

New transport organization by IKEA.

An example of social responsibility in corporate strategy

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Abstract

The relationship between social responsibility and corporate strategy ensures the competitiveness of companies in the 21st century zero impact market. This strategy is based on the idea that the environment affects the organization of business.

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1 Introduction

The *Brundtland Report* (1987) is the first formalization of the relationship between development and environment: "Development is sustainable if it meets the needs of present generations without compromising the ability of future generations to meet their own needs." In the sixties and seventies, economists began to study the relationships that exist between the economic and natural environments. Before then, standard economics had not considered the natural capital as a factor of exhaustible production; a process accelerated by rapid economic growth, technological innovation, and international trade.

One can underline 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 evident 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 CO₂ 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 stakeholder perspectives

The most relevant effect of globalization is the changing nature of the economic system and the different corporate approaches necessary for a more efficient relocation on the market by business realities; it is possible to record 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 services that meet environmental, social, and ethical needs beyond the traditional material usefulness; it 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.

Respecting the environment, achieving ethical objectives, and ensuring working conditions that respect the worker as person as opposed to as a mere production unit are a few of the recent challenges for a management. They have to be willing to accept the role of business as a testing ground for productive new socially responsible strategies.

In 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" (2004).

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 respect their moral rights, increasing and in some ways overcoming the stockholders perspective that the only company only respect the investors' property rights (Caroli and Tantalo, 2009).

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; based on the extension, in some ways forced, of the agency contract that ties it to the property, 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 and Freeman, 1988).

If the principle that the firm is more than the property itself is acceptable in terms of corporate philosophy, it is therefore essential the respect and the cooperation of the production unit with the other actors on the market; the obligations of managers to stakeholders, while having a distinct nature from those that bind them to the shareholders, are no less binding. But it must simply be internalized in the business strategies, without representing an unfair abuse of corporate office by the management.

3 Competitiveness through corporate social responsibility

Defining the limits of one's actions is of fundamental importance for so as to inspire a management through a principled synthesis of equity and efficiency. Such a realistic definition of limitations strategically creates an appropriate approach to the evaluation of the company performance (Caroli and Tantalo, 2009). In establishing its responsibilities, it is therefore necessary to ask specifically how, and to what extent, the company has to intervene.

This work will satisfactorily demonstrate the extreme importance of this

issue, since there are few companies really able to engage in sustainable planning and ethics; the company's ability to deal with certain issues is critical in redefining its market position (Rinella, 2011).

The implementation of best practices aimed at realizing the project we have identified generically as *Corporate Social Responsibility*, of course, is inspired by the basic principle of the company as represented by the dynamic economic environment in which it operates; therefore, we 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 pro-activeness, 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.

It is obvious that this phase occurs simultaneously with the design of social plans and programs described above; so that the company has to accept a code of conduct not merely defensive or accommodative towards social issues, but sincerely proactive.

The competitiveness of firms is proportional to the ability to anticipate change and meet the needs of their stakeholders; one can believe that the above pro-activeness is a factor of production similar to capital and labor, in terms of strategic.

It should be assumed, therefore, an extremely dynamic market, which favors a system of capillaries relationships to induce profound changes in the traditionally more conservative realities and actually related to the historical role of decision makers.

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 and 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.

3.1 When CSR becomes Advantageous

Convincing managers that CSR initiatives are profitable for the business is not an easy task for many reasons.

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 and 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 21st century companies is the ability to offer a zero impact product on the market. Those who can come close to this standard inevitably capture 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.

4 The business case: new modulation of transport

Transport has become an aspect that assumed strategic importance for the company ever since the publication of the work which gathers clear statements on the subject entitled "Movies in the Right Direction" (1996).

[..] Of all the activities of modern society, perhaps the transport has the greatest impact on the environment. If we look at the total impact, for example by making an analysis of the life cycle, we need to include a multitude of factors in the calculation, from the extraction of raw materials, to the construction of ships, cars, planes, roads, to energy consumption, emissions and eventually reusing and recycling of vehicles [...]. 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. It refers to the transportation of products, that causes 26% of carbon dioxide emissions, and the movement of customers and co-workers, responsible for approximately 57% of the total; the medium-term business target is the implementation of a policy of sustainable mobility, resulting in having 15% of visitors who reach the point of sale by public or private alternatives to the car.

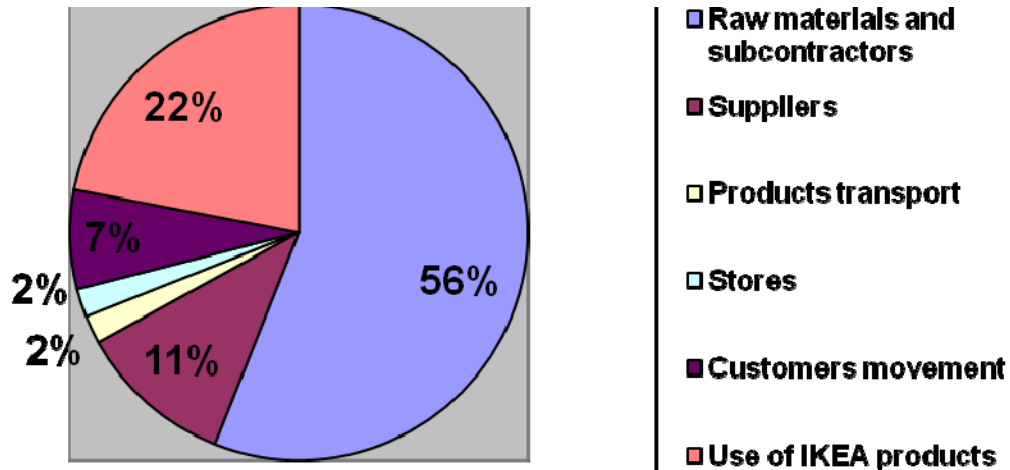
The sensitivity of this argument is clear also from the fact that in 1997, IKEA created a program seeking to make their transportation more efficient and more environmentally friendly entitled: "IKEA, transport and the environment". In order to limit the pollution caused by the movement of customers, a first concrete action was the correct placement of megastores in the design stage. Strategic placement shortens the overall route travelled. This statement is confirmed by the responses to the survey in the IKEA store in Bari, on June 9, 10 and 12, to 250 clients: 60% of them live less than 20 km from the store IKEA (Martucci, Schirone and 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.

As it is clear from the interview with top management, the allocation of CO₂ emissions (2009) is as follows (Figure 1).

The ambition of the Swedish multinational is two-fold. Not only does IKEA promise to reduce CO₂ 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. For example since January 2011 SWEDSPAN (a company in the IKEA industrial group) has focused the attention on the reduction of CO₂ emissions in its Polish production unit. This target will be achieved thanks to a biomass production plant: this will help to meet the heating needs of its own production unit without resorting to fossil fuels.

It will produce also a surplus of about 40GW/h to be sold. It is estimated that the plant can produce energy equal to the annual needs of 2000 homes.

Figure 1: CO₂ emissions

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 CO₂ 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, but also: proper working conditions (fire prevention procedures, systems of safety devices, adequate light and temperatures in the workplace), minimum wage, ban on overtime and refusal of illegal child labor. The respect for the Code of Conduct is verified by audit, performed by technicians from IKEA or external companies (among other Price Waterhouse Coopers and KPMG).

4.1 Social desirability and affordability: an example of planning

One can find interesting, in the below matrix, the new modulation of the strategic intervention achieved by IKEA. The firm's objective is intended to satisfy two important conditions: cost reduction and reduction of CO₂ emissions.

The goal of reduction of harmful emissions promoted by the IWAY code of conduct for transport, is 190 g/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.

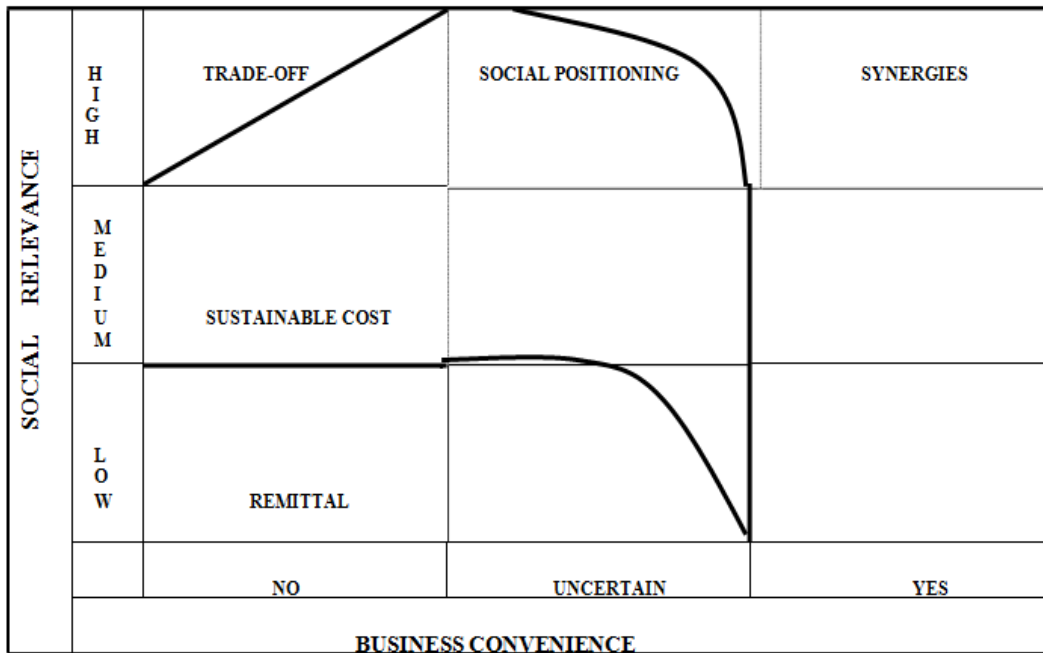
The aim is to establish a baseline on which to set the medium and long term goals, that is both concrete and achievable as well as consistent with the business.

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. The matrix below (Table 1) will tend to show the significance of company's choices, both from the economic as well as social desirability perspective.

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.

Table 1: Social relevance-business convenience (Molteni, Todisco, 2008)



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, 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 CO₂ 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 an 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.

IKEA has always been considered as a business sensitive to social and environmental issues, reflecting the multiplicity of interventions carried out in this direction.

In order to reduce CO₂ emissions, the company has formalized its commitment through the international project "IKEA goes renewable" (2007), supplying from sources that provide renewable energy (Figure 2).

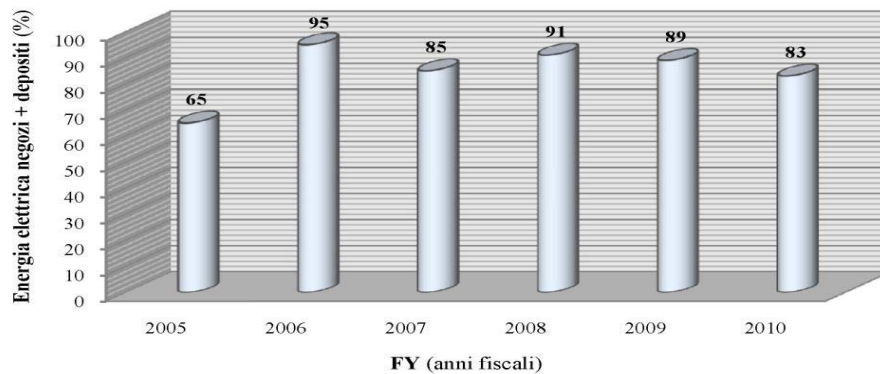


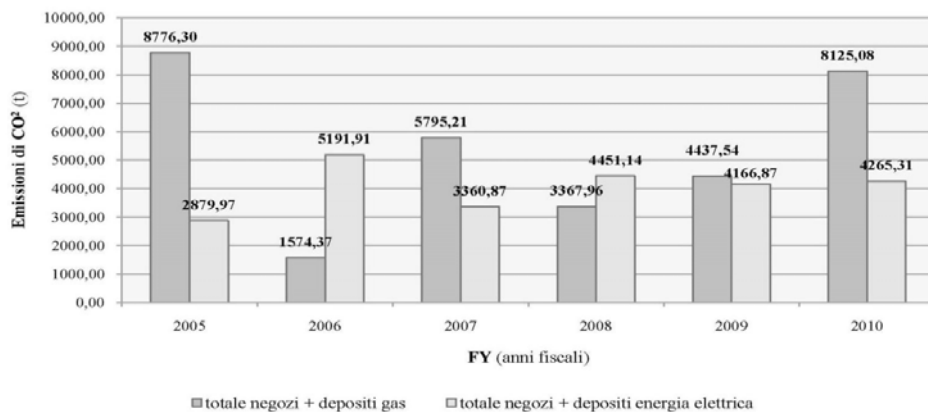
Figure 2: Electricity purchased from renewable sources expressed as % of deposits + stores (fiscal year 2005/2010)

As evidence of the commitment of the reduction of CO₂ emissions, the company has steadily, over a period of time, given birth to numerous initiatives experimented in different stores in Italy (Table 2). This initiative has obtained results in line with management expectations.

Table 2: Some proposal about reduction of CO₂ emissions

TYPE OF	MADE OR ACTION UNDER	INVESTEMENT
Major investments to increase the energy efficiency of new	3 Geo-exchange closed-loop systems	About 12.000.000 €
	2 Geo-exchange open-loop systems	
	Installation of LED Lighting Towers (one	
	Replacement lights for commercial lighting	
	Installation of motor inverter air handling	
	Installing solar panels (on 2 stores)	
Investments to produce electricity from renewable sources. (current-fiscal year 2011)	Installation of about 150,000 amorphous silicon photovoltaic modules on the roofs of all the shops including the one opened in Catania, where will be installed also on bus shelters in the parking lot.	About 20.000.000 €

The result of these actions, combined with the strategies employed in transport, has given rise to a path of CO₂ 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 (Figure 3). 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.

Figure 3: Direct emissions calculated in tons of CO₂ (fiscal years 2005-2010)

The emission of CO₂ 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 CO₂ 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.

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 and Todisco, 2008). It is likely that *Project Tender* will serve to strengthen the favored position.

5 Conclusion

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, but 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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