

Extended Essay: Business and Management

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Given a fall in demand due to the current recession, should IKEA, Sweden, drop its Forestry and Wood corporate social responsibility practises?

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Word count: 3997

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Acknowledgement:

I would especially want to thank my supervisor Roni Hameiri for her supervision, support and quick feedback during the work on this essay.

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Abstract:

The aim of this essay was to answer the research question “Given a fall in demand due to the current recession, should IKEA, Sweden, drop its Forestry and Wood corporate social responsibility practises?”. In order to do so, I firstly identified how Sweden and IKEA has been affected by the recession, as well as found the ways in which IKEA protects the forests in its Forestry and Wood CSR-practises.

I based all research on secondary data, mainly up-to-date articles and company documents. Business theories and tools which I used for my analysis and evaluation were; the PEST-analysis to identify external influences; IKEA’s corporate culture to identify internal influences; and a power/interest matrix to find which stakeholder opinions are more important to take into consideration for a successful decision.

What I concluded from my analysis and evaluation was that IKEA’s most important stakeholders; customers and employees, will not resist a decision to drop the Forestry and Wood CSR-practises, especially not in the recession. However, criticism from the media, environmental pressure groups and the local community will to some extent affect the initial opinions of customers and employees, especially in the long-term when the recession is over. Therefore, I concluded that the decision will depend on whether IKEA should take a long-term or a short-term approach to the issue.

Based on my findings, my recommendation was for IKEA to make a decision upon the long-term implications and not quit their Forestry and Wood CSR-practises. I also outlined possibilities for improvement in relation to the limitations of my research and identified an unresolved issue.

Word count: 262

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Introduction: IKEA, the current economic situation and the significance of the topic

IKEA is the world's largest furnishing retailer; it is a private company which today has 262 stores in 24 countries¹. Also, in the Swedish National market, IKEA is the leader in its industry with a market share of 20%² and 17³ widespread stores. As stated on the IKEA-group homepage, its 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 can afford them". IKEA is constantly aiming to reduce price without the expense of quality⁴. From looking at IKEA's history, business idea and current position in the market, based on Porter's generic strategies, I found that IKEA has developed a cost leadership strategy.

Since September 2008, the world has moved into a recession and many businesses have suffered⁵. In Sweden, the Gross Domestic Product(GDP) in the first quarter of 2009 had fallen by 6.5% compared to the same time 2008, placing Sweden among the countries in Europe where GDP had fallen the most⁶. Statistics from *Statistics Sweden* showed the industry which suffered the second most from a fall in consumer spending is the furnishing industry, where it has fallen by 5.3% since last year⁷. IKEA's Chief Executive Officer(CEO) Anders Dahlvig predicted that fiscal year 2009 would be good with increasing sales as consumers were looking to purchase cheaper goods⁸, and founder Ingvar Kamprad estimated a rise in sales of 5% in 2008⁹. But during autumn and winter 2008 sales plummeted; more than 5000 employees were made redundant globally¹⁰. Sweden is one country where IKEA still has not recovered. On July 8th 2009, Kamprad was quoted saying that more people will have to leave the company in Sweden than the 570¹¹ that already left during fiscal year 2009. "We need to further reduce the personnel. It is all about adjusting to the fact that sales are much lower than budgeted"¹² he said about the Swedish market and also the CEO had lost some confidence in it "We have never had to make such large cutbacks before," "But it is absolutely necessary in order to adjust our costs and our capacity to demand, which is much lower than we had expected"¹³.

¹ IKEA, IKEA group stores. <http://www.ikea-group.ikea.com/?ID=11>. Accessed: April 25th 2009.

² Realtid, Ikea: Fortsatt fokus på Europa, April 24th 2009.

http://www.realtid.se/ArticlePages/200604/24/20060424120149_Realtid526/20060424120149_Realtid526.dbp.asp Accessed: April 25th 2009.

³ IKEA, The IKEA Group: Sweden. <http://www.ikea-group.ikea.com/?ID=79> Accessed: April 25th 2009.

⁴ IKEA, Our business idea. <http://www.ikea-group.ikea.com/?ID=5> Accessed: April 25th 2009.

⁵ BBC, The year that shook the world. Last update: September 8th 2009. <http://news.bbc.co.uk/1/hi/business/8235141.stm> Accessed: September 19th 2009.

⁶ Statistics Sweden, Sweden's economy. June 2009.

http://www.scb.se/Grupp/Teman/Sveriges_Ekonomi/_Dokument/Sverigesekonomikv109.pdf, page 3. Edberg Nelson Monica. Accessed: July 15th 2009.

⁷ Statistics Sweden, Swedens economy. June 2009.

http://www.scb.se/Grupp/Teman/Sveriges_Ekonomi/_Dokument/Sverigesekonomikv109.pdf, page 8. Edberg Nelson Monica. Accessed: July 15th 2009.

⁸ Affärsvärlden, Lågkonjunkturen har flera fördelar. January 26th 2009.

<http://www.affarsvarlden.se/hem/nyheter/article498756.ece> Accessed :April 25th 2009.

⁹ E24, Ingvar Kamprad on the financial crisis, December 12th 2008.

http://www.e24.se/bransch/konsumentvaror/artikel_823285.e24 Accessed: April 25th 2009

¹⁰ Times Online, Ikea to cut more staff as demand falls, July 7th 2009.

http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article6657699.ece# Accessed: July 15th 2009.

¹¹ Telephone conversation with Eva Ståhl, Social and Environmental coordinator at IKEA, Sweden. August 19th 2009.

¹² Nya Wermlands Tidningen, Decreased sales for Ikea, July 8th 2009.

<http://www.nwt.se/ekonomi/article553470.ece?service=mobile> Accessed: July 15th 2009.

¹³ Times Online, Ikea to cut more staff as demand falls, July 7th 2009.

http://business.timesonline.co.uk/tol/business/industry_sectors/retailing/article6657699.ece Accessed: July 15th 2009.

Given a fall in demand due to the current recession, should IKEA, Sweden, drop its Forestry and Wood corporate social responsibility practises?

One type of expense for IKEA is its Corporate Social Responsibility(CSR) practises, and it focuses on six main practises;working conditions;climate change;forestry and wood;preventing child labour;partnerships;and community involvement¹⁵.

Derived from a strong interest in the relation of CSR and profitability and the genuineness behind the incorporation of it in business,the present recession is a good time for further investigation into the concept. I will restrict my research to a national level of IKEA's operations because it would not be a viable project for my ability, time, and the word-count to research the whole of IKEA. I choose to research Sweden because the Swedish Ikea-group needs to cut costs and because one CSR practise can be separated to its national operations only; Forestry and Wood, the protection of forests.

As part of IKEA's Forestry and Wood policy it does not accept wood from unsustainable forests or that is illegally logged. It currently employs forestry specialists which main job is to increase the number of wood suppliers with certificates, ensuring they log from sustainably managed forests, as well as to trace the origin of the wood.¹⁶

IKEA needs to cut costs and CSR has been a well debated subject among business people on whether it is an unnecessary expense or if it really is the businesses responsibility. It is not necessary in the same sense as,for example, employees, production and premises. Therefore, it is worth studying if CSR is a source to costs that should be cut, or if it would worsen IKEA's position. The **research question** is as follows:

Given a fall in demand due to the current recession, should IKEA, Sweden drop its Forestry and Wood Corporate Social Responsibility practises?

Methodology:

Although some primary research could contribute to fresh data of employee opinions it would be very difficult without sufficient resources to collect a sampling size large enough to even be fairly unbiased because of the size and geographic distribution of IKEA. Therefore, all research will be secondary. This will be plausible because there is much recent information available on the topic already, and IKEA carried out research on customers in the summer of 2009 which will be helpful. Methods of gaining secondary data are:

¹⁵ Ikea-group Our focus areas. <http://www.ikea-group.ikea.com/?ID=14> . Accessed: April 24th 2009.

¹⁶ IKEA, Our responsibility, forestry and wood. <http://www.ikea-group.ikea.com/?ID=712> ; For a more thorough explanation, refer to appendix.

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Newspaper/magazine articles	Will help identify customer opinions, the public's view on CSR, employees opinion and other information about IKEA. Will be more up to date than e.g text books.
Text books	Will be read to gain a more thorough knowledge about CSR, PEST, corporate culture, stakeholder mapping and other concepts necessary to know.
Internet(such as informational websites,web articles), documents	The internet is a valuable resource for research regarding all the different areas included in this essay. Most information about IKEA, competitors, the economy, the development of CSR and more will be gained through the internet.
IKEA's company research	IKEA will be contacted via the phone in order to confirm information found through other research methods and to develop facts that were not detailed/clear enough.

Limitations:

- Websites cannot always be trusted as anyone can put information on the internet.
- Articles may be out of date so it is important to check publishing dates.
- IKEA is not a publicly listed company, and is very reluctant to share any specific numerical data. This will be the greatest limitation because it cannot be found exactly how much IKEA would save financially by changing supplier.
- The research is restricted to Sweden; findings may not be true for the whole of IKEA.

The risk of gaining unreliable or out-of-date information from websites and articles can be minimised by constantly evaluating the sources before trusting them and, if in doubt of reliability, double-check with other data.

Despite the fact that there are no numbers supporting the evaluation and decision-making, Eva Ståhl, Environmental and Social Coordinator at IKEA, has confirmed that their certified suppliers do charge a higher price than that which uncertified suppliers would have done **. A change of supplier would reduce costs and in regard to the size of IKEA and its furniture production my research will be based on the assumption that the sum of the cost-savings is significant.

That the findings may not be true for IKEA at an international level is not a great concern because a change can or cannot be implemented in Sweden without affecting IKEA's international operations.

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Business theories and tools used:

All information will be analysed through some helpful business theories and tools:

Corporate Social Responsibility

“Corporate Social Responsibility is concerned with the *ways* in which an organisation exceeds the minimum obligations to stakeholders specified through regulation and corporate governance”¹⁸, taking more responsibility than the law requires even if these actions do not result in the highest profit possible for the business. Some areas in which a business might increase its social responsibility are; treatment of employees; human rights; the communities where it operates; and environmental impact. Businesses can for example be involved in CSR-practises because they have an ethical corporate culture, to use it as a marketing advantage, because they are pushed by pressure groups or for combined reasons.¹⁹ I will look at the reasons for IKEA’s Forestry and Wood CSR-practises in relation to their corporate culture to identify how valued it is internally, but also how important it is for external reasons.

CSR can be beneficial for a business because it helps enhance its brand image and reputation, it can be motivational for employees, will help raise the businesses awareness of the social costs of their actions, and, assumed that the business’s stakeholders value environmental and social responsibility, CSR can even be profitable as it can contribute to a unique selling point, create customer loyalty, and encourage the best in the industry to work for the company²⁰. However, if a business involves itself in CSR its costs will be higher and if these costs are passed onto customers demand could fall, then profits will decrease. Also, shareholders may disapprove of the practises as their general interest is to constantly maximise profits²¹ and generally CSR is a long term commitment if it is to be successful. People arguing against CSR see it as an unnecessary source to costs. Especially in times like the current recession many companies have chosen to put their CSR practises aside to allocate them to other departments.²² I will research how much IKEA benefits from, and thus what it can lose, if it drops the Forestry and Wood CSR practises, in order to find out whether the benefits of keeping it or the benefits of dropping it are greater.

PEST-analysis: I will use the PEST-model to analyse external influences on IKEA (Political, Economical, Social and Technological) relevant to the topic. A PEST-analysis will help identify the different factors that can affect IKEA both before and after a decision has been taken, and whether it is likely to have a positive or negative impact on the company. The PEST-model will identify opportunities and threats to IKEA in its decision.

¹⁸ Johnson Gerry, Scholes Kevan, Whittington Richard. *Exploring Corporate Strategy seventh edition*, edited 2005. Page 191.

¹⁹ Dave Hall-Rob, Jones-Carlo, Raffo-Alain Anderton. *Business Studies fourth edition*, ed. Ian Chambers and Dave Gray. Edited 2008. Pages 741-743.

²⁰ The regional economist, Ruben Hernandez-Murillo and Christopher J. Martinek. <http://research.stlouisfed.org/publications/regional/09/04/socialresponsibility.pdf> Accessed: July 16th 2009.

²¹ Johnson G, Scholes K, Whittington R, 2005. *Exploring Corporate Strategy*, seventh edition. P. 190

²² Newstatesman, CSR and the credit crunch. January 20th 2009. <http://www.newstatesman.com/business/2009/01/companies-csr-social>. Accessed: July 15th 2009.

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Corporate culture: The corporate culture of a business is the values, beliefs and attitudes that the people in the organisation are sharing. The corporate culture can be divided into three categories; Surface manifestations; Organisational values; and basic assumptions. *Surface manifestations* means that it is a part of the business culture, but only so that it can be seen by stakeholders. They are not necessarily well incorporated into all layers of the company. *Organisational values* are a deeper part of the culture than surface manifestations, most often expressed in written policies and mission statements. The *basic assumptions* are part of the true culture of the company and are shared by all layers of the company²³. It is worth analysing IKEA's corporate culture in relation to the research question to see how important the CSR-practises are to the organisation and how affected employees will be by any changes.

Staff motivation: Although the influence of CSR on staff motivation will not be used extensively, it is important to identify some motivational methods used by IKEA and how much CSR contributes to these.²⁴

Stakeholder mapping–power/interest matrix: A stakeholder map visualises the role of stakeholders in a business and what interest and influence they have on decisions²⁵. It is good for identifying which stakeholders are more interested in IKEA's decision, and will enable me to find which have more power on its success and should be more taken into more consideration.

Main findings and analysis:

PEST-analysis

Political:

Government and possible forestry certificates–Only 3.6% of the Swedish forests are protected by the Government through national parks and conservation areas²⁶. However, it has become easier to trace products and materials back to their origin through certificates that suppliers can obtain, which ensure sustainable forestry practises. It is by purchasing from certified suppliers that IKEA is mainly involved in protecting the Swedish forests.

²³ Dave Hall-Rob, Jones-Carlo, Raffo-Alain Anderton. *Business Studies fourth edition*, ed. Ian Chambers and Dave Gray. Edited 2008. Page 636.

²⁴ Dave Hall-Rob, Jones-Carlo, Raffo-Alain Anderton. *Business Studies fourth edition*, ed. Ian Chambers and Dave Gray. Edited 2008. Chapter 66: Motivational Theories.

²⁵ Kurtz D, Boone L, *Contemporary Business Tenth Edition*, ed. 2002. Harcourt College Publisher

²⁶ The Government, The aim for protection of forests. September 20th 2003.
<http://www.regeringen.se/sb/d/7446/a/112018> Stockholm. Accessed: July 16th 2009.

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- ❖ It prefers suppliers with a Forest Stewardship Council Certificate(FSC-CERTIFICATE)²⁷, which demands that the wood does not come from illegal felling, unsustainable natural forests or forests with high diversity, and makes it easy to trace the wood back to its origin²⁸. However, these suppliers charge a higher price for their wood because they have a unique selling point in comparison to uncertified suppliers. On a political basis, it is an opportunity for IKEA to change to uncertified suppliers because, although not as protective, they still comply with the Swedish law on forestry *and* will reduce costs.

Economic:

- ❖ **Recession** – The current recession has resulted in a falling demand for IKEA’s products²⁹. In a study carried out by IKEA in the summer of 2009, 53% considered the economic situation to have affected how they refurnish/redecorate their homes³⁰. Profits are going down³¹, and IKEA can save resources by stopping its Forestry and Wood CSR-practises. Raw material costs would go down and they could also save on human resources. In a recession, customers become more price elastic³² and chose cheaper products. Therefore, customers are presently less concerned about the environment, from which I conclude that it is an opportunity for IKEA to drop its Forestry and Wood CSR-practises now, when customers find price more important.

There is a long-term threat to be considered though; when the recession has passed and consumers do not have the same economical concerns, the influence of environmental consideration on consumers will increase again. If IKEA’s furniture are then less environmentally friendly than that of competitors, it has lost a competitive advantage.

- ❖ **Not on the stock market** –IKEA is not a publicly listed company. Thus, it doesn’t have the pressure from shareholders to maximise its profits in a short-term prospect. As it has a stable position in the market and no competitors of its own size(20% market share³³) it can accept temporary losses or declined profits for some time, waiting for the recession to pass and sales to increase, then it may not be necessary to change to cheaper wood suppliers. This is an opportunity for IKEA to keep its Forestry and Wood CSR-practises.

²⁷ Telephone conversation with Eva Ståhl, Social and Environmental coordinator at IKFA, Sweden. August 19th 2009.

²⁸ Forest Stewardship Council, The FSC Principles and Criteria for responsible forest management.

<http://www.fsc.org/pc.html> Accessed: July 16th 2009.

²⁹ Refer to introduction.

³⁰ Refer to introduction.

³¹ Telephone conversation with Eva Ståhl, Social and Environmental coordinator at IKEA, Sweden. August 19th 2009.

³² Metro, The price conscious customer, November 20th 2008.

http://www.mentoronline.se/iuware_files/user/mentoronline.se/pdf/tr2.pdf Accessed: September 19th 2009.

³³ Refer to introduction.

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- ❖ **House loans harder to get** – The banks have made it more difficult to receive house loans and house sales have declined. Because the furniture industry is closely related to the housing industry, the decline in demand for houses has affected IKEA³⁴. That house loans will be more difficult to receive after the real estate crash poses a continuous threat of lower demand to IKEA.
- ❖ **Consumer income** – More consumers now have lower incomes or are unemployed (the unemployment rate in Sweden had increased by 1.7% from June 2008 to June 2009)³⁵. Not only has the true dedication of companies to CSR been questioned by some, especially since the economic downturn³⁶, but also customers who earlier preferred ecological goods have proven to be fickle and started purchasing cheaper products³⁷. So their price sensitivity is greater than their care about social and environmental issues. Thus, an opportunity for IKEA is to focus on lowering their prices/keeping prices low rather than to hold on to their CSR. I also find this more important because its business idea is based on a cost leadership strategy, this core strategy of IKEA is more important to maintain than one part of its CSR-practises.

Social:

- ❖ **Customer awareness** – More consumers are becoming aware of businesses responsibility and choose more ethically produced goods. In 2007, Sweden was placed first out of 108 countries in a study of Corporate Social Responsibility Competitiveness³⁸.

³⁴ Bostan, housloans harder to get, March 1st 2009, <http://www.bostan.se/2009/bolan-svarare-att-fa/comment-page-1/>; Dagens Nyheter, tougher requirements for houseloans, March 1st 2009. <http://www.dn.se/ekonomi/tuffare-krav-for-att-fa-bolan-1.810799> (July 17th)

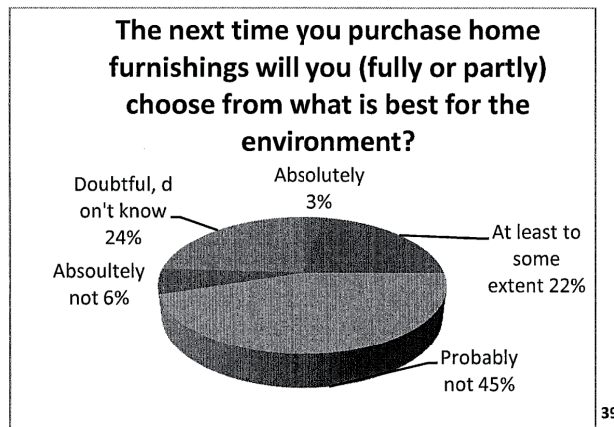
³⁵ Statistiska Centralbyrån, The employment continuous to fall, July 23d 2009. http://www.scb.se/Pages/Product_23262.aspx?produktkod=AM0401&displaypressrelease=true&pressreleaseid=276935 (July 30th)

³⁶ BusinessWeek, Corporate Social Responsibility in a Recession, May 20th 2009. http://www.businessweek.com/magazine/content/09_22/b4133000801325.htm

³⁷ The Guardian, Recession sees shoppers switch from green to budget products, July 6th 2009. <http://www.guardian.co.uk/business/2009/jul/06/shoppers-survey-fairtrade-green-budget>

³⁸ Global issues, Corporate Social Responsibility, July 7th 2007. <http://www.globalissues.org/article/723/corporate-social-responsibility#Rankingcountriesontheircommitmentstocorporatesocialresponsibility> (July 30th)

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However, according to the study carried out by IKEA (see data above) in the summer of 2009 customers are not very concerned about the environment. This is an opportunity for IKEA to drop its Forestry and Wood CSR-practises as it does not affect customer buying habits much. But it is still important to remember the 25% that answered “absolutely” or “at least to some extent”, as it is large enough to affect success.

- ❖ **Pressure group interaction**– The influence of pressure/interest groups has increased over the years. If IKEA stop its forestry protection practises it will be under a greater risk of criticism by pressure groups, which could lead to a damaged reputation/brand image. A headline read, as recently as in June 2009, that IKEA was accused by Greenpeace for “contributing to the slaughtering of the rain forests”⁴⁰. As IKEA already has Greenpeace’s attention it could find itself in even more negative publicity if it changes wood supplier, which is a threat to implementing the change.
- ❖ **Media**– The media has power on influencing the public’s opinions. It has criticised IKEA before regarding weaknesses in its CSR-practises⁴¹ so I judge this as a threat to IKEA worth considering if it stops its Forestry and Wood CSR-practises because the media will to some extent increase the public’s and consumer’s criticism on the issue.

³⁹ Telephone conversation with Eva Ståhl, Social and Environmental coordinator at IKEA, Sweden. August 19th 2009.; IKEA, Swedish populations opinion on homefurnishing, economy and environmental issues 2009, http://www.ikea.com/ms/sv_SE/about_ikea/press_room/bilagor/katalog_2010/IKEA_Faktablad_undersokning.pdf page 2. Accessed: July 30th 2009.

⁴⁰ Miljöaktuellt, IKEA contributes to the slaughter of the rainforests. June 1th 2009. <http://miljoaktuellt.idg.se/2.1845/1.233000/ikea-bidrar-till-slakten-av-regnskogen>. Accessed: July 17th 2009.

⁴¹ Miljöaktuellt, IKEA contributes to the slaughter of the rainforests. June 1th 2009. <http://miljoaktuellt.idg.se/2.1845/1.233000/ikea-bidrar-till-slakten-av-regnskogen>. Accessed: July 17th 2009. ; Aftonbladet IKEA sells goose down from live plucked birds. February 8th 2009. www.aftonbladet.se/nyheter/article4360209.ab Accessed: July 17th 2009

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- ❖ **The forests** – Deforestation is a global and national issue which leads to valuable ecosystems disappearing and global warming⁴². Wood is the core material used in IKEA's products⁴³ and Sweden is one of the company's top five wood supplier countries⁴⁴. The environment is dependent on human actions and if IKEA stop its CSR it will be a major contributor to unsustainable deforestation of the Swedish forests. This is a long-term threat for two reasons; unsustainable forestry will lead to forests diminishing, so there will be less raw material available for IKEA in the future; when the impact of unsustainable forestry becomes more apparent, or again, when the recession is over, IKEA will be one to blame for the diminishing forests which will have a negative effect on its image.

Technological:

- ❖ **Production of furniture** – In its production, IKEA is increasingly trying to minimise the amount of wood used (an example from IKEA's sustainability report is by using hollow legs on furniture and chipboard as filling instead of solid wood) and waste products in the production process⁴⁵. Waste products that still occur are recycled or used to fix deficiencies on other products⁴⁶. This is possible because of technological improvements.

This increasingly efficient use of resources saves raw materials, which means that even if IKEA switches suppliers, it is still continuously becoming more environmentally friendly in the sense that it needs fewer raw materials for more production of furniture. This may also be a more economically sustainable practise as the more efficient use of resources will reduce the quantity needed, reducing cost per furniture produced instead of increasing it. This is an opportunity because it will reduce the rate of deforestation, which IKEA could use for keeping an environmentally friendly approach.

⁴² Greenpeace Sweden, Sverige sviker jordens skogar, January 24th 2007.

<http://www.greenpeace.org/sweden/nyheter/sverige-sviker-jordens-skogar> Accessed: July 30th 2009.

⁴³ IKEA, Efficient use of materials.

http://www.ikea.com/ms/en_GB/about_ikea/our_responsibility/products_and_materials/efficient_use_of_materials.html Accessed: July 30th 2009.

⁴⁴ Ikea-Group, Facts and Figures. 2008. http://www.ikea.com/ms/en_GB/about_ikea/pdf/FF08GB.pdf p. 3. Accessed: April 25th 2009.

⁴⁵ IKEA, IKEA sustainability report 2008.

http://www.ikea.com/ms/sv_SE/about_ikea_new/about/read_our_materials/sustainability_08.pdf Accessed: July 30th 2009.

⁴⁶ IKEA, Snåla på resurserna.

http://www.ikea.com/ms/sv_SE/about_ikea/our_responsibility/products_and_materials/minimising_waste.html Accessed: July 30th 2009.

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Staff motivation and Corporate Culture

In Sweden, IKEA has for the 7th year scored the number one place of the top ten desired employers among graduating students⁴⁷, giving it possibilities to choose among the best in the industry. Eva Ståhl said that “although most of IKEA’s employees do not regard the company’s CSR-practises as an absolute must to work for us, I believe most of them see it as a plus”.

To have a wide choice of who to employ is a great competitive advantage for the company, and it is important to remember this advantage when considering the research question. CSR-practises can have a motivational effect on employees for a company and a contributing motivational force often results in stronger employee loyalty, less absenteeism and better daily efficiency⁴⁸, but flexibility, a relaxed atmosphere and good team-work are the most important factors for the good work environment according to IKEA employees⁴⁹, so CSR is only a very small factor in IKEA’s employee motivation and employer desirability. Furthermore, it is of even less relevance since Forestry and Wood is only one of IKEA’s CSR-practises.

Cutting the Forestry and Wood CSR-practises would lead to redundancies in the forestry specialist section of IKEA. When redundancies occur, remaining staff could become anxious and/or demotivated, but because redundancies already occur it is not likely to make much difference in terms of demotivational effects on remaining staff.

Especially in the recession, when employees are more concerned about keeping their job, my judgement is that IKEA can cut its Forestry and Wood CSR-practises without negatively impact its employees.

That IKEA’s CSR practises are a part of its surface manifestations is clear. It shows its social and environmental responsibility input on its website and in store. Furthermore, it uses the motto “Low price, but not at any price”⁵⁰.

⁴⁷ Dagen Nyheter, The dream job is at IKEA, 27th of March 2009. <http://www.dn.se/ekonomi/dromjobbet-finns-pa-ikea-1.831996> Accessed: July 30th 2009.

⁴⁸ Fuller Claire, Sustainable workplaces 2008: Special report, <http://books.google.se/books?id=Q4EVWDgSwvUC&pg=PT51&dq=CSR+and+staff+motivation#v=onepage&q=CSR%20and%20staff%20motivation&f=false> Accessed: August 13th 2009.

⁴⁹ IKEA, Medarbetarna berättar själva. http://www.ikea.com/ms/sv_SE/jobs/co_worker_stories/stories01.html Accessed: July 30th 2009.

⁵⁰ Ikea-group, Social and Environmental Responsibility report. 2005. <http://www.ikea-group.ikea.com/repository/documents/924.pdf> p.4. Accessed: August 13th 2009.

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One way of identifying the organisational values is through the mission statement, another is that it is expressed in written policies⁵¹. IKEA does not mention CSR in its mission statement, but does have written policies on forestry for its products.

However, Ståhl said that not all employees have adopted the company's care for the environment and I understand this as unbiased since Eva herself is the head of CSR and would rather express it as fully incorporated. So regarding the basic assumptions of the corporate culture, which "represent the totality of individuals' beliefs and how they then behave"⁵², IKEA has not yet incorporated its CSR that far.

Competitors

IKEA's biggest competitor in Sweden is Jysk. It can be read on Jysk's homepage that it will "Strive to sell only FSC-certified hardwood garden furniture and invest in more FSC-forestry through the Tropical Forest Trust(TFT)"⁵³. As both companies are involved in CSR and it is a competitive advantage for both, if IKEA drops its Forestry and Wood CSR-practises the threat is that Jysk gains a greater competitive advantage over IKEA in that area. However, one of IKEA's competitive advantages is its low prices and in the recession this advantage is more important. Another advantage is its wider range of products than that of Jysk. My judgement is that IKEA could drop its forestry and wood CSR-practises but still be a strong competitor.

⁵¹Dave Hall-Rob, Jones-Carlo, Raffo-Alain Anderton. *Business Studies fourth edition*, ed. Ian Chambers and Dave Gray. Edited 2008. Page 636

⁵²Dave Hall-Rob, Jones-Carlo, Raffo-Alain Anderton. *Business Studies fourth edition*, ed. Ian Chambers and Dave Gray. Edited 2008. Page 636

⁵³Jysk, with big business comes great responsibility, page 1.
http://www.jysk.com/frontpage/responsibility/vision_values_environment.htm (August 13th)

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Stakeholder map

		Low	Strength of interest	High
Power	Low	<ul style="list-style-type: none"> ➤ Competitors (Jysk in particular) – It will be good for competitors if IKEA loses one of its competitive advantages, but Forestry and Wood is only one area of its CSR so on the whole IKEA would still be more involved in CSR than Jysk. Because of this, IKEAs market share and other competitive advantages; low price and range of products, competitors do not have high power. 		<ul style="list-style-type: none"> ➤ National community – Will oppose itself to the proposal but cannot affect the company much on its own. ➤ Environmental Pressure Groups – Have a high interest in the issue as the proposal opposes itself to their main goal. In Sweden, the interaction and power of pressure groups is not significant. However, there are techniques which they can use that do pose a threat to IKEA. These will be discussed below. ➤ The media – The media has a high interest because no matter the approach IKEA adopts to its financial difficulties, the media is likely to report it. Although the media's power on IKEA is smaller than that of customers and employees, if IKEA drops its Forestry and Wood CSR-practises, I judge the risk of the media viewing it from a negative perspective as very high from which customers will be influenced to some extent. So although the media's power is low, it is not insignificant.
	High			<ul style="list-style-type: none"> ➤ Customers – The customers have high power because the company's survival and success is dependent on customer demand. They also have a high interest because the outcome of the changes is likely to indirectly affect them. With the recession, low prices are more of a concern than the environment, so in the short run a cut in CSR is in the customers interest. ➤ Employees – Interested in changes at their workplace. Their resistance or approval of a decision will affect the success of the change. Given the recession, resistance will be lower than otherwise, but, employees are not likely to be dissatisfied with a change otherwise either as long as it only regards one part of IKEAs CSR. ➤ Current suppliers – Do not want to lose IKEA as a customer, an alternative for IKEA to change to cheaper suppliers may be to negotiate a cheaper price with its present suppliers, at least until demand increases again. It may be more beneficial for the suppliers to offer a cheaper price than to lose IKEA as a customer all together.

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I have used the stakeholder map above to get a visual overview of the main stakeholders affected by IKEA's decision. By categorising the involved groups it is easier to see who will have a greater impact on the success/failure of the decision and extra care can be taken to the interest/opinions of those stakeholders who are more important to IKEA's success.

Customers, employees and the current supplier have been identified as having the most interest and power. In relation to customers and employees, I judged that IKEA can successfully drop its Forestry and Wood CSR-practises. Therefore, it seems like IKEA should change its supplier. But it is important to remember that pressure groups and the media do have some power because they can influence negative views on the public and customers. What I especially want to acknowledge is that the media, pressure groups and the local community can partner in their opposition of the decision. Then would gain more power. In the short-term, customers are less likely to be influence by this as they have become more price elastic but the long-term impact of the decision on IKEA needs to be remembered as well.

IKEA's research found that customers are not too worried about the environmental impact, but these questionnaires were carried out during the recession. The fact that Sweden was first on the CSR-competitiveness Index is evidence that it is normally valued. So in the short-term, the customers and employees interest and power weigh out that of the other stakeholder. However, in the long-term this may not be the case, especially not as customer interests can change.

Another stakeholder that has high interest and power is IKEA's current supplier; it would lose a large customer in IKEA. Thus, its willingness(or not) to negotiate a lower price with IKEA gives it power. However, this is an unresolved issue as it will not be investigated.

Given a fall in demand due to the current recession, should IKEA, Sweden, drop its Forestry and Wood corporate social responsibility practises?

Conclusions and recommendation

I can draw some main conclusions from my research and analysis:

- ❖ IKEA will in the short-term benefit financially by changing its supplier; costs will be reduced without the likelihood of demand falling much as an effect. But 25% of IKEA's research expressed a concern about the environment so some negative effects are likely to occur.
- ❖ Forestry and Wood is only one CSR-practise which is dropped. Because IKEA's employees value many other factors at work, employee demotivation will not be an issue.
- ❖ Again, because not all CSR-practises are dropped, and due to other competitive advantages, IKEA should not find an increasing concern about competition if changes are made.
- ❖ In the long-term, changes in customer views and the influence of pressure groups, the media and the local community poses a threat to the initial success of a change. It will be difficult to restore and gain trust if the brand image is damaged.
- ❖ An unresolved issue is whether IKEA can negotiate a lower price with its current supplier.

To the question "Given a fall in demand due to the current recession, should IKEA, Sweden drop the Forestry and Wood area of its corporate social responsibility practises?", despite evidence arguing in favour of IKEA doing so, I recommend it not to. My recommendation is based on whether IKEA should take a long-term or short-term approach to the issue. In my opinion the short-term gains do not outweigh the uncertainty of the long-term risks. Instead I would advice to investigate the unresolved issue; discuss and negotiate with the current supplier to reduce price during the recession.

The major limitation of my research is that I have no numerical data of the costs and savings of IKEA's supplier and change in supplier. An improvement would be to find and calculate the relevant numerical data, to find exactly how significant the cut in costs would be. A good improvement in the research would be if I could calculate the cost-savings of changing supplier, and the extent to which the current supplier is willing to reduce price, to compare these on a financial level and include such findings in the evaluation.

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Appendix: IKEA's Forestry and Wood CSR-practises

Issued by IKEA Services A.B

IKEA's Position on Forestry

Background

IKEA recognizes wood as an excellent material from both a functional as well as an environmental point of view. Wood has the right properties for being the principal material in many of the home furnishing products in the IKEA range. In addition, wood is renewable, recyclable and biodegradable. However, for wood to be a good environmental choice, it should originate from responsibly managed forests.

Our way of working

To meet our customers' expectations, we strive to combine cost consciousness with good design and high quality. A natural result of this approach is that resources and raw materials are used in the most efficient way possible in the furniture design, material sourcing, and production processes. To ensure that social and environmental considerations are included in the way we do business, we have requirements on the wood material used in IKEA products and on our suppliers' wood procurement routines. IKEA forestry specialists work on a daily basis with IKEA suppliers to promote understanding of our forestry requirements and to ensure implementation. By placing demands on our supply chains, we aim to support the development of responsible forest management practices in the countries in which we work. IKEA is also actively involved in forest projects in our prioritized wood sourcing regions focusing on critical issues such as combating illegal logging, promoting forest certification, and training and education on responsible forest management.

Our goals

IKEA's long-term goal is to source all wood in the IKEA range from verified responsibly managed forests, i.e. forests that have been certified according to a forest management standard recognized by IKEA. To reach this long-term goal, IKEA works with a staircase model with four levels to establish minimum requirements on wood material and to step by step place higher demands on the suppliers. The staircase model is applicable for suppliers delivering or producing IKEA articles that contain solid wood, veneer, plywood or layer-glued wood.

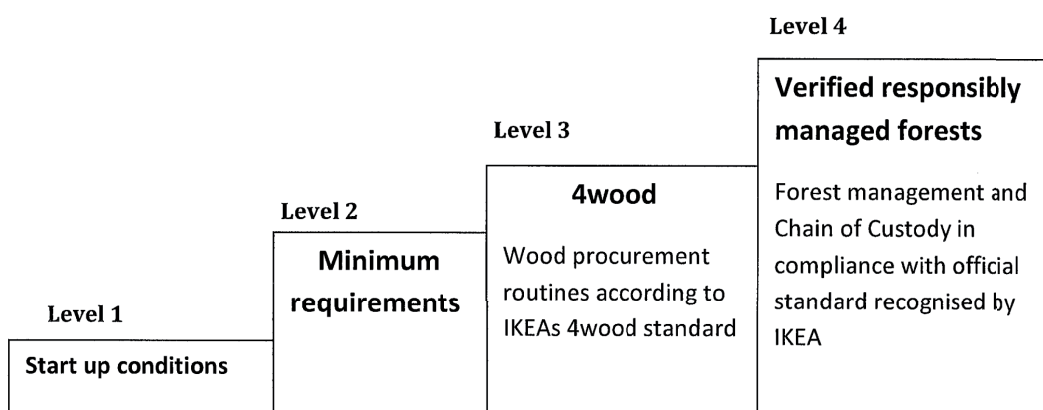


Figure 1. The IKEA staircase for wooden merchandise

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IKEA's short-term goal is that 3.6 million m³ (30%) of the wood material used in IKEA products shall be certified according to Level 4 and 100% of our suppliers shall be on Level 2 of our staircase model by the end of 2009.

Our requirements

IKEA places the following minimum requirements on solid wood, veneer, plywood and layer glued wood used in IKEA products (Staircase levels 1 & 2):

- The origin of the wood must be known
- Wood must be produced in compliance with national and regional forest legislation;
- Wood must not originate from protected areas, unless felled according to the management plan for the area;
- Wood must not originate from intact natural forests or high conservation value forests, unless certified according to a Level 4 standard recognized by IKEA;
- Wood must not originate from plantations established after 1994 by replacing intact natural forests. All IKEA suppliers must have certain routines in place to secure that wood used in IKEA products meets the above requirements. IKEA suppliers must know the origin of all wood used in IKEA products, ensure that IKEA requirements are met throughout their supply chains, and accept audits at various links in the supply chain. IKEA suppliers are required to report the origin, volume and species of the wood used in IKEA products on an annual basis via the IKEA Forest Tracing System. Levels 3 and 4 in the IKEA Staircase Model further strengthen procedures at the IKEA supplier by adding chain of custody routines and third party verification of responsible forest management. Level 4 of the staircase model represents a forest management and chain of custody standard produced in a balanced cooperation between social, environmental, and economic stakeholders. Currently the Forest Stewardship Council (FSC) is the only Level 4 certification scheme recognized by IKEA.

How we follow-up

Before starting business with a new supplier and on an annual basis thereafter, the forest tracing information provided by the IKEA supplier is reviewed by IKEA's purchasing teams and forestry specialists. Based on a risk assessment, certain wood supply chains are selected to undergo an audit from the IKEA supplier all the way back to the forest. The wood supply chain audit may be conducted by an IKEA forester or an independent auditor. The wood supply chain audit verifies that each link in the selected wooden merchandise chain has responsible wood sourcing routines in place and that the wood is produced in compliance with IKEA's minimum forestry requirements. Results from the forest tracing information and wood supply chain audits are annually reported in IKEA's Social and Environmental Report. Read more about how we work with forestry and forest projects: www.ikea-group.ikea.com