

SUSTAINABILITY AT IKEA

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ABSTRACT

IKEA has its roots in Småland, historically one of Sweden's poorest regions, so hard work and economizing with resources have always been part of our heritage. We've been making a lot out of very little for more than 60 years.

Based on a deep knowledge of people's lives at home, IKEA offers good quality, durable and functional home furnishing products for everyday life today. We are completely committed to our vision to create a better everyday life for the many people.

This commitment extends to our suppliers and all who work for them.

The IKEA Way on Purchasing Products, Materials and Services (IWAY*) is the IKEA Supplier Code of Conduct. It states the IKEA minimum requirements relating to the Environment and Social & Working Conditions, including the prevention of child labour. IWAY and all of its activities are dependent upon co-operation, mutual trust and respect between the supplier and IKEA.

Initially, flat packs and smart ways of transport were invented to save money. Over the years, we have learnt that saving money and the environment usually go hand in hand and rarely conflict with each other. During the past 10 to 15 years, we have developed our Sustainability Program where we work on responsible forestry, water treatment, cotton grown in a more sustainable way and many more projects, together with partners such as WWF.* Current IKEA social projects in partnership with UNICEF, UNDP and Save the Children will have benefited 100 million children by the end of 2015.

This includes a lot more than just providing a great home furnishing offer. It is also about taking social and environmental responsibility towards IKEA customers, co-workers and the people who produce our products. The decision to integrate sustainability in all IKEA business strategies is a milestone for our continued work towards becoming a sustainable company.

KEYWORDS

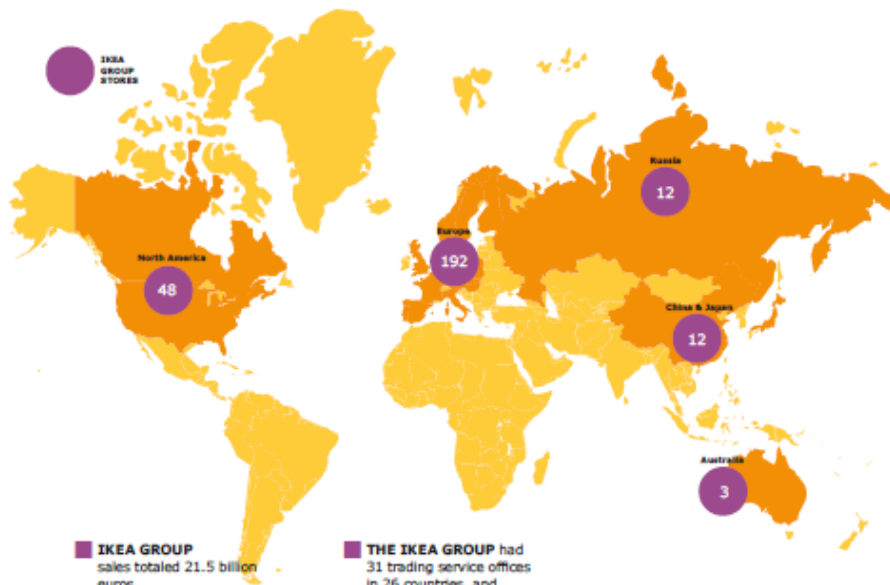
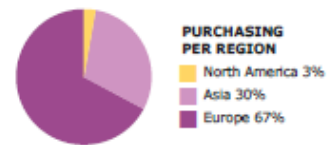
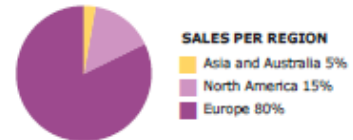
A better everyday life for the many people, Low price but not at any price, IWAY, IKEA - a sustainable company, The Never Ending Job.

IKEA AT A GLANCE*

* FINANCIAL YEAR 2009 (1 September 2008 to 31 August 2009)

THE IKEA GROUP opened 15 new stores last year and in August 2009 had 267 stores, which welcomed a total of 590 million visitors during the year. A further 34 stores are owned and run by franchisees outside the IKEA Group.

For an up-to-date list of all IKEA Group stores, please visit: www.ikea.com



IKEA GROUP sales totaled 21.5 billion euros.

IKEA FOOD SERVICES reported sales of 1.03 billion euros.

IKEA SUPPLIERS numbered 1,220 in 54 countries.

THE IKEA GROUP had 31 trading service offices in 26 countries, and 28 distribution centres and 11 customer distribution centres in 16 countries.

THE SWEDWOOD GROUP, the IKEA industrial group had 15,000 co-workers and 46 production units.

Sales 1999-2009 (in billions of euros)

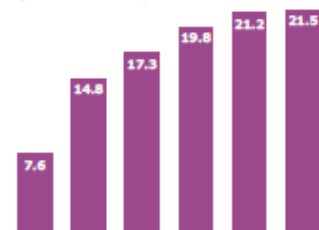


Figure 1. IKEA at a glance financial year 2009.

1. ALL STRATEGIES TO INCLUDE SUSTAINABILITY

IKEA sees taking responsibility for people and the environment as a condition for doing good business. We want sustainability to be a natural part of everyday work at IKEA, and this is why one of four main points in the overall long-term direction for the IKEA Group, “Growing IKEA – together”, is that sustainability must be an integrated part of our business. We see the decision to integrate goals with KPIs for sustainability into each and every one of IKEA business strategies as a milestone that will help IKEA move forward in the right direction FY10-15. The global input to the regional, national and local business strategies that are to be developed focuses on a handful of areas:

IKEA wants to:

- Offer solutions and know-how that help customers live a more sustainable life at home,
- use natural resources in a sustainable manner within the entire value chain,
- minimize the carbon footprint from all IKEA related operations,
- take social responsibility, and act as a good global and local citizen,
- be transparent to all stakeholders, and communicate more to customers and co-workers.

1.1 Sustainability is part of our vision, and a never ending job

Making improvements for a better and a more sustainable company is a never ending job. There is always more work to be done, but we like to keep track of achievements, too. Progress in key areas is documented on an annual basis in this report. In addition, we have started to collate the many large and small improvements in the continuously updated “*Never Ending List*” on the web. (The entire list at www.ikea.com)

We want to communicate more to our customers and coworkers, and have introduced The “Never Ending List” internally as well as in the IKEA catalogue, IKEA stores, IKEA Family Live Magazine and on www.ikea.com at the start of FY10.

All IKEA co-workers have access to an e-learning tool to learn the basics of what IKEA is doing to become more sustainable, and how each and everyone can contribute.

2. LOW PRICE, BUT NOT AT ANY PRICE

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.

Throughout the years, we have been fortunate to attract highly skilled and motivated co-workers who have made IKEA one of the most successful home furnishing companies in the world. Togetherness is important. At IKEA, we can always get a helping hand from colleagues. We take responsibility, learn from our mistakes and share our experience and knowledge with each other. That's how we grow together – co-workers and suppliers. We have always avoided wasting resources – to be able to offer low prices; we need to have low costs. Keeping prices low is a cornerstone of the IKEA business idea, yet our low prices must not be at the expense of people or the environment.

IKEA is a signatory to the United Nation's Global Compact. We acknowledge the Global Compact's ten principles in the areas of human rights, labor, environment and anti-corruption, in the course of our operations.

To take responsibility is an integrated part of the way IKEA conducts business. We believe in doing more with less, being humble by listening to and learning from others and being fair and honest. Our values are togetherness, humbleness, simplicity and cost consciousness. The IKEA culture is key in defining how we integrate responsible and sustainable behavior throughout our organization. Every IKEA manager is responsible for including sustainability issues in the daily work within his or her area of responsibility. To support them, there are a number of social and environmental specialists covering a wide range of areas, such as chemical experts, forestry specialists, energy experts, code of conduct specialists and auditors. In addition, all IKEA stores and distribution centers have social and environmental co-coordinators who work with sustainability related training, working conditions, safety, waste management, and water and energy conservation.

2.1 Cooperation

IKEA cooperates with companies, trade unions, NGOs and organizations to develop and strengthen the impact of our work within the social and environmental field. By sharing experiences and learning from others we can accomplish more than we could have done by working on our own. IKEA works in partnership with UNICEF and Save the Children to strengthen children's rights, and with the global conservation organisation WWF on projects within forestry, cotton and climate change.

3. SUPPLIERS

We want to work with suppliers who take responsibility for people and the environment, and who want to grow and develop with IKEA. As part of our continuous work to improve conditions in the supply chain, we have since year 2000 implemented a code of conduct, IWAY, and joined an industry collaboration exploring the possibility of developing global supply chain standards.

3.1 The IKEA supply chain

IKEA has thousands of suppliers and service providers covering the wide range of products and services required for world-wide operations. In addition to the 1,220 suppliers of home furnishing products in the IKEA range, there are food product suppliers, goods transport service providers, and companies that provide IKEA with indirect services and materials.

In turn, most of these have a number of sub-suppliers. Our main focus has been on IKEA home furnishing suppliers, and on supporting them in taking responsibility for people and the environment. IKEA co-workers are often on-site at these suppliers, and we believe our close and long-term relationships with them have contributed to many improvements.

Over the past few years, IKEA has gradually increased its efforts to support developments also with the vast range of other suppliers and service providers.

Number of IKEA suppliers:

IKEA Home Furnishing suppliers 1,220

IKEA FOOD suppliers 97

IKEA Catalogue paper suppliers 18

IKEA Transport service providers 278

3.2 Close and long-term relationships

The supply chain is often long and complex with numerous sub-suppliers. Many IKEA home furnishing suppliers operate in developing countries that struggle with social and environmental challenges. We believe IKEA contributes to positive developments in the supply chain by being on site and conducting responsible business, and by cooperating with others, including companies, authorities, NGOs and other organizations.

IKEA strives to build long-term relationships with suppliers who share our values and want to grow and develop together with IKEA. Our focus is to motivate and support

suppliers to take more responsibility and ownership themselves, so that developments become sustainable and independent of IKEA presence.

4. THE CODE OF CONDUCT, IWAY

IWAY is the IKEA code of conduct, first introduced in 2000.

It specifies the requirements that we place on suppliers of products and services and details what they can expect in return from IKEA. In addition to the main document, there are several industry-specific supplements and a special code of conduct for child labor. IKEA suppliers are responsible for communicating the content of the IKEA code of conduct to their employees and sub-suppliers.

IWAY specifies the requirements that we place on suppliers of products and services. Suppliers are responsible for communicating the content of the IKEA code of conduct to their employees and sub-suppliers. Below is a summary of some of the key points of IWAY.

Legal compliance

The IKEA supplier shall always comply with the most demanding requirements whether they are relevant applicable laws or IKEA IWAY specific requirements.

Start -up requirements

The following criteria need to be fulfilled before starting up a business relationship with IKEA:

- no child labour,
- no forced or bonded labour,
- no severe environmental pollution,
- no severe safety hazards,
- a transparent and reliable system for records of working hours and wages,
- insurance covering medical treatment for work related accidents to all workers.

Environmental standards

Suppliers shall have plans in place to reduce the environmental impacts from their production and operations.

Suppliers must:

- work to reduce energy consumption,
- prevent pollution to air, ground and water,

- handle, store and dispose of chemicals and hazardous waste in an environmentally safe manner
- ensure that workers handling chemicals and hazardous waste have the right competence and are adequately trained.

Social and working conditions

IKEA expects its suppliers to respect fundamental human rights, and to treat their workers fairly and with respect.

Suppliers must:

- provide a healthy and safe working environment
- provide health and safety training for workers
- ensure their buildings are safe, have reasonable privacy, are quiet and have facilities for personal hygiene, in those instances where housing facilities are provided,
- pay at least the minimum legal wage and compensate for overtime,
- base overtime on voluntary agreements, not exceeding legal limits,
- allow time off and regular breaks,
- not discriminate on any basis,
- not prevent workers from exercising collective bargaining activities,
- not accept corporal punishment, threats of violence or other forms of mental or physical coercion.

4.1 The IKEA way on preventing child labour

IKEA does not accept child labour and works actively to prevent it. All IKEA suppliers and sub-contractors must comply with a special code of conduct on child labour, The IKEA Way on Preventing Child Labour. It has been established in order to make the IKEA position on child labour clear to suppliers, their sub-contractors and their employees, as well as to other relevant parties. All actions taken shall be in the best interest of the child. IKEA inspectors conduct regular audits to ensure that there are no children working on home furnishing supplier's premises all over the world. In addition, KPMG, a third-party auditor, conducts unannounced random checks at suppliers and their sub contractors in India with special emphasis on child labour.

4.2 IKEA does not accept corruption in any form

IKEA does not accept corruption in any form, whether direct or indirect, and works proactively to prevent it. We clarify our position to suppliers through a vendor letter, signed by the supplier and an IKEA representative. We have a corruption policy, Rules of Prevention of Corruption, and an investigation policy which describes how co-workers should proceed if they suspect fraud, corruption, theft and other illegal behavior. Firm policies and continuous training together with a strong corporate culture, helps to minimize the risk of illegal behavior in the IKEA organization.

5. SOLUTIONS FOR A MORE SUSTAINABLE LIFE AT HOME

IKEA wants to offer solutions and know-how that enable our customers to live a more sustainable life at home by saving energy and water and minimizing household waste. At the same time, we are step-by step adopting a more systematic approach to developing resource-efficient products with a minimal environmental impact throughout the product's life-cycle. IKEA has decided to help customers take simple measures at home that contribute to a better environment and save on household expenses. We believe IKEA products can help customers adopt a more sustainable behaviour at home, and – as a collective of several hundred million people – reduce their overall climate impact. Working in partnership with WWF, our initial focus will be on solutions for kitchens, waste management and lighting.

Kitchen: Electricity, energy for heating and cooling together with water consumption all represent a significant environmental impact as well as a household expense. IKEA is looking to offer innovative technology for more energy efficient appliances and ways to cook and reduced water consumption.

Waste: IKEA also wants to help with smarter waste management in the home, and contribute to an overall reduction of household waste. We see great potential for improvements simply by making it easier to sort waste appropriately and to avoid unnecessary food waste.

Lighting: Lighting commonly accounts for almost 25 percent of electricity consumption in our customer's homes, and IKEA works actively to develop a more sustainable lighting range. Several new products have been introduced to the range with light source solutions based on three main energy-saving techniques; CFL (compact fluorescent lighting), halogen and LED (light-emitting-diode). IKEA will have phased out incandescent lighting from the range by 2010.

5.1 An innovative approach to making more from less

IKEA strives to use the least possible amount of resources to make the best possible products, and we work systematically to integrate sustainability into our product solutions. Using hollow legs on furniture and chipboard as filling are classic IKEA ways of saving on wood resources. We are also introducing new quality standards in cotton production to minimize the use of raw material and at the same time enhancing quality, and blending cotton with other materials to reduce cotton use.

Designers, product developers and technicians must consider safety, quality and environmental aspects from the initial design stage throughout the product's life cycle. They use a guiding document "Rules of Thumb" as a checklist for these aspects, and the "E-wheel" to understand and evaluate the environmental impact from products. The e-wheel has several checkpoints, divided into five phases; materials, manufacturing, distribution, use and end of life.

5.2 Minimizing waste through the value chain

IKEA has set clear goals to minimize the amount of waste generated in the manufacturing process, and if possible use it in the production of other products.

All IKEA stores and distribution centers recycle large quantities of material. This helps us to save resources and can result in considerable savings. Waste collected and recycled include cardboard, paper, plastic, wood, metal and glass. IKEA stores and distribution centers also work to minimize damage to products. However, when damage does occur, IKEA attempts to repair products rather than simply discard them.

5.3 Renewable and recycled materials

The main raw materials used in IKEA products are wood, cotton, and glass. The latter is recyclable, while wood and cotton are renewable materials. However, the way in which cotton and wood are grown has a large impact on how sustainable these materials are. This is why IKEA is committed to promoting and supporting responsible forestry and cotton cultivation in cooperation with WWF. Economising on resources is part and parcel of the IKEA approach to product development. It helps to save not only money, but the environment, too. We use no more material than is necessary. And we try to use as much renewable, reclaimed and recyclable material as possible. One good example is wood, one of our most important raw materials. Other renewable resources are cotton, bamboo, banana leaves and the natural fibre, lyocell. IKEA self-assembly furniture is easy to dismantle, too. That makes it simpler to recycle and reuse materials such as wood, plastic, metal and glass.

6. MATERIALS

6.1 Wood

Wood is an excellent choice from an environmental point of view, provided that it comes from responsibly managed forests. Wood is renewable, recyclable and biodegradable.

IKEA does not accept illegally felled wood or wood from intact natural forests. This is one of the basic conditions that IKEA imposes on suppliers of solid wood. Suppliers must be able to document the origin of their wood.

IKEA has its own forest specialists who work in the field, close to both suppliers and forests. Their most important task is to promote development towards more responsibly

managed forests by spreading information and knowledge. IKEA forest specialists work every day to increase understanding of the requirements IKEA has and ensure that these are met. They also trace batches of timber all the way back to their origins to check that they come from the forests the suppliers have stated.

Our long-term goal is to source all wood for IKEA products from forests certified as responsibly managed. At present, the Forest Stewardship Council (FSC) is the only forest certification standard supported by IKEA.

6.2 Cotton

Most cotton plantations use huge amounts of water, artificial fertilisers and pesticides. At IKEA we want the cotton in our products to come from more sustainable sources and are working actively to promote this.

Together with WWF we are training cotton farmers in Pakistan and India in Farmer Field Schools. Here farmers are taught more sustainable cotton production techniques, and learn how to make much more efficient use of water, essential pesticides and artificial fertilisers in ways that are safer for both people and the environment.

Reducing the use of resources also enables farmers to increase their income without increasing their output. And these new ways of working inspire other local farmers, too.

6.3 Water

Water is a valuable resource that is subject to growing concern, and IKEA wants to minimize its total water footprint. IKEA works actively on a number of water related issues, and will gradually adopt a more systematic and comprehensive approach in this area.

6.3.1 Reducing water consumption at IKEA

All IKEA stores and distribution centres have social and environmental co-ordinators who work with sustainability related training, working conditions, safety, waste management, and energy and water conservation. They measure water consumption in IKEA buildings, and several stores have implemented various measures to reduce consumption. For instance, IKEA France has waterless urinals in new stores and is retrofitting others with grey water systems so that roof run-off water can be used for toilet flushing.

6.3.2 Water treatment and consumption at suppliers

The IKEA code of conduct, IWAY, includes requirements on water treatment. IKEA supports suppliers to implement waste water treatment processes to ensure water quality in suppliers' local communities. Audits have proven good progress in Pakistan and Bangladesh, where IKEA has supported the implementation and maintenance of waste water treatment systems to ensure that capacity is proportional to waste water volumes.

All IKEA suppliers must have action plans on how to reduce water consumption, and IKEA supports suppliers in regions with scarce water resources. In India, we have helped suppliers improve water recycling and set targets for continued improvements.

6.3.3 Design to minimize water use in manufacturing

Product design can determine the amount of water needed in manufacturing, and IKEA has identified a number of techniques that could be used to reduce consumption. For example, a printing technique called Soft Pigment Printing (SPP) reduces the water consumption by 60% compared to traditional printing techniques. While the color quality is comparable to traditional printing methods, SPP is used for light -medium colors. Today, 40% of our printed textile products are produced with techniques that require less water, and there is good scope to further reduce water use simply by increasing the share of light and medium colored products in the range.

6.3.4 Sustainable water practices in cotton farming

The IKEA and WWF joint project for more sustainable cotton farming in India and Pakistan has reduced participating farmers' water consumption significantly through the introduction of better management practices. Cotton farming can be highly water intensive if appropriate irrigation methods are not in use, but project results show that water use can be halved. These better management practices are now being spread more widely as part of the joint project.

6.3.5 Helping customer save water at home

We have decided to develop the IKEA range to support IKEA customers live a more sustainable life at home by reducing their energy and water consumption, and help them save money at the same time. Most IKEA taps are already fitted with a Pressure Compensating Aerator (PCA) that can reduce water use by 30 percent or more by limiting the water pressure and adding air to the water flow, and we are constantly looking for other innovative techniques to support reduced household water usage.

REFERENCES

[1] IKEA Sustainability Report 2009, "People and the Environment" – edition june 2010, [2] "Welcome inside" Yearly Summary FY09 Comments FY09 & FY10 IKEA® Group.