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Corporate Responsibility and Hypercompetition. The IKEA Case

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Abstract

The rapid changes caused by growing complexity, accelerating technological innovation and globalisation, have driven companies to play a precise economic-social role. Hypercompetition implies a substantial change in a company's strategic objectives: every advantage gained over the rivals is rapidly imitated and surpassed. Hypercompetition needs from the company the ability to control simultaneously: costs and quality; timing and know-how; strengths and weaknesses; financial resources. Following the expansion of its target market which has become global, a company often adopts a network structure. The network requires the activation of relations with local interlocutors and presupposes a coordinated system of values inside the organisation.

Keywords: Corporate Responsibility; Corporate Social Responsibility; Organisational Culture; Responsible Corporate Culture; Hypercompetition; The Ikea Case

1. The Hypercompetition

The rapid changes that have taken place in the business environment, caused by growing complexity, accelerating technological innovation and the phenomenon of globalisation, have driven companies to play a precise economic-social role within their environment.

In particular, the saturation of demand and of numerous markets, the convergence of different industries and the speed with which competitive dynamics succeed one another, combined with strong competitive rivalry, highly concentrated supply and the impossibility of maintaining competitive advantage in the long term, have created a state of hypercompetition. Here, corporate strategy is constantly evolving, founded on three general principles: all actions are actually interactions (on the strength of the inter-dependence that exists between companies); they are relative, in other words they must be assessed in relation to competitors' moves; and finally, they must be projected in the long term to interpret their evolutionary dynamics. Academics use the term 'dynamic strategic interaction' to describe the action taken

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by businesses to win a position of competitive superiority, but this is temporary because hypercompetition implies a substantial change in a company's strategic objectives: it no longer strives for stability and balance, but to continuously disrupt the existing competitive *status quo*[1]. In fact, every advantage gained over the rivals is rapidly imitated and surpassed and the company therefore sets out to create a continuous series of temporary advantages by reacting rapidly to competitors' moves, generating value and satisfying customers better than others do.

In the presence of stable, predictable competitive situations, the company may achieve a sustainable advantage by focusing on a specific driver[2]: costs and quality; timing and know-how; strengths and weaknesses; financial resources. On the other hand, hypercompetition needs from the company the ability to control them all simultaneously. High quality must be achieved with lower manufacturing, distribution and selling costs (*costs and quality*); the company needs specific corporate resources and must be in a position of 'first mover' before being imitated by the competitors (*timing and know-how*); it is advisable to identify certain markets in which to be leader and to set up barriers to entry that can be defended (*strengths and weaknesses*); and finally it takes huge *financial resources* to acquire competitive factors and new technologies.

Basically, in a state of hypercompetition, the company pursues the goal of doing '*more of the same, only faster, better and cheaper than competitors*'[3] concentrating on the environment and, in particular, on the competition to predict and slow down its actions and to react to its moves.

Interchange with the outside environment becomes an essential factor for the development of the company that has to monitor and constantly analyse its evolutionary characteristics, adopting a dynamic management system that can contemplate internal processes to produce, collect, analyse and systematically divulge information. Interaction with customers, suppliers, distributors and competitors is vitally important to control the whole complex system. If the company decides to close in on itself it will be unable to survive in the long term. In fact, the formulation and choice of strategies must be conceived as a continuous learning process that allows the company to react in real time to changing conditions, in response to which the problem of modifying strategic, organisational and structural policies arises, in order to develop a set-up that is suitable for the competitive dynamics underway[4].

Incessant striving for product and process innovation, constant learning from the market and the establishment of relations with the players present on the market are therefore the elements to achieve a competitive advantage. On one hand, there is the need to establish stable, collaborative relations with stakeholders for the learning potential they produce and, on the other, there is a continuous need to innovate, making corporate responsibility the key factor on which to found the company-environment relationship in a hypercompetitive context. Without acquiring responsibilities, the company cannot continue to perform its core function, i.e. economic production, under the constraint of high and growing efficiency, as a condition of competitive success and a necessary requirement to improve the return on capital invested.

2. The Network Company and Corporate Responsibility

Academic research related to corporate responsibility[5] is concentrated primarily on its definition, the aspects that characterise it, its measurement and analysis of the link between corporate responsibility and corporate performance. In reference to the latter aspect, in the presence of hypercompetition, recognition of social responsibilities is a new source of competitive advantage[6]. Responsible corporate behaviour, which takes into consideration the needs of strategic stakeholders, helps to improve the environmental context and to sustain the company's competitive position, enabling it to achieve competitive success. An increasingly conscious approach to corporate responsibility is taking hold, because this is no longer seen as '*the right thing to do'*, but '*the smart thing to do'*[7] and satisfying the interests of all stakeholders is not just an ideological and moral imperative, but also an economic and financial one[8].

Following the expansion of its target market which has become global, a company often adopts a network structure in which the nodal points (the parent company and local units) are closely linked and work together towards a common goal: beating the competition and growing. Companies are generally interested in the socio-economic development of the local market in which they operate because local units act as a development cause for the territory. Their presence generates a favourable economic environment in which valid manufacturing skills are generated, and a real manufacturing culture can develop.

The network requires the activation of relations with local interlocutors and presupposes a coordinated system of values inside the organisation, and a strategic vision which is defined centrally and goes beyond local interests.

Knowledge (conceived as the collection of information, and as striving for and interpretation of what is new), management skills, technical capabilities and the experience of local managers become a precondition of any decision-making activity. To be exploited in full, these assets must be adopted in the headquarters, which uses them to plan responsible corporate conduct to achieve both profitability and sustainability. The creation of tangible and intangible assets (such as skills, consensus and legitimacy) allows the company to boost its competitive capability[9] which is necessary to resist and last.

In a state of hypercompetition, the company must therefore reconcile the target of continuous growth of profitability with a policy of investment in intangible assets which, although they have long development times, generate defensible growth; corporate responsibility tends to outline the border between these two drivers of results, counterbalancing the goal of cost cutting with that of sustainable development.

> □ *So, why should companies care about human rights, child labor, offering better working conditions to employees, recycling, global warming, conserving wild life, bridging the digital divide or fighting poverty? Many companies are now realizing that being socially responsible can be profitable, not just politically correct. For example, British Petroleum. To reduce flaring in one of its refineries costs BP about 500,000 dollars per year, but in the process, they found*

> *customers for the gas that was being flared. Today the refinery makes 1 million dollars more than it expected as a result of reducing flare. Good environmental policy. Good business*[10].

Attention to costs and to manufacturing efficiency reflects an internal dimension of corporate activity that is not alone sufficient to ensure that the company can develop in a hypercompetitive environment. It requires an external dimension, of the simultaneous existence of competitive advantages and the sustainability of achievable results which demands continuous interaction between the company and numerous stakeholders from different countries, languages and cultures, with whom it is important to create a network of relationships[11].

3. Organisational Culture and Responsible Corporate Culture

The company tends to direct management behaviour towards goals of efficiency and profitability, through the respect of certain fundamental values linked to its environment and to society. The concept of organisational culture (an endogenous concept, linked to the functioning of organisations[12]) evolves into that of responsible corporate culture, as the result of an interchange with the environment. Although it tends to be organisational and internal, the corporate culture takes on strategic importance even in relation to the readiness of target audiences to understand and appreciate the company.

The spread of values and objectives of a responsible management, at business unit level or into the whole company, makes it possible to reconcile the need to create economic value and a return on capital invested with the need to forge solid relationships with existing stakeholders. It is the 'triple bottom line', which strives to achieve three types of result: economic, social and environmental.

A responsible company uses strategic choices and operating behaviour to simultaneously:

a) create economic income, the primary condition for survival (*economic results*);
b) limit the environmental impact of company decisions, in particular those related to manufacturing processes, the use of materials, and product design (*environmental results*);
c) meet the expectations of critical stakeholders (*social results*)[13].

A responsible corporate culture develops a common orientation in the company regarding the ability to tackle the problems of interaction with the outside world and of internal integration in order to create a specific, strong corporate identity. Briefly, the culture generates a precise corporate identity and the pronouncement of a specific mission, thus representing the decisive element for the existence of a high level of harmony with the stakeholders inside and outside the organisation. The mission is designed both to inform all the stakeholders about the company and about its strategies on the environment, and finally underpins the corporate positioning.

Companies are aware that economic performance cannot be sustainable if local social or political forces become hostile, and by taking on particular responsibilities, they encourage, guide and accelerate their development model. The guidelines behind the corporate identity do not emerge by chance from company activities, but are chosen by the corporate governance on the basis of its strategic goals and, subsequently, are disseminated to members of the organisation. As a result, the responsible company first defines its commitments and responsibilities in relation to the stakeholders by declaring its mission, and then spreads the principles and values previously established using tools such as the *Ethics Code* and *Ethics Training* which help collaborators to understand the corporate responsibility accepted.

In a network company we can note an important peculiarity regarding the dissemination of the corporate culture. Values are disseminated both *top-down* (from the top to the bottom) and *bottom-up* (from the bottom to the top). Corporate governance identifies and spreads the company guidelines in a *top-down* manner inside the organisation. But at the same time, it draws *bottom-up* on the experience of the local units that are in direct contact with the markets and, therefore, competent and informed about stakeholders' expectations. There is not an uninterrupted *top-down* or *bottom-up* flow, but certain aspects of the corporate culture will remain the prerogative of management alone, without being extended to the whole organisation. This information might, for example, regard factors of success or other assets of strategic importance which, if accessible, might compromise the company's competitiveness. One mechanism that could limit the flow of strategic information would be the familiarity with a particular foreign language as a condition to join a company's top management.

4. Corporate Responsibility Management

The degree of consonance[14] with the environment is linked to the existence of a system of values on which the corporate mission is based, necessary to meet the needs of particular stakeholders. Fierce competition and the growth of a close network of links between company behaviour and social dynamics may put the company at the centre of tensions, turbulence and pressure that forces it to play a precise economic-social role. To dialogue with the environment the company must respond to the pressure related to social problems (*social issues* or *stakeholder issues*[15]) because taking a passive position awaiting events and adapting only to legislative or economic changes can cause tension in relations with the stakeholders.

An analysis of the social issues is the starting point of a process of 'corporate responsibility management' that considers the many inter-related activities linked to the definition and management of a company's social responsibility. Social issues determine a 'critical attitude' to the company regarding the satisfaction of the economic-social expectations of its stakeholders. Not paying attention to this pressure may have direct negative consequence on company activities[16] that may be:

- *economic*: reduction of the economic income;
- *financial*: difficulties in raising financial resources;

- *technological*: exclusion from agreements with other companies in research and development programmes;
- *social*: negative effects on the corporate image;
- *political*: loss of role inside lobbies and therefore in the sphere of economic influence.

A company with an efficient information system, planning uninterrupted control activities to observe the competitive environment, identifying new social issues before its competitors and activating a process of corporate responsibility management, will be able to recognise the priorities in stakeholders' expectations.

Once the principal social issues to be satisfied have been established on the basis of their affinity with company activities and their urgency, the company outlines, plans and implements specific policies in response: only if there is consistency between the corporate performance and the key stakeholders' initial expectations can the company continue to be successful in its competitive environment. Publically taking on corporate responsibility has a direct influence on the corporate image; in fact, in the past the concept of brand policy referred primarily to specific products or products lines, while in current competitive contexts the focus is on the 'brand policy of the entire company'[17] with an orientation not only towards the consumer but also towards all the other stakeholders from a market-driven perspective.

In a state of hypercompetition, a network company aims to create global brands, in other words, relations with its target markets that go beyond any space-time constraint or existing geographical, cultural or social barrier. In this sense, corporate responsibility management makes it possible to establish and maintain specific relations with key stakeholders, helping to reinforce the sense of belonging to the company and increasing its approval, particularly with stakeholders who are sensitive to social issues (the State, the public authorities, mass media, consumers).

The implementation of responsible corporate conduct tends to have a positive influence on the assessments formulated by stakeholders in relation to the company. In this regard, Brown and Dacin[18] showed that rather than qualify a product's attributes, responsible social policies supply elements for a favourable evaluation of the company as a whole. Sen, Bhattacharya and Korschun[19] have also examined the impact of CSR initiatives on a pre-established group of stakeholders made up of potential employees, customers and investors, showing that a social responsibility initiative has the potential to improve not only stakeholders' associations, opinions, attitudes and identification[20], but also their intention to spend their own resources (money, work, etc.) for the benefit of the company.

Corporate responsibility management therefore safeguards the value of the brand equity created in a space and time on one hand, preventing the formation of convictions regarding the company's lack of attention to its social environment; while on the other it makes corporate responsibility a qualifying element of the corporate identity.

However, a key factor that emerges from Sen, Bhattacharya and Korschun's study[21] reveals that to achieve positive effects linked to corporate responsibility, companies need to pay more attention to consumers' level of information and knowledge. So faced with high investments in corporate responsibility management, companies recognise the importance of effectively and efficiently communicating the initiatives they have sustained, to increase consumers' knowledge and to benefit from the positive response.

5. Communicating Corporate Responsibility

The strategic value of communication for the activation of constructive relations between a company and its environment makes it necessary, for the success of the company, to divulge information about the company's responsibilities related to its economic activities. Corporate communication, in other words the process necessary to gather consensus and resources around the company's proposals[22], conveys a great deal of information that helps to make the company familiar to the other players in the same environment and to persuade them regarding certain conducts and actions. However this dual effect can only be achieved by coordinating the communications tools to avoid sending the public incoherent messages. The role of communication is to organise these activities and contents so that they are easily transmissible to target audiences.

Stakeholders' ignorance of policies of corporate responsibility poses a serious obstacle to their ability to react to them. The external effectiveness of the corporate responsibility management therefore emerges as a condition of the company's ability to inform stakeholders about its corporate responsibility.

> □ *The spread of the Internet has enormously extended the potential to establish more profound relations with company interlocutors, granting them free access to a wide variety of information about companies and the latter, a powerful means to coordinate this information with institutional and commercial activities. Many companies have dedicated part of their own websites to a description of their responsibility (Corporate Social Responsibility, CSR) or to related issues such as Sustainable Development or Sustainability[23] (S), and Corporate Citizenship (CC).*
>
> *An analysis of the first 100 companies in the Fortune Global 500 list drafted in 2005[24] reveals that in 26% of the cases considered, there is a CSR link in the home page, in 6% there is a citizenship link and in 11% there is a sustainability link. What is more, 36% of the companies considered have created a link for these issues (CSR, CC, S) inside the main link 'About the company'. Four companies out of five therefore use part of the company website to communicate their social commitment to visitors, whether they are current or potential customers, investors, employees, etc. because presenting themselves as responsible companies may foster the creation of solid bonds with stakeholders, protecting the company from the uncertainty of the market.*

The structure that divulges news about a company's economic-social role and the activities it performs is very critical. It is usually the company itself that creates a website in which it publishes information about its mission, its responsibility and its actions. But in a hypercompetitive environment, the global mass media play a crucial role, because they have a vast audience and every piece of news echoes around the world. The objectives of the company and of the mass media may be in conflict: the company wishes to obtain space in the media publicising positive information; the mass media, on the other hand, prefer to spread information that makes news or scandals. As a result, collaborating with the media may be useful to maintain good relations even with other market players.

6. Corporate Responsibility and Hypercompetition: the IKEA Case

IKEA[25] is a Swedish multinational company that is one of the world's largest furnishings retailers. The corporate social responsibility strategies adopted by IKEA are a good example of corporate responsibility management in situations of hypercompetition.

The adoption of an ethics code that opens with the statement '*IKEA intends to be ethical and moral*' and the recognition of social responsibilities by IKEA are the fruit of a reaction both to growing external interest on the part of the community in ethical questions and to internal pressure. The 1994 television documentary 'The Carpet' which revealed the use of child labour in IKEA workshops in Pakistan and Eastern countries stimulated the assumption of this social commitment. Respect of the code is guaranteed by systematic monitoring undertaken in part directly by the organisation, through specialist inspectors, and in part, indirectly by impartial independent auditing companies.

By taking on these social responsibilities, IKEA undertakes social and environmental activities that are close to its corporate values: it pays attention to the forests and to timber, the essential raw material for the manufacturing and sale of furnishing articles, but also to respect of Third World children, highlighted by the launch of a range of products dedicated to them, denial of which was the cause of considerable damage to the company image in the past[26].

6.1 The IKEA Company

IKEA was founded in 1943 in the South of Sweden, and its name is an acronym of the initials of the founder's name, **I**ngvar **K**amprad and of **E**lmtaryd and **A**gunnaryd, the farm and village where Kamprad grew up. IKEA was founded in a very particular period in Swedish history, when the country was being taken as an example for its focus on people and society. Ingvar Kamprad began his retail activities selling pens, matches and seeds by correspondence, and it was only in 1947 that he began to produce furniture, advertising it in a brochure (the future IKEA catalogue). That was sent straight to customers, and each article of furniture was given a name; this idea, justified by the fact that it is easier to remember than a number, actually gives each product a specific personality with values that can strike the customer.

In 1953, IKEA opened its first showroom at Almhut; in 1965 it reached Stockholm, and from there the brand was exported all over the world: in 1973 the first store outside Scandinavia was opened in Zurich, in 1985 the first in the USA, in 1989 in Italy and one in China in 1998.

Kamprad created a management structure and an organisation that safeguard its long-term independence. The company is owned by a foundation, the 'Stichting INGKA Foundation'[27] registered in the Netherlands, which owns INGKA Holding B.V., the mother company of all the companies in the IKEA universe. Inter IKEA Systems B.V. owns the IKEA concept and brand, and it has franchising contracts with the IKEA stores all over the world, most of which are also part of the IKEA group.

There are 202 IKEA stores in 32 countries; the company directly owns 179 stores in 23 countries and the remaining 23 stores are managed under franchise by owners outside the company[28].

In recent years, IKEA purchases from developing countries have grown from 32% in 1998 to 48% in 2003; 29% of its output comes from Asia, 67% from Europe (including 15% from eastern countries) and 4% from the USA. For a long time, Poland was the second supplier of raw materials after Sweden, but there was recently a giddy increase in China which, in 2004, accounted for 14% of total output, followed by Poland with 12%, Sweden with 8%, Italy with 7%, and Germany with 6%[29]. To achieve its goal of boosting efficiency while cutting costs and prices to the end consumer, IKEA is constantly looking for convenient new locations[30].

The finished product, which is packaged and packed by the supplier who labels it with the IKEA trademark and sends it to the stores, is designed trying to minimise its cost and environmental impact. The flat pack was created, reducing wasted space and making it possible to transport more products at the same time and to store them rationally. The product assortment, which is developed in Almuht in Sweden, covers about 10,000 articles created by designers inside and outside the company, and approved from the planning stage to meet strict criteria: the aspects evaluated are practicality, efficient distribution, quality, environmental impact and low cost. There are 32 distribution centres in 15 countries which manage the flow of goods to the stores. In 2004, 365 million people visited the IKEA stores, the company employed 76,000 people and sales and revenues amounted to Euro 12.8 billion. The country with the highest sales was Germania, which accounted for 20% of total sales by the group[31].

IKEA's most important tool of external communications is the catalogue: 145 million copies were printed in 2004, in 48 editions and 25 languages.

6.2 The IKEA Culture

The IKEA culture[32] is founded on the values of simplicity, humility, cost consciousness and innovation. The founder Ingvar Kamprad[33] has contributed, and continues to contribute, a great deal to its spread. Although he resigned from the post of Managing Director in 1986, he is still involved inside the organisation as Senior Consultant, and outside as a critical customer who checks product quality and makes suggestions.

□ *'Kamprad is not only IKEA's chief strategy officer. He also embodies the company's values and vision'*[34].

Anders Dahlvig, IKEA CEO, describes the IKEA culture thus:

□ *'It's a very informal type of culture. It's based on a few values that have their roots in Smålandish or Swedish culture. Things like informality, cost consciousness, and a very humble and 'down to earth' approach. Also letting people have responsibilities. So there are a number of core values and intentions that we always describe in communication and training. For IKEA it has always been one very important part of our culture. We think that the organizational or company culture is important for the business and in some ways for industrial investors. We do give it a lot of attention in terms of marketing and sales as well as development, training, and recruitment'*[35].

Even Goran Carstedt, who was head of IKEA in North America in the past, underlines the importance of a solid system of shared values that underpins the IKEA culture:

□ *'In the new reality of globally operating companies, you have to get the energy from the outside in, and not in the traditional way, so to say steering from the top, where you dictate from headquarters. The old notion of running a business from top down, that is gone'*[36].

The IKEA mission of creating better daily life for the majority of people is at the basis of its strategic orientation. This means to achieve harmony between attention to the individual and market laws, and the supply of a vast assortment of beautiful and functional furnishing elements at such competitive prices that the highest possible number of people are able to purchase them. The low prices are the result of a systematic and methodological approach in product development, distribution, relationships with suppliers and retail sales. It strives to keep prices low at all stages of the process, without overlooking the quality of the raw materials used in manufacturing or the efficiency of the product sold to the customer. Kamprad was the first to focus attention on cost consciousness in every type of activity performed. For example, it is said that when IKEA managers travel on business[37], they fly economy and, if possible, they never use taxis but only public transport. The spread of similar information obviously influences the IKEA image in the mind of the consumer and characterises it as the most economical company in its business[38].

The language chosen by IKEA is English, but its cultural language is Swedish (the spirit of equality, moderation and simplicity) and anyone who wants to have a career at the highest levels of the group must speak Swedish[39].

The IKEA corporate identity is clearly defined not only because IKEA has identical stores all over the world, but also because certain events were organised to strengthen the IKEA culture. For example, all the top managers meet for one week every year in Älmhult, where the company began, and they stay in a hotel owned by the company ('*Downtown IKEA*') furnished exclusively with IKEA furniture and fittings. During that week, they attend seminars that study Swedish culture, the history of the company and the values of Swedish society. At the end of their stay, they receive an 'assembly key', a sort of IKEA symbol etched with the words 'IKEA ambassador', and when they return to their own countries and their employees, they are expected to communicate the IKEA message.

What is more, to increase the sense of belonging to the company and the level of involvement with its values, when he or she is hired, each employee reads and signs up to *A Furniture Dealer's Testament*, a document written and imposed by Kamprad. Furthermore, there is no hierarchy inside the stores and IKEA managers work in the shops as office staff for one week every year[40].

> □ *'Distinguishing managers from co-workers, as IKEA employees are called, is impossible in the informal, open plan offices where suits are non-existent and ties a rarity'*[41].

6.3 Cost Consciousness

IKEA strives for cost leadership, and for this reason it negotiates the most cheap conditions with a very large number of suppliers, a large part of whom live in eastern Europe and Asia, where the cost of raw materials, manpower and warehouse rentals is lower than elsewhere. IKEA always tries to acquire raw materials at the best price, choosing the suppliers with the cheapest price[42] but it is equally focused on maintaining good relationships with them to avoid late deliveries or poor workmanship.

IKEA's low cost policy is based on:

- *economies of scale* (large volumes reduce the unit cost of production);
- *economies of transport* (large orders of products permit to IKEA to transfer transport costs to suppliers);
- *low running costs inside the stores* (for example, the group uses buildings that are easy to build and inexpensive to manage, and it also has a 'dress-down policy', with all employees wearing the same uniforms, which are very simple and practical[43]);
- *purchases of unassembled products from suppliers with a consequent reduction of costs* (taxes are lower for components than for finished products).

What is more, on the demand side, the active participation of its customers, who are seen as genuine partners, is a source of economic saving for IKEA; most of its products are packed in flat packs and the customer has to take them home and assemble them, paying the cost of transport and assembly, and thus reducing storage costs for IKEA.

6.4 IKEA's Social Responsibility

The basic idea that underpins IKEA's social responsibility is that the mission must be achieved responsibly, minimising the environmental and social impact of the activities performed. The general strategic guidelines are defined by the head quarter and the branches located in the various countries then decide how to develop the projects and initiatives in relation to their specific local contexts.

Several important areas of action can be identified in IKEA's CSR strategy:

- *suppliers*: IKEA has a working relationship with 2150 suppliers but also manages some manufacturing activities directly through plants and sawmills owned by its subsidiary Swedwood, which has 35 industrial companies in 11 countries and is accountable for transmitting information and knowledge to its partners through training courses about quality, efficiency and environmental commitment. Employees of the IKEA Purchasing Offices, no fewer than 42 in 33 countries, regularly visit suppliers to monitor production, to test new ideas, to support their partners in their activities, and to perform checks and inspections.
- *The environment*: IKEA concentrates on costs and on the efficient use of resources to prevent waste and harmful emissions; it prefers to use wood in its products because wood is a recyclable, biodegradable, renewable material, and it can certify that it does not come from uncertified intact forests; it also trains its employees and teaches them to respect the environment[44].

□ *The first environmental policy dates back to 1990; the following year strict standards were introduced in Finland regarding the use of tropical timber and IKEA respected them although not legally bound to do so. In 1992, use of CFCs and HCFCs was banned from IKEA manufacturing processes, and after the introduction of the German Packaging Ordinance, IKEA implemented a new strategy to make packaging materials recyclable and reusable, and also eliminated PVC from its products because it posed a potential threat to human health. In 1996, a 'green model' was drafted to classify textile products from an environmental viewpoint; the following year a marketing campaign was launched in Sweden for the use of low energy consumption light bulbs, and to raise awareness among the public of energy saving, IKEA distributed 530,000 light-bulbs to its customers free of charge. In 1999, a waste management manual was introduced which established that refuse in all the stores would be divided into five different categories.*

To protect the virgin forests, IKEA banned the use of timber from protected forests in the production of its products and encouraged collaboration with the *World Resources Institute* (WRI) to map out the virgin forests of the world. It also signed up to forestry projects and was involved in the creation of the Sow a Seed Foundation to restore 14,000 hectares of degraded rainforest in Malaysia.

- *Social projects*: numerous initiatives are now underway regarding both the management of human resources and the enhancement of the territory in which they work. Because IKEA considers its employees a fundamental element to pursue its mission, it has launched a *Work-Life Balance* project to guarantee that there is a balanced relationship between their work and their private life. Part of this project regards the creation of a direct link between the company and any employees on maternity through distance-learning training programmes and continuous information regarding changes taking place in the organisation during their absence.

□ *One example of the consideration that IKEA shows for the needs of its employees is the recent decision to allow Muslim women workers to cover their heads during their working hours inside the stores; however, for homogeneity with the uniforms worn by all employees, the veils bear the IKEA logo*[45].

□ *Where children's rights are concerned, IKEA undertakes not to use child labour in its manufacturing chain and to ensure that its suppliers and sub-suppliers also comply (the latter have to sign up to 'The IKEA way on purchasing home furnishing products' which sets certain minimum requirements that have to be met). In India, together with UNICEF, IKEA has launched a development programme in more than 200 villages against child labour, creating Alternative Educational Centres so that children can reach the standards demanded by the official school system. What is more, programmes have also been started to involve women in micro-credit programmes to start up alternative profit-making activities, as well as immunisation programmes to vaccinate children under one year old against the commonest childhood diseases. In Kosovo, IKEA collaborated with the International Save the Children Alliance to rebuild the school system for the children of Kosovo after the war of 1999*[46].

IKEA, the Swedish multinational furniture conglomerate, has succeeded in creating a very strong global brand sustained by the presence of a variegated and solid community of customers who, united by their search for low prices without forgoing the quality, design, innovation and practicality of products, and favouring manufacturing methods that respect the environment and the well-being of the people involved. As a result, by exploiting economies of cost, for example by the invention of the flat pack, by minimising transport and assembly costs thanks to the active participation of its customers/partners, and by financing a series of extra social activities that focus on relations with its suppliers, the protection of the environment, management of human resources and the enhancement of the territories in which it operates, IKEA has obtained the necessary consensus to become the current leader of the furniture market.

7. Corporate Responsibility Management: Profitability and Networks of Relations

The radical evolution in the environmental context and the growing complexity of demand and competition have induced IKEA, like many other large companies, to adopt a strategic orientation focused on the construction and consolidation of a network of relationships with stakeholders.

On global markets, every company's priority is to pursue its own mission, targeting the resources at its disposal towards profits and efficiency, conditions that are necessary in order to survive and grow in the long term. To achieve this end, the company tends to increase its profitability on one hand, locating manufacturing facilities in geographical areas where production inputs are less expensive, and to create stable, collaborative relationships on the other, with consumers, suppliers, retailers and any other key local player.

The company's responsibility, in other words its commitment to take responsibility for its activities and the related economic and social effects, makes it possible to base the relationship between company and environment on the dissemination and acceptance inside the organisation of a sound corporate culture based on a system of values that is in harmony with those of the social environment. On the other hand, a situation of conflict between the company and its environment could have negative repercussion for its ability to create profit and therefore for the company's existence.

In a hypercompetitive environment in which the company strives to achieve temporary competitive advantages, good corporate responsibility management therefore makes it possible to configure the costs and benefits of crucial social relationships, paying specific attention to initiatives designed to create value, meeting the expectations of particular interlocutors (customers, suppliers, shareholders, employees, etc.) before and better than the competitors.

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Notes

[1] Cf. R. D'Aveni, *Hypercompetition. Managing the Dynamics of Strategic Manoeuvring*, Free Press, New York, 1994.

[2] Ibid.

[3] See J.K. Johansson, *Global Marketing*, McGraw-Hill International, 2006, p.55.

[4] Cf. A. Gozzi, *La definizione e la valutazione delle strategie aziendali: criteri, metodi, esperienze*, FrancoAngeli, Milan, 1991.

[5] The paternity of the concept of corporate social responsibility is attributed to Bowen who, in 1953, gave a first definition of social responsibility referred to businessmen, but an international academic debate on corporate social responsibility only took shape in subsequent decades. Two currents of thought were outlined: one led by the economist and Nobel Prize Milton Friedman, the maximisation of profit is the only duty of the manager and the company, and the other, shared by numerous authors, which recognises that businesses have far wider responsibilities than the economical or legal, due to a wide range of interests to be protected (*stakeholder theory*) or to an existing social contract between society and the company (*social contract theory*). Inside the concept of corporate responsibility it is possible to distinguish between:

- *economic responsibilities*: linked to the economic function performed by a company (production of assets, offer of jobs and creation of income) characterised by the presence of a number of requirements: the economic content of the activities and goals to reach, the presence of a complex organisational structure, trading activities with external entities and the undertaking of processes to produce goods or services;
- *legal responsibilities*: connected to the existence of legislative standards and related sanctions;
- *social responsibilities*: regarding the social repercussions of business and embracing all the responsibilities that the company takes on, which differ from the first two types and derive from the need to balance the reasons underpinning efficiency with those of fairness.

Cf. H. R. Bowen, *Social Responsibility of the Businessman*, Harper & Row, New York, 1953; M. Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago, 1962; K. Davis, Can Business Afford to Ignore Social Responsibilities?, *California Management Review*, Spring, 1960; W. Frederick, The Growing Concern over Business Responsibility, *California Management Review*, Summer, 1960; J. McGuire, *Business and Society*, McGraw Hill, New York, 1963; E. Freeman, *Strategic Management. A Stakeholder Approach*, Pitman, Boston, 1984; S. Sciarelli, *Economia e gestione dell'impresa*, Seconda Edizione, Cedam, Padova, 2001; M.B.E. Clarkson, A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance, *Academy of Management Review*, Vol. 20, no. 1, 1995; L. Caselli, *Neppure le imprese possono fare a meno dell'etica*, in G. Rusconi, M. Dorigatti, *La responsabilità sociale dell'impresa*, Franco Angeli, Milan, 2004.

[6] Cf. M. Porter, M.R. Kramer, The Competitive Advantage of Corporate Philanthropy, *Harvard Business Review*, December 2002.

[7] See C.N. Smith, Corporate Social Responsibility: Whether or How?, *California Management Review*, vol. 45, n. 4, 2003, pp. 52–76

[8] Cf. K.B. Murray, C.M. Vogel, Using a Hierarchy of Effects Approach to Gauge the Effectiveness of CSR to Generate Goodwill Toward the Firm: Financial versus non Financial Impacts, *Journal of Business Research*, n. 38, 1997.

[9] Cf. E. Rullani, S. Vicari (ed.), *Sistemi ed evoluzioni nel management*, Etas Libri, Milan, 1999.

[10] See A. Gupta, Why Should Companies Care?, *American Journal of Business*, Spring 2003, p. 3.

[11] It is possible to summarise the value of this network of relationships in a metric: the return on relationship which is the net long-term financial result produced by the start-up and maintenance of a network of relationships. Cf. E. Gummesson, *After Relationship Marketing, CRM and one-to-one: many-to-many Networks*, Acts of the 2005 EMAC Convention.

[12] Cf. E.H. Schein, *Cultura d'azienda e leadership*, Guerini e Associati, Milan, 1990.

[13] Cf. M. Caroli, in AA.VV., Atti del XXV Convegno Aidea: *Competizione globale e sviluppo locale tra etica e innovazione*; Facoltà di Economia, Università del Piemonte Orientale, October 2002.

[14] Cf. G.M. Golinelli, *L'approccio sistemico al governo dell'impresa. L'impresa sistema vitale*, Vol. 1, Cedam, Padova, 2000.

[15] Clarkson distinguishes between stakeholder issues and social issues because, according to the Author, the company and its managers relate with stakeholder groups rather than with society as a whole. It is up to society as the State or Nation to determine the relevant social issues. Cf. M.B.E. Clarkson, A Stakeholder Framework for Analysing and Evaluating Corporate Social Performance, *Academy of Management Review*, Vol. 20, no. 1, 1995.

[16] Cf. P. Di Toro, *L'etica nella gestione d'impresa*, Cedam, Padova, 1993.

[17] Cf. P. Ricotti, Corporate Responsibility and Sustainable Development, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 1, 2003.

[18] Cf. T.J. Brown, P.A. Dacin, The Company and the Product: Corporate Associations and Consumer Product Responses, *Journal of Marketing*, Vol. 61, 1997.

[19] Cf. S. Sen, C.B. Bhattacharya, D. Korschun, The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment, *Journal of Academy Marketing Science*, Greenvale, Spring, Vol. 34, Issue 2, 2006.

[20] Cf. S. Sen, C.B. Bhattacharya, Does Doing Good Always Lead to Doing Better? Consumer Reactions to Corporate Social Responsibility, *Journal of Marketing Research*, 38 (May), 2001.

[21] Cf. S.Sen, C.B.Bhattacharya, D. Korschun, The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment, *Journal of Academy Marketing Science*, Greenvale, Spring, Vol. 34, Issue 2, 2006.

[22] Cf. D. Salvioni, Transparency Culture and Financial Communication, *Symphonya. Emerging Issues in Management (symphonya.unimib.it)*, n. 2, 2002.

[23] Cf. Brundtland, Report, World Commission on Environment and Development, 1987.

[24] Cf. www.fortune.com, list of 500 largest companies. Attached, the list of the companies analysed and the analysis undertaken.

[25] To analyse the case of IKEA, in addition to interviewing IKEA employees and managers, we referred to the material on the site www.ikea.com and to numerous bibliographical sources: C. Kling, I. Goteman, IKEA CEO Anders Dahlvig on International Growth and IKEA's Unique Corporate Culture and Brand Identity, *Academy of Management Executive*, vol. 17, 2003; M. Salzer, *Identity across Borders: a Study in the 'IKEA-World'*, Doctoral Thesis, Stockholm, 1994; E. De Hann, J. Oldenzel, *Labour Conditions in IKEA's Supply Chain*, Copyright Somo, 2003; AA.VV., *Corporate Cultures and Global Brands*, World Scientific, Edited by Albrecht Rothacher, 2004; M. Dell'Amico, Il catalogo di IKEA in 12 milioni di copie, *Il Sole 24 Ore*, August 2, 2005, p. 21; F. Sabati, Velo (con logo) per le dipendenti IKEA, *Il Sole 24 Ore*, August 25, 2005, p. 6.

[26] The documentary 'The Carpet' raised society's interest in the subject and it is understandable that IKEA continues to support similar initiatives to meet the expectations of its stakeholders, thus boosting its image.

[27] The purpose of the Stichting INGKA Foundation is to improve the lives of the majority of people by the profits that derive from the group's economic activities. The Articles of the Foundation establish that these profits must be shared between investments to expand commercial activities, the development of its human resources, and activities to finance and support people with a remarkable capacity for initiative and results in the field of the environment, design, manufacture, architecture and the landscape.

[28] Cf. www.ikea.com.

[29] Cf. Facts and figures, www.ikea.com.

[30] The recent supply chain developments have seen: an increase in purchases of hand-woven textiles, carpets and blankets, towels, metals and leather products from India, Bangladesh, Pakistan and Sri Lanka; a massive facility for direct production in China and the focus on Russia as a supplier of raw materials and products and as a location for direct manufacture. The number of suppliers is also expected to increase, from 50 in 2003 to 200-250 within 5-7 years, from whom the company will purchase: timber, small furniture units and display cabinets, cushions, pillows, mattresses, and plastic and metal structures. Cf. E. De Hann, J. Oldenzel, *Labour Conditions in IKEA's Supply Chain*, Copyright Somo, 2003.

[31] IKEA has nine stores in Italy (Turin, Milan, Brescia, Bologna, Genoa, Rome, Florence and Naples) and a workforce of almost 4000 employees; in 2004, sales amounted to Euro 714 million (+16.8% compared to 2003), in spite of a reduction in catalogue prices for the seventh consecutive year, which continued in the next operating year with -6%. Italy is IKEA's fourth supplier of furniture and furnishings, immediately after China, Poland and Sweden. IKEA buys more in Italy than it sells: the country accounts for 7% of worldwide purchasing by IKEA, while the Italian market only covers 5.5% of total IKEA sales.

[32] Cf. The Values that Characterise IKEA, www.ikea.com.

[33] In 1994 Kamprad was accused of having been pro-Nazi fifty years earlier. On that occasion, IKEA employees gave their founder their full support, writing him a message, 'Ingvar, we are here whenever you need us. The IKEA Family IOS', signed by hundreds of them. Cf. AA.VV., *Corporate Cultures and Global Brands*, World Scientific, Edited by Albrecht Rothacher, 2004.

[34] See Business Week, 6 Oct 1997, p. 45.

[35] See C. Kling, I. Goteman, IKEA CEO Anders Dahlvig on International Growth and IKEA's Unique Corporate Culture and Brand Identity, *Academy of Management Executive*, Vol. 17, 2003, p. 34.

[36] See L. A. Hoecklin, Managing Cultural Differences, *The Economist Intelligence Unit*, London, 1993, p. 33.

[37] 'No one at IKEA is allowed to fly first class, including the boss'. v. Business Week, 6 Oct 1997, p. 47.

[38] Cf. C. Kling, I Goteman, IKEA CEO Anders Dahlvig on International Growth and IKEA's Unique Corporate Culture and Brand Identity, *Academy of Management Executive*, Vol. 17, 2003.

[39] Cf. M. Salzer, *Identity across Borders: a Study in the 'IKEA-World'*, Doctoral Thesis, Stockholm, 1994.

[40] Cf. AA.VV., *Corporate Cultures and Global Brands*, World Scientific, Edited by Albrecht Rothacher, 2004.

[41] See Financial Times, 27 Mar 1995.

[42] 'To keep costs down, the team worked closely with suppliers in China, Indonesia, and Central European countries. In Jakarta, for example a local furniture maker produces the cheapest children's

chair in the world made from wood.' (Business Week, 6 Oct 1997, p. 46) '… suppliers are being pressed for lower prices.' (Financial Times 27 Mar 1995).

[43] Cf. AA.VV., *Corporate Cultures and Global Brands*, World Scientific, Edited by Albrecht Rothacher, 2004.

[44] Cf. IKEA Environmental and Social Issues, www.ikea.com.

[45] Cf. F. Sabati, Velo con logo per le dipendenti IKEA, *Il Sole 24 Ore*, August 25, 2005.

[46] Ibid.

Attachment: Analysis of the First 100 Companies of the Global 500 Listed by Fortune (July 2005)

Rank	**Company**	**Revenues ($ millions)**	**Profits ($ millions)**	**link CSR**	**link CITIZENSHIP**	**link SUSTAINABILI TY**	**VALUES ENVIRONMEN**	**internal link ABOUT CORPORATE**
1	Wal-Mart Stores	287,989.0	10,267.0					X
2	BP	285,059.0	15,371.0					X
3	Exxon Mobil	270,772.0	25,330.0		X			
4	Royal Dutch/Shell Group	268,690.0	18,183.0					X
5	General Motors	193,517.0	2,805.0					X
6	DaimlerChrysler	176,687.5	3,067.1			X		
7	Toyota Motor	172,616.3	10,898.2	X				
8	Ford Motor	172,233.0	3,487.0					X
9	General Electric	152,866.0	16,819.0		X			
10	Total	152,609.5	11,955.0	X				
11	ChevronTexaco	147,967.0	13,328.0	X				
12	ConocoPhillips	121,663.0	8,129.0					X
13	AXA	121,606.3	3,133.0	X				
14	Allianz	118,937.2	2,735.0					X
15	Volkswagen	110,648.7	842.00.00					
16	Citigroup	108,276.0	17,046.0		X			
17	ING Group	105,886.4	7,422.8	X				
18	Nippon Telegraph & Telephone	100,545.3	6,608.0					X
19	American Intl. Group	97,987.0	9,731.0					X
20	Intl. Business Machines	96,293.0	8,430.0					X
21	Siemens	91,493.2	4,144.6					X
22	Carrefour	90,381.7	1,724.8	X				
23	Hitachi	83,993.9	479.02.00		X			
24	Assicurazioni Generali	83,267.6	1,635.1					X
25	Matsushita Electric Industrial	81,077.7	544.01.00					X
26	McKesson	80,514.6	-156.7					X
27	Honda Motor	80,486.6	4,523.9					X
28	Hewlett-Packard	79,905.0	3,497.0					X
29	Nissan Motor	79,799.6	4,766.6	X				
30	Fortis	75,518.1	4,177.2			X		
31	Sinopec	75,076.7	1,268.9					X

32	Berkshire Hathaway	74,382.0	7,308.0					
33	ENI	74,227.7	9,047.1			X		
34	Home Depot	73,094.0	5,001.0					X
35	Aviva	73,025.2	1,936.8	X				
36	HSBC Holdings	72,550.0	11,840.0	X				
37	Deutsche Telekom	71,988.9	5,763.6					X
38	Verizon Communications	71,563.3	7,830.7					X
39	Samsung Electronics	71,555.9	9,419.5					X
40	State Grid	71,290.2	694.00.00	X				
41	Peugeot	70,641.9	1,687.8			X		
42	Metro	70,159.3	1,028.6			X		
43	Nestlé	69,825.7	5,405.4	X				
44	U.S. Postal Service	68,996.0	3,065.0					
45	BNP Paribas	68,654.4	5,805.9			X		
46	China National Petroleum	67,723.8	8,757.1					
47	Sony	66,618.0	1,524.5	X				
48	Cardinal Health	65,130.6	1,474.5					
49	Royal Ahold	64,675.6	-542.3	X				
50	Altria Group	64,440.0	9,416.0	X				
51	Pemex	63,690.5	-2,258.9					X
52	Bank of America Corp.	63,324.0	14,143.0					
53	Vodafone	62,971.4	-13,910.4					X
54	Tesco	62,458.7	2,511.3	X				
55	Munich Re Group	60,705.5	2,279.8					X
56	Nippon Life Insurance	60,520.8	1,886.3					
57	Fiat	59,972.9	-1,972.6					
58	Royal Bank of Scotland	59,750.0	8,267.4					
59	Zurich Financial Services	59,678.0	2,587.0	X				
60	Crédit Agricole	59,053.8	4,936.5					X
61	Credit Suisse	58,825.0	4,529.0					X
62	State Farm Insurance Cos	58,818.9	5,308.6					
63	France Télécom	58,652.1	3,462.6	X				
64	Électricité De France	58,367.2	1,667.9					X
65	J.P. Morgan Chase & Co.	56,931.0	4,466.0					
66	UBS	56,917.8	6,509.5					X
67	Kroger	56,434.4	-100.0					
68	Deutsche Bank	55,669.5	3,074.6	X				
69	E.ON	55,652.1	5,396.7					X
70	Deutsche Post	55,388.4	1,975.1			X		
71	BMW	55,142.2	2,763.6	X				
72	Toshiba	54,303.5	428.04.00	X				
73	Valero Energy	53,918.6	1,803.8					X
74	AmerisourceBergen	53,179.0	468.04.00					
75	Pfizer	52,921.0	11,361.0		X			
76	Boeing	52,553.0	1,872.0					X
77	Procter & Gamble	51,407.0	6,481.0					X
78	RWE	50,951.9	2,657.9					X
79	Suez	50,670.1	2,244.2			X		
80	Renault	50,639.7	4,416.6			X		
81	Unilever	49,960.7	2,333.3	X				
82	Target	49,934.0	3,198.0					X
83	Robert Bosch	49,759.2	1,950.2					X

84	Dell	49,205.0	3,043.0					X
85	ThyssenKrupp	48,756.1	1,100.3				X	
86	Costco Wholesale	48,107.0	882.04.00					
87	HBOS	47,755.7	5,601.4					
88	Johnson & Johnson	47,348.0	8,509.0	X				
89	Prudential	47,055.8	765.09.00	X				
90	Tokyo Electric Power	46,962.7	2,104.5				X	
91	BASF	46,686.6	2,342.0	X				
92	Hyundai Motor	46,358.2	1,472.6			X		
93	Enel	45,530.4	3,522.3			X		
94	Marathon Oil	45,444.0	1,261.0				X	
95	Statoil	45,440.0	3,697.3				X	
96	NEC	45,175.5	631.05.00	X				
97	Repsol YPF	44,857.5	2,425.3	X				
98	Dai-ichi Mutual Life Insurance	44,468.8	1,301.7					
99	Fujitsu	44,316.0	296.09.00				X	
100	Time Warner	42,869.0	3,364.0		X			
TOTALS				**26**	**6**	**11**	**5**	**36**

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