values separate the innovative, ethical, and most successful large firms from their less accomplished competitors. IKEA's rich history and core values would appear to offer another example of competitive excellence combined with ethical and social responsibility.

A second part of this discussion is the step IKEA took to reach out to The Natural Step to find a new, pragmatic, effective way of treating environmental issues (note that through its alliance with Greenpeace, IKEA had already shown a willingness to be open to inquiry about its basic operations). This relationship began several years ago, and although IKEA has based its educational process on the system conditions, it continues to contact The Natural Step whenever that organization can be of assistance.

4. *What are IKEA's core values regarding organization and corporate culture? How do they influence the company's behavior and employee actions?*

This question enables the class to move to the implications of IKEA's environmental policies for individual and organizational behavior. Students may want to highlight IKEA's flat organization, its decentralized decision-making process, and the autonomy of employees to carve out their own jobs and careers within the broad guidelines of policy and culture. This organizational environment encourages initiative and leadership from all levels of the company. People who need more structure and direction are not likely to stay with IKEA for long. As a consequence, the people who do stay are entrepreneurial leaders and are encouraged to develop their talents along these lines.

5. *How is leadership viewed at IKEA?*

This question merges with number 3 above. Depending on the class purpose, the instructor can take this opportunity to talk about the changing character of leadership in companies that have rejected the traditional post-World War II hierarchical culture and practices. Carstedt describes his role as facilitator, coach, supporter, and enabler. He sees himself as the tip of an upside-down pyramid that has the consumer at the top, the retail stores and suppliers in the middle, and a very small number of managers at the bottom, where the pyramid narrows to his position as head of North American operations.

Discussion at this point should not veer too far from IKEA's strong emphasis on containing costs and reducing costs continuously to provide the best product at the lowest price to the consumer. IKEA is not a feel-good place to work, though people who work there say they would not trade their jobs for ones in traditional American companies. Control in this company comes from tight cost and quality requirements and with a culture that reinforces those requirements through values such as hard work, efficiency, and individual responsibility. IKEA is a good example of the tight/loose organization: tight around core values and competitive economics, loose around individual creativity and entrepreneurial initiative. Leadership in this context cannot be discussed using the same conceptual frame with which leadership

² James C. Collins and Jerry I. Porras, *Built to Last*, (New York: Harpers Collins, 1994).

has been taught and understood in the past.

6. *What is the role of supplier relationships in IKEA's strategy?*

In many ways, this question gets at the heart of IKEA's competitiveness and its ability to be innovative. IKEA makes very few products internally and relies almost totally on its network of hundreds of suppliers. These collaborative long-term partnerships with suppliers are rooted deeply in IKEA's corporate history, and the character of these ties has become part of the culture. It is through the suppliers that IKEA has been able to make innovative designs featuring environmentally responsible materials and an efficient use of resources and translate them into bottom-line results. The key suppliers, in turn, use links with IKEA as vehicles to stay innovative, because innovation is the only choice if the supplier wants to retain this powerful buyer; IKEA is powerful enough to be coercive, and "the giant" is not to be dismissed easily.

Another aspect to consider in this case is a process that starts with regulation, which has prompted IKEA to work with key suppliers to meet the new requirements (pushing them to do so at equivalent or minimally increased costs). They develop a higher-quality product, which motivates IKEA's competitors to match the design and materials innovations as well as the economic efficiencies. Meanwhile, the supplier's improved skills and capacities make it more competitive, enabling it to expand its business with old and new buyers. Consequently, the industry is stimulated to match and exceed the IKEA example, the natural environment wins because waste or pollution is reduced or eliminated, and the customer benefits by being able to purchase a better-quality product. Students should emerge from the discussion with a sense of how IKEA illustrates the ripple effects through markets, industries, and societies of innovation around environmental concerns (and IKEA is not an isolated example, merely an illuminating one).

7. *Project into the future five to ten years. What should IKEA do to remain a strong global competitor in its markets?*

The last question offers the class the opportunity to stand back and reflect on the big picture of IKEA's history, culture, competitive positioning, etc. IKEA is still at an early stage of expansion in North American markets. Market prices for recycled materials and landfill costs are still low enough in many places to discourage even IKEA stores from pursuing resource-efficiency programs like Trash Is Cash. If students believe these markets will not evolve quickly enough or environmental issues will not receive the same attention in the short run on this continent as they have in Europe, they may argue that this strategy will not work. Other voices will see IKEA's strategy as a long-term one that positions the company to dominate its markets worldwide within 10-15 years. Efficiencies and strategic changes resulting from the application of systems principles may enable IKEA to improve its competitive position continuously. If these characteristics are combined with values and nontraditional leadership, IKEA may represent an organization striving as hard as any other to be the learning organization about which so much is written. Certainly, the case lends itself to rich speculation about IKEA's prospects and offers a strong case for predicting continued competitive success.