IKEA's Supply Chain: Growth on Sustainability

Major Research Paper

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1. Abstract

This study aims to provide insights on the influence of sustainability on business performance, focusing on IKEA's commitment and its robust value chain. The importance of sustainability is at an all-time high as many people are more aware and are now consumer conscious. With this awareness comes its impact on the corporate world as organizations must strive and integrate into their business models sustainability practices. The depletion of our natural resources and the demand of consumers are moving in opposite directions. With our reliance on these resources and our non-stop production and consumption, businesses are in great stakes to preserve and brainstorm on how to adapt to their value chains' sustainable profitability. IKEA being a consistent top retail brand is studied to provide insight into how this successful conglomerate can integrate sustainable strategies into the core of its business while still performing strong. An overview approach is used to identify the strategies of the company that led them to consistent growth and competitive advantage. A linear supply chain is complex enough, introducing a reverse supply chain with the end goal of becoming a circular supply chain adds various steps and factors into the picture. This study explores the different stages in IKEA's production process that is consistently aligned with their people and planet strategy and the benefits of this implementation within their value chain.

This paper also aims to shed light on other businesses in hopes of encouraging green business. By providing information, proof can be provided that shows it is possible to systematize sustainable practices and success and that in doing so, it is a win-win strategy that tackles profit, planet, and people issues.

2. Introduction and Objectives

2.1. Research Introduction

In our current situation, we have a big fight to save the earth as climate changes continue to be felt in all parts of the world. In the most recent news, as Business Insider (2022) reported, scientists protested the government and big corporations in the hope of a climate emergency announcement. This is a desperate plea to save the planet and the future of the next generation.

The focus of this paper is relevant in today's climate war as we realize that doing business does not need to equate hurting the environment and the people. It is important that we, as humans, and big corporations take into heart the impact we have on saving the earth. Actions, big or small, will always result in either hurting or benefiting the planet, and these actions are choices we make based on what we perceive as important.

There is an increasing number of advocates for doing business environment friendly. As more people are becoming planet conscious, there is a need for corporations to follow this direction. A sustainable supply chain has been an ongoing deliberate practice amongst businesses as they endlessly strive to advance whilst making sound decisions with much priority on people and planet welfare. Going green, however, is not only the focus of sustainability in a supply chain but also improving productivity cost-efficiently using ecological techniques and resources.

Sustainability is not only focused on a process or phase of a product's lifecycle but should be implemented in all steps in the entire value chain. The incorporation of this drive should start from the sourcing of its raw materials and from there, the practice should be inputted in all the stages of production to ensure compliance with the goal of the company – doing sustainable business.

Because of this focus, companies continue to brainstorm and innovate their products and services to cut down on negative impacts on the environment while still generating profit.

It is important to have a clear goal and strong foundation to get to the root of the issue and determine from there how to make sound decisions and appropriate tactics to conduct a viable business. Identifying the raw materials and resources to be used in the first line of production is crucial to the creation of sustainable products and services. From there, everything else follows – sourcing, manufacturing, and distribution of the products and services to its consumers. It is interesting to touch base with the different ways sustainability is mixed in a profitable business and understand how it is made possible in their different sectors of production and operations.

2.2. Research Objectives

This study aims to have a better understanding of how a sustainable supply chain integrated with reverse logistics benefits the company and the environment. The combination of both management practices while maintaining business performance is challenging but achievable. IKEA has long been a sustainable company and because of its continuous drive to become 100% sustainable in the next few years, I have chosen this organization as the focus of my paper. The research questions are designed to grasp how IKEA is creating ways to achieve its sustainability goals, their conscious efforts to maintain and further improve in this aspect, and how they became one of the leading responsible organizations known globally. We dive into the seemingly little steps the company is taking on in making changes that have a big impact on our world.

It is the intention of this study to enlighten consumers on the importance of sustainability and help businesses realize the pros of incorporating sustainability in their supply chains. By putting IKEA in the limelight of this topic and learning from their footsteps, we will be able to understand the

why's and how's of a fascinating supply chain system built by this company in their efforts to reduce landfill wastes through sustainable sourcing and consumption. We also tackle how this successful corporation is innovating and taking big steps to ensure their products are not only used once and only for one purpose, even introducing generous returns policies to extend product lifecycles, and avoid waste.

2.3. Research Questions

This study aims to give light to the following questions revolving around IKEA's commitment to sustainability without compromising profitability. The aim is to better understand how the company has made progress in conducting environment and people-friendly business – how this movement started, how they incorporated this responsibility into doing business, how they continuously innovate to a sustainable industry, and the surprising pros and cons of the implementation of such an important value to appease to the welfare of our planet and the people.

1. How is sustainability implemented in IKEA's supply chain? What are the programs created to promote this?

   Every organization has a different approach and understanding of the idea of sustainability. Even more with where and how it can be efficiently incorporated within the system. The above-formulated research question aims to identify IKEA's definition of sustainability and the programs they have created to support this direction. It is critical to have a solid foundation on the purpose of doing organic business to be able to come up with systems that properly incorporate this goal within the organization without negotiating business performance.

2. Which sustainability factors of IKEA's supply chain contribute to their business performance?

   The goal of this question is to explore the different practices in the organization's supply chain and identify which of the sustainable factors implemented in their supply chain divisions significantly contribute to the growth in IKEA's corporate performance. The focus will be on how the distinct areas of sustainability i.e., human, social, economic, and environmental are integrated into the manufacturing, production, and distribution sectors of the enterprise and their effects.

3. What can other organizations learn from IKEA's sustainability-focused supply chain management?

   The above question is formulated to be able to provide insights and possible suggestions for other organizations that seek to follow or be inspired by IKEA's success. A successful sustainable supply chain is a complex network that requires a thorough understanding and strict application of values and goals in all phases of operations.

3. Review of Related Literature

3.1. The Furniture Industry

A few of the reasons for the booming of the furniture industry are the real estate and hospitality projects. The continuous developments in commercial and residential real estate projects and improvements in the hospitality trade have aided the economy which created a strong demand for furniture. Other factors like the increasing demand for luxury and premium furniture for

investments and infrastructure developments have fuelled further growth in the market. (Business Wire, 2022).

The furniture industry in Europe alone accounts for half of the world's furniture production with a production value of about € 82 billion in 2008. With its fast-paced business and strong market demand, the global furniture market has grown exponentially and was valued last 2021 at a whopping $ 637.26 billion. (Business Wire, 2022). The furniture business' material and service costs make up more than 60% of the production with the value-added taking up 40%, and labour costs accounting for 78%. It employs various raw materials to manufacture products ranging from wooden boards to metal, leather, and glass. (Stasiškienė, 2008). Profit-wise, the said industry is generating lots, but with such heavy needs for raw materials and a tedious production process, comes the amount of pollution and waste it creates throughout the supply chain. Industrial emissions and waste (e.g., packaging waste and chemical or hazardous waste) are two of the main concerns that greatly affect the furniture industry. A great number of organic solvents are used in the processes and are emitted both directly and indirectly into the air which is a health hazard. Solid waste is normally a result of the product's end lifecycle when it is no longer reused, refurbished, or is mainly disposed of ending in landfills. According to a study, only about 30% of old furniture ends up in second-hand or third-hand markets which helps in extending the lifetime of the product. (Stasiškienė, 2008).

Retail generates significant waste on the environment with direct and indirect impacts. Energy consumption is a direct impact on the production process of retailers while harmful gases are the result of this consumption. (EI, 2019). The effects of solid wastes due to item disposals, greenhouse gas emissions from chemicals used, energy consumption, and transportation are concerns for the retail industry as consumers become more environmentally conscious. (EI, 2019).

It was reported in 2020 by the World Bank Group that 2.01 billion tons of solid waste were generated in the world due to poor waste management. It is forecasted that global waste will grow to 3.40 billion tons by 2050. (The World Bank., 2022).

3.2. Gearing Towards Sustainability

As our planet face climate changes, more people are becoming environmentally conscious. According to a Business Wire report, findings from a 2021 GreenPrint survey show that 78% of people are willing to buy products that are sustainably sourced and labelled. Sustainability focuses on the planet, people, and profit which equates to the environmental, social, and economic pillars. It has been said that approaches focused on this led to better economic performance and a more competitive edge over other companies that emphasizes only 1 or 2 of the three practices. (Laurin & Fantazy, 2017).

In recent decades, the importance of sustainability and doing business that is environmentally and socially sound have become important in the society that many companies found it essential to incorporate sustainability into their systems. Stasiškienė (2008) states that the integration of such systems is rare hence assuming that social and environmental management is not linked to a firm's economic success. The lack of integration to instantaneously coordinate and develop the economic, environmental, and social performance of businesses deem to be a challenge in sustainability management. This combination means that the environmental and social concerns are to be fully considered in the decision and activities of all the sectors while ensuring that such considerations will still enable the business to generate profit and be economically successful.

In a study by De Marchi, Di Maria, & Ponte (2013), the environmental innovations mostly considered by the furniture industry players are sustainable processes within their input,

production, final product, and distribution and sales steps. It has been identified that companies strive to use recyclable, recycled raw materials, and materials that are responsibly sourced during the input stage, while in the production process, the goal is to maximize eco-efficiency, reduce emissions, and have a controlled waste management system. In the last three steps of the value chain, it is important to be able to offer durable, recyclable, and environmental-friendly accessories that are placed in fit and organic flat packaging that helps in their efficient transportation.

A Balanced Scorecard was developed as a measurement to identify what is lacking in terms of business performance in the efficient placement of an organization's strategies. Through this concept, many have adopted what is called a Sustainability Balanced Scorecard (SBSC) to incorporate sustainability management into the said tool. This helps link the environmental and social aspects in an economic perspective in one framework with the purpose of helping organizations understand, prioritize, and make better decision-making processes. The successful implementation of this aid is known to result in a win-win outcome for all aspects considered. (Stasiškienė, 2008).

To provide an overview of the absorption of sustainability in the supply chain system and the different strategies implemented, we break down the different categories in the processes of the furniture industry which most likely led to the adaptation of a closed-loop supply chain network.

3.3. Supply Chain Management

There is relevance in first understanding the different aspects of supply chain management integrated into the works of an organization. Supply Chain Management (SCM) is the process of managing the exchange of materials and information from the purchasing of resources, manufacturing end-products, and the delivery of these to the customers (Laurin & Fantazy, 2017).

3.3.1. Sustainable Supply Chain

Even in the early research on sustainable supply chain management, management was dedicated to understanding the technical and operational aspects of the practice in relation to the 'collecting, testing, sorting, and remanufacturing of returned products.' (Gupta & Palsule-Desai, 2011). The practice can be classified into three categories: "(i) Production planning, scheduling, and controlling; (ii) Inventory management; and (iii) Reverse logistics." (Gupta & Palsule-Desai, 2011).

A few of the identified concerns related to protecting the environment are the challenge in resource consumption and the reduction of generated biodiversity. With production, emissions and wastes that pollute the earth are top issues. (De Marchi, Di Maria, & Ponte, 2013). There is also a major concern on the handling and the waste generated by end-of-life products and how these can be tackled. Issues such as those mentioned are the heart of a sustainable supply chain with the added importance of still being profitable.

There is relevance in first understanding the different aspects of supply chain management integrated into the works of IKEA. Supply Chain Management (SCM) is the process of managing the exchange of materials and information from the purchasing of resources, manufacturing end-products, and the delivery of these to the customers. (Laurin & Fantazy, 2017). Sustainability, by definition, is the pursuit of maintaining financial profitability while improving social and environmental impacts. (Laurin & Fantazy, 2017). A sustainable supply chain is a set of practices that identifies environmental impact as crucial and considers this in all stages of the product and incorporates this perspective in the product's entire life cycle. (Laurin & Fantazy, 2017). Corporate sustainability performance

is an important concept as it includes the techniques and methods integrated by an organization to improve and help society and the environment while doing business. (Laurin & Fantazy, 2017). Sustainability integrated into the supply chain poses challenges as there is a lack of guidance and understanding in the area in its efficient application to meet the current and future needs and practices. This combination presents Sustainable Supply Chain Management (SSCM). As defined by Gupta & Palsule-Desai (2011), SSCM is a 'set of managerial practices that include the following: (a) Environmental impact as an imperative; (b) Consideration of all stages across the entire value chain for each product; and (c) A multi-disciplinary perspective, encompassing the entire product life-cycle.'

The definition generally implies a perspective on environmental sustainability. Organizations must incorporate environmental impact as an integral part of decision-making not only for the firm but across the entire value chain beginning from the suppliers up to the customers. (Gupta & Palsule-Desai, 2011). SSCM is concentrated on the entire life cycle of a product from the design, production, distribution, customer delivery, recovery, and re-use.

From a broader viewpoint, sustainability includes the 'environmental management, closed-loop supply chains, and triple-bottom-line thinking that integrates profit, people and the planet into the culture, strategy, and operations of companies.' (Gupta & Palsule-Desai, 2011).

3.3.2. Reverse Logistics & Closed-Loop Supply Chain

Reverse logistics is one of the three categories of sustainable supply chain management (SSCM). In a general definition, it is the management of the flow of returned products and goods to form a closed-loop supply chain. It is restructuring the supply chain to manage products or components effectively and efficiently for remanufacturing, recycling, or disposal. (Laurin & Fantazy, 2017).

In Gupta & Palsule-Desai's (2011) review, similar definitions with different approaches were mentioned. Fleischmann et al. (2017) segment reverse logistics into the areas of distribution planning, inventory control, and production planning. Carter & Ellram (1998), in a more holistic perspective, are focused on minimizing materials used in the forward system to lessen the flow back of materials, provide more opportunities to reuse the said materials, and better facilitate recycling these materials. With this definition, Carter & Ellram (1998) distinguish the valuable players and essential factors in the internal, external, and environmental aspects of reverse logistics to understand the works of the practice. Lastly, reverse logistics per Gungor & Gupta (1999) focuses on 'environmentally conscious manufacturing and product recovery.' The context of this approach is to integrate environmental thinking into a product's development – this includes product design, raw materials resourcing, manufacturing process, distribution of the product to consumers, and its end-of-life management. The last phase of a product's lifecycle is its recovery which is further divided into processes of recycling and remanufacturing.

As defined by Raj Kumar, N. & Satheesh Kumar, R.M. (2013), 'Closed-Loop Supply Chain Management (CLSCM) refers to all Forward Logistics in the chain (like

procurement of materials, production, and distribution) as well as the Reverse Logistics to collect and process returned (used or unused) products and/or parts of products to ensure a socio-economically and ecologically sustainable recovery.' The way businesses have been producing beyond the limits of our planet has caused resource scarcity and worsened climate problems. (Malmgren & Larsson, 2020). IKEA's transition from a linear to a circular economy has made an impact on this issue via customer returns and reverse logistics in the prolonging of product lifecycles.

An additional description of closed-loop supply chain management (CSL) per Guide & van Waasenhove (2006) states that is the design, control, and operation of a supply chain system in the efforts to extend a product's lifespan and recover its value over time through returns. (Gupta & Palsule-Desai, 2011). Such value-added recovery activities are a result of the evolution of CLSC which includes four phases. Phase 1 exclusively focuses on the technicalities of reverse logistics. Phase 2 is the expansion of its scope to include inventory, control of reverse logistics networks, and the remanufacturing of product designs. In phase 3, economic perspectives were integrated into the reverse supply chain coordination better comprehend the strategic implications of the product designs and processes. The 'Global system design for profitability' is the development in phase 4 and was further expanded in phase 5 involving the marketing sector in the pricing, distribution, and consumer implications. (Gupta & Palsule-Desai, 2011).

Organizations need to incorporate in decision-making the impacts of their business on the environment and is vital that this is implemented across the entire value chain. (Laurin & Fantazy, 2017).

3.4. Sustainability and Corporate Performance

It has been an ongoing debate about the relationship between profitability and sustainability in the corporate world and the different industries. A Harvard Business Review by Whelan and Fink (2016), states that executives have a mistaken belief that the costs of integrating sustainability into their company's business strategies outweigh the benefits which makes them reluctant to invest in green business. Another article states that many have the perception that business avoids sustainability programs as there is a misconception that green initiatives cut back profit as it is highly expensive. Focusing on the short-term goals, however, can hurt corporations that do not invest in the environment because, in the long run, it'll be harder to recover when resources and opportunities become scarce. (Challenge Advisory. 2022).

3.5. About IKEA

IKEA was founded in 1943 in Sweden by Ingvar Kamprad. Headquartered in Sweden, this multinational conglomerate designs and sells easy-to-assemble and quality home furniture, appliances, and accessories at an affordable price. (IKEA, 2022). It is the world's largest furniture retailer since 2008 and continues to be the most valuable furniture retail brand as of 2021 with a value of over $21 billion. (Statista, 2022). The company is currently with over 466 stores worldwide in 63 markets. 275 of its stores are in Europe, with Germany having the most in the world. (IKEA, 2022).

3.5.1. Supply Chain Framework

The adaptation of the organization's multiple Supply Chain Management techniques has made it possible for IKEA to offer products to their customers that are stylish yet high-quality and made at low prices – this follows its company purpose "to create a better everyday life for the many people." The corporation has aligned its capabilities to their belief resulting in the creation of its Supply Chain strategies through the efficient utilization of resources and the promotion of eco-friendly product designs. (Abdalla, 2020).

IKEA's supply chain consists of three sectors about the different phases of the value chain. The Primary Sector is for the acquisition of raw materials, the Secondary Sector is for the manufacturing of the products, and the Tertiary Sector is for the goods dissemination and retail positioning. By organizing the operations within each of the sectors, the objective to have a sustainable supply chain is met with positive implications for the environment. (Abdalla, 2020).

IKEA prioritizes its relationship with its suppliers as it is not a primary sector company which means it is reliant on others to provide their needed raw materials. The primary sector is responsible for providing, producing, and delivering resources for the development and creation of products. (Clara, 2014). While the quality of the sourced material is important, the business seriously considers the source of the resources. IKEA's supply chain policies are critical in the negotiation of the prices and ensure rules, procedures, and conditions in the sourcing facilities are in strict abidance to its standards. (IKEA, 2022).

The manufacturing stage or the secondary sector is the phase in which the supplied resources are efficiently and effectively utilized for the creation of IKEA's products. The company is globally known for its extensive range of products that are meticulously designed based on market preferences. The designs are curated in such a way that base raw materials can be flexibly used on their wide range of products. With such a well-thought scheme, resources are efficiently used while keeping energy consumption low maximizing the benefits in the production of high-quality yet low-priced products which satisfies consumer needs. (Abdalla, 2020).

All profit-making organizations provide services to reach customers which includes product transportation and retailing. IKEA takes seriously innovating its retail and logistics sector otherwise known as the tertiary sector. To effectively disseminate products to the different retail locations and customers, the company has designed compact and biodegradable packaging to enable the delivery of more items in every load or shipment. (Abdalla, 2020). The usage maximization of every container helps to decrease carbon releases and shipping costs. IKEA appropriately makes use of different shipping methods from air transportation, sea-freight, and railway to the usage of different truck sizes to accommodate their needs ensuring the generation of zero to little emissions. Additionally, the product packages are made from recycled materials from their waste products. (IKEA, 2022).

As cited in Abdalla's (2020) paper, business-to-business relations across the entire chain is basically what a supply chain relationship is about. The relationship is the exchange of the parties' business volume and prices, and the sharing of their common objectives and other information such as visions, planning, processes, and finances. IKEA has built a core

foundation by strengthening its relationship not only with its suppliers but also with its employees. By putting importance on these affiliations, the company can build value internally and externally which is then reflected in their consumer relations. IKEA gives preference to all its affiliations; it ensures that support is provided by having monitoring personnel for all organization functions in all locations which looks out for the in-flow and out-flow of materials as well as in all the production phases resulting in a smooth-running supply chain. Competitive advantage is achieved because of the alignment of IKEA's supply chain with its organizational structure.

3.5.2. Commitment to Sustainability

IKEA has made sustainability an edging tool to reduce its costs. The drive to become an environmental business started as a response to society's pressures and to show full compliance with eco-policies, to which the company, later, realized the potential savings that come with the implementation and development of such strategies. The company started developing environmental and social guidelines consistent with a solid set of objectives and requirements that is to be applied in every phase of their value chain. (De Marchi, Di Maria & Ponte, 2013).

IKEA has continuously openly shown its commitment to sustainability through the different strategies and works the company has taken into heart. It rigorously sources its raw materials, offers low pricing to consumers, and applies a lean supply chain strategy, inventory management strategy, and returns strategy – all of which must be in full compliance with being people and environmentally friendly.

To ensure adherence to IKEA's sustainability standards, the company implemented a program called "IWAY". IWAY is its base foundation in developing and conducting sustainable business activities. IWAY or the IKEA Way is the organization's program to responsibly source products, services, materials, and components. Through this, it provides clarity on IKEA's expectations of their suppliers and service providers to value and protect the environment, animal welfare, and social and working conditions. (IKEA, 2022). IKEA believes that a responsible business can positively impact people, society, and the planet. IWAY is designed to promote positive impacts on the environment, provide fair and secure employment to workers, respect children's rights, and protect animal welfare in the value chain. (IKEA, 2022). The principle is based on human rights, environmental protection, and worker security and is mandatory for all connected to the company to follow and conduct business with this standard.

From the sourcing of the raw materials, IWAY ensures that the suppliers they affiliate with follow such high environmental standards. Beginning with the raw materials, the goal is further implemented through creative and efficient product designs. With efficient usage of materials without compromising on quality, wide innovative product designs, and multiple functionalities, IKEA's concept is easily incorporated into its low-price strategy. (Abdalla, 2020). Making trade-offs via self-service models or DIYs (Do-It-Yourself) instead of relying on a sales workforce and the easy assemble low-cost modular designs instead of relying on third-party manufacturers, has put the company in an advantageous position to cut costs. (Mittat, 2013).

A lean supply chain has enabled IKEA to achieve desired outcomes and effective inventory management through clear internal and external communications. Applying such a strategy

reduces mistakes and operation losses, and enhances quality, efficiency, and employees' and customers' satisfaction. IKEA has strategically placed units from the supplies and production near distribution units to save on transportation costs and lessen carbon emissions. (IKEA, 2022). This strategy combined with its unique inventory management has put IKEA in a superior position against its market rivals. It combines retail and warehouse processes in every store, the cost-per-touch technique which enables customers to select products and retrieve packages themselves, close monitoring of re-orders and deliverables for an efficient product flow within stores, and the right inventory onsite to ensure availability of stocks needed by customers and efficient storing combatting the cost of lost sales and unnecessary storage. (Clara, 2014).

To further show their sustainability responsibility, IKEA offers a long-term return policy for purchases. The no-nonsense returns policy gives customers 365 days to change their minds should it not satisfy their wants or needs. Products can be returned, even assembled, if it is unused or is still in good condition. Customers have the option to refund or exchange the item. (IKEA, 2022). The company extends its services through e-commerce to help customers facilitate their product returns. Customers are easily assisted in their quick return process by using an online form and identifying the products and the requested information. (IKEA, 2022).

With the help of the Optoro platform, IKEA can reduce reverse logistics waste. Optoro is a technology platform improving the retailer's returns management by encompassing the different distribution centres and retail stores and its customer support centre to identify potential optimal locations for the return goods to be distributed. (IKEA, 2022).

4. Conceptual Model and Theoretical Framework

This study is based on the theory based on Gupta & Palsule-Desai's (2011) work which states that a firm's operational decisions and their environmental effects are direct. Integrating the environmental considerations usually means additional costs and process constraints in the supply chain system. Per the said authors, while such trade-offs are complex, with the proper knowledge and implementation, opportunities are vast.

Many organizations still lack the understanding of a sustainably integrated supply chain and struggle to make decisions that are economically and environmentally sound. Much more so is the challenge to execute business decisions revolving around sustainability. Based on a recent GreenPrint survey, 78% of consumers are more than willing to purchase products that are considered sustainably sourced and produced. This change in consumer preference is because the earth is experiencing severe climate changes and purchasing products that are eco-friendly is one of the many ways to combat this issue.

Businesses generate most of our world's pollution with wastes accumulated from production to the item disposal at its end-life cycle. Considering the environmental impact of each of the product's stages needs to be prioritized. Rational approaches can be used to capture comprehensively an organization's environmental impact on a product's life cycle.

5. Methodology

5.1. Research Design

An exploratory qualitative case study approach will be used for this paper with the use of quantitative representation of data. As per general definition, this is a method where researchers

seek to identify the how's or why's of an event, allowing for a detailed study of the subject through the exploration of its characteristics and implications, and thus, be able to provide development insights to other organizations in the translation of theory to real-world application. Exploration of the company structure and the incorporation of their supply chain strategies will be studied. Learnings from this program/ will be applied for better analysis of the paper.

5.2. Data Sources

Secondary data will be the primary source for this study. Information and articles published by the organization classified as internal data will be utilized in data gathering. The collection of external data will be referenced using journals, newspapers, websites, and case studies relevant to the topic. Books and lecture materials used throughout this course will be referenced for the application of my acquired supply chain knowledge to this study.

5.3. Data Collection

The research questions formulated will help grasp the high-level, management perspective of running a sustainable supply chain in the retail industry. The first step to understanding the whole concept is to identify the who, what and why of IKEA – who is IKEA in the industry, what to do they do and offer, and why they do such business. From there, we then grasp the organization's definition of sustainability, their manufacturer-to-consumer process, and how their vision of people and planet positivity is incorporated into each production stage - from the sourcing of its raw materials and the creation of product designs to ensuring components compatibility to the various programs offered to extend product life.

An analysis of how a reverse supply chain strategy produces a positive outcome and tackles environmental issues, and how its proper implementation can lead to reaching its goal of becoming a 100% circular business in the coming years. Furthermore, determining the extent of the company's efforts to do clean business (including e-commerce and technological advances/platforms) while still generating profound income will also be studied. A comparison of the company's annual sustainability and financial reports will be analysed to see the trend and its overall effects on its sustainability commitments and corporate goals.

6. Content Analysis and Results

6.1. Supply Chain Strategy

The "People and Planet Positive Strategy" of IKEA has been its sustainability strategy in response to the fast-changing global transformation with much importance on green business. The company, while ensuring business profitability, mentions its primary focus regarding the environment and social issues into three categories which tackle climate change, excessive consumption, and social inequalities. According to a 2022 study by Maryville University, human doings are the primary cause of our climate changes as we require and depend heavily on natural resources for our never-ending consumption. This holds true as our population continues to grow, and our resources are fast depleting. Sustainable practices are considered imperative in running businesses in today's times. In the retail industry, the non-stop production of goods contributes highly to the pollution and waste in the world, not to mention the excessive consumption and irresponsible handling of purchasers.

IKEA strives for long-term goals that can function while supporting the community and the economy ensuring consumer satisfaction without compromising the needs of future generations –

operating within the boundaries of the planet. The company was born in southern Sweden where people had to live with little resources, hence resource utilization has always been at the heart of IKEA. To achieve becoming a sustainable business, the company shifted from a forward to a circular chain. A circular supply chain or more commonly known as a closed-loop supply chain is defined by Guide & Van Wassenhove (2009) as "the design, control, and operation of a system to maximize value creation over the entire life cycle of a product with the dynamic recovery of value from different types and volumes of returns over time." In a dissertation by Govindan, Sileimani, & Kannan (2015), this setup is the flow of where used products are collected and attempted to re-introduce them into the system through recycling, remanufacturing, repairing, and disposing of parts. It is vital to take note that to be able to re-use and re-introduce products and parts, the baseline should be the raw materials used in production. IKEA directs its attention to resolving root causes instead of only band-aid treatments in line to have positive impacts on society and the environment.

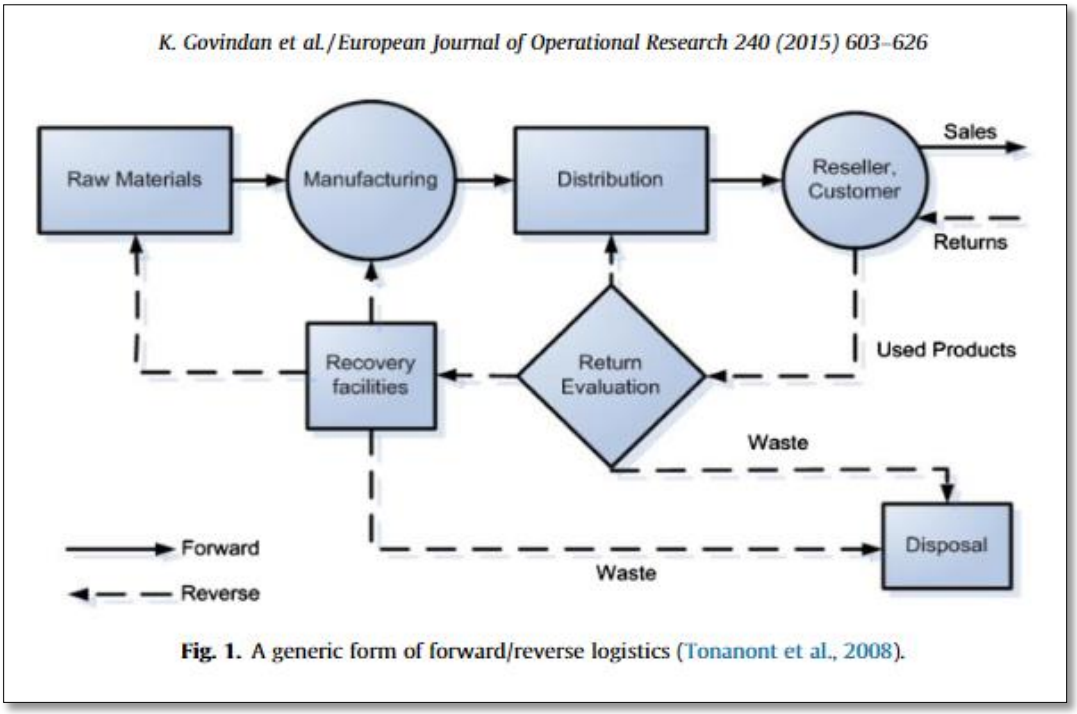


Fig. 1. A generic form of forward/reverse logistics (Tonanont et al., 2008).

Above is an illustration from the published paper of Govindan, Soleimani, & Kannan (2015) on how a reverse supply chain differs from linear logistics. This figure shows that while forward-moving targets only selling the product, a reverse direction has the intention of being able to re-enter used and/or unwanted products into the market. The goal of a reverse process is to become a closed-loop chain that never-ending circulates the product and materials into the market and the system generating less to zero waste at disposal. It is to be noted, however, that this circular flow is unattainable if the materials used are non-recyclable and non-renewable.

6.2. IKEA's Value Chain Process

IKEA having the goal of becoming a 100% circular business by 2030 has acknowledged that while there is still a long way to go to reach this goal, they believe this is possible through proper integration of strategies and coordination with their affiliates. Abdalla (2020) has categorized the main divisions of IKEA's value chain – this being the Primary, Secondary, and Tertiary sectors ending with the sales phase. The below graph adds to the already existing study of the end-of-life process of IKEA's becoming circular value chain.

SUPPLY CHAIN DIVISION		
Sectors	**Target Area**	**IKEA Focus**
Primary	Raw Materials Acquisition	Responsible sourcing
		Low carbon generation
		Reduce water footprint
		Social responsibility
Secondary	Manufacturing	Less material usage in products
		Eco-friendly material (Renewable, reusable, recyclable, separable)
		Product quality and design
Tertiary	Transportation	Efficient and planet-safe packaging
		Vehicle utilization
	Retail and End-of-Life	Generous returns policy

***Sectors and Target areas derived from Abdalla (2020).**

In relation to the above table that summarizes the sustainable strategies of IKEA in every step of its value chain, we dive further into its specifics tackling each identified major factor that contributes greatly to its sustainable profitability. In IKEA's 2021 Sustainability Report, it was stated that the largest factor that contributes to the company's climate footprint comes from the extraction of its raw materials at 52.2% amongst other causes. The company uses mainly cotton, wood, and glass materials in their products – which are renewable (cotton and wood) and glass (recyclable). The ultimate objective is to 100% sustainably sourced cotton and wood. In the said recent report, 100% of cotton is responsibly sourced since 2016 while wood had made improvements from only being 61% sustainably sourced in 2016 to a jump of 99.50% economically sourced in 2021. All suppliers precisely follow IWAY, IKEA's Code of Conduct, and are expected to comply with all criteria. To further strengthen and extend its sustainability goals to its providers, the company takes part in various programs specific to the material. For their cotton sources, IKEA works with WWF (World Wildlife Fund) and is a co-founder of the Better Cotton Initiative (BCI). For wood, the organization is compliant with the U.S. Lacey Act on illegal logging and is an alliance with the promotion of legal wood trade such as the Timber Retail Coalition (TRC) and Forest Legality Alliance (FLA). While challenging and a long-term shot, IKEA considers these investments as opportunities that are vast in the long run. Not only are they able to safeguard biodiversity and ensure the availability of these resources but also, limited price volatility which means costs are controlled down the line.

(As of 2021)	Sustainability Fulfillment	Main Contributors	Environmental Impact	Monetary Impact
Cotton	100%	24% China 24% Pakistan	19% decrease in GHG emissions Cut water consumption by half 30% less usage of chemical pesticides Cotton reduction by blending with other textiles like linen and cellulose fibres	Tradable commodity due to availability Stable supply = Limited price volatility
Wood	99.50%	26% Poland	Eliminate formaldehyde chemical 14% recycled wood used Investment of EUR 100 million for reforestation, restoration, and better forest management practices. Ban on sanitary fell wood in Russia and Siberia to raise awareness and improve responsible forest management Termination of China supplier due to falsified forestry documents	Long-term financial investment

***Consolidated information from IKEA Sustainability Report 2021.**

Design standardization to make interchangeable parts that fit most if not all products were one of the innovative ways to cut down on manufacturing costs and steps. IKEA follows its design principle in forming a standardized design that has adaptive functions, quality for easy care, repair and assembly, recyclability, and the right price for remanufacturing or the making of recycled material into new material. Its renewable and recyclable raw materials make it possible for the products to be easily recycled, remanufactured, refurbished, and reused. IKEA has invested a total of 2.1 billion in renewable energy as of 2016 in renewable energy in wind turbines and solar panels, producing 71% of that against its operations energy consumption. Lastly in its manufacturing

stage, IKEA ensures to blend sustainable materials into their raw materials to lessen resource usage. An example would be the replacement of wood with air using the Board on Stile technique enabling the production of 23 boxes from a tree instead of just 13 boxes, another would be the blending of quality cotton with linen and fibres. This, however, is implemented with great consideration for the end product quality.

Further, into the supply chain, sustainability is integrated using fibre-based flat-packaging in the distribution of goods and the utilization of the fleet to maximize the number of products being transported in each. The fibre-based material in the packages is eco-friendly that are easily recyclable, while the flat design efficiently packs and transports products making full advantage of storage and fleet space which cuts down carbon emissions from packaging and shipping. Retail-wise, IKEA measures its sustainability impacts in homes through sales reports on certain products such as their LED bulbs, Energy Star Rated appliances, and LADDA rechargeable batteries. LED bulbs use 85% less power than traditional incandescent bulbs and can last up to 20 years making them sustainable and lessening energy consumption and waste. In 2021, 69.3 million LED bulbs were sold worldwide.

The end-of-life process is an additional step in IKEA's circular business goal. The company offers a 365-day generous returns policy to encourage consumers to return used and unwanted products. When these are returned, quality is evaluated as to whether items can be resold, refurbished, or remanufactured – all this to avoid landfill waste and the re-introduction of the product or its part into the retail or manufacturing system.

IKEA also has an innovative tactic in its inventory management which plays a big part in cost savings. In each store is a built-in warehouse to efficiently stock products – a store mainly consists

of a showroom and a pallet area where packaged products can be taken by the customers themselves. A ‘cost-per-touch’ strategy is implemented as customers select and retrieve the items themselves which means lesser cost to the company. It is believed that more cost is associated with a product that is handled by multiple hands. Logistics and warehouse managers are employed in every store that handles its inventory and identifies which items need to be re-ordered to ensure efficient flow in the shop. With replenishing stocks, a minimum-maximum process is followed – minimum amount of product available before reordering and a maximum amount of a product that can be ordered at a time.

6.3. Corporate Relationship

IKEA prioritizes inter-relationships to build a strong foundation in doing green business. The company has identified that the core of doing sustainable business is its raw materials and services sourcing. It is operated through a suppliers/franchise system that has multiple companies that work under the IKEA trademark and mainly provides for its offered products and services. Known for its “one brand – many companies” label, IKEA has created its supplier code of conduct called the IWAY that guides every decision of the company and its affiliates, which helped the organization build an ecosystem that shares the same vision. IWAY, in an overview, sets the standard and requirements in doing business with IKEA that strictly follows legal and social compliance and environmental standards. Due to the long supply chain and numerous suppliers and sub-suppliers, the company also took a step up and closely monitors its Sustainability Product Score Card. This provides metrics to the organization on the performance and abidance of its partners to the company policies and regulations. The scorecard follows criteria that are aligned with their “People and Planet Positivity” direction such as volume of material used (the lesser, the better), kind of material used (renewable, recyclable, separable, environmentally better materials), product

quality produced, and transport efficiency (utilization of vehicles in transporting maximum products). For reliable and unbiased reporting, IKEA performs announced and unannounced audits through its internal IWAY auditors and third-party organizations. (IKEA, 2022).

6.4. Sustainable Profitability Measurement

Critics have always judged IKEA's business performance to its sustainability goals. How the company can offer low-priced with good quality products can be cynical in the eyes of many. The various factors involved in identifying business performance and sustainability success can be overwhelming. By tradition, it is no doubt that financial measurements are critical and are good indicators of how a business is doing, however, it only pertains to the current year. With sustainability measurements in the picture, the relationship between sustainability and company performance can be measured in different ways. A study by Chen (2015) that subjects sustainability and its influence on company performance in the manufacturing industry has noted that there are diverse results in collected studies depending on how these are measured. An organization's corporate social performance can be measured not only financially but also non-financially. Success can be measured non-monetarily through many ways such as reputation ratings, social audits and observation, and managerial principles and values. With IKEA, we can identify such success through the number of their suppliers, shareholder engagements, consumer perspective, sustainability improvements, and branding image.

The following tables are consolidated data from IKEA's sustainability and financial reports. The graph is provided to reflect a quantitative representation of the company's financial standing in the last decade. The analysis baseline year is 2016 as it was a significant time for IKEA in its commitment to its sustainability goals. According to IKEA's published report, in 2016 a decision

was made to make use of the company profit and re-invest it towards its “People and Planet Positive” strategy. Profits were reinvested into waste materials recycling, more sustainable materials, and renewable energy as it also fully transitioned its fleet to 100% electric use.

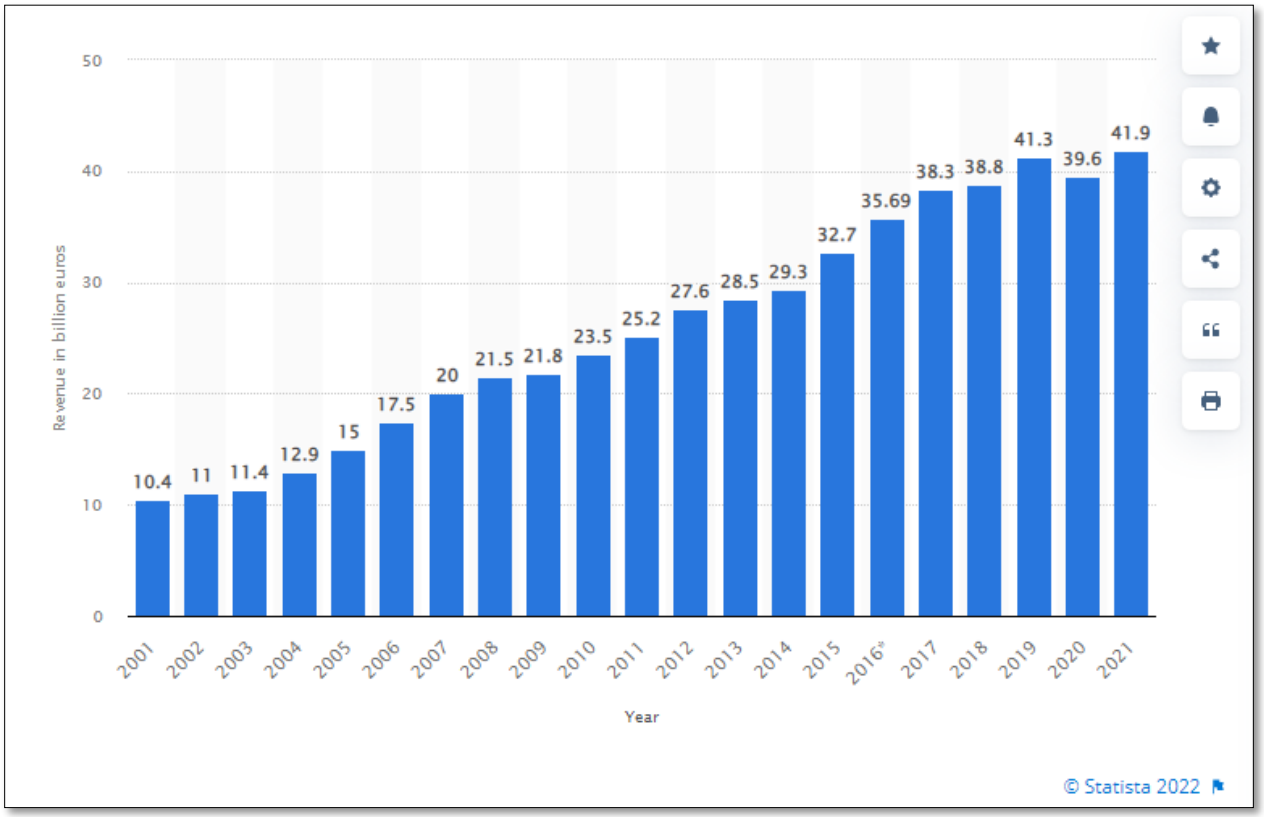
Supplier Types	2016		2017		2018		2019		2020	
	#	%	#	%	#	%	#	%	#	%
Home Furnishing	1,028	97%	970	98%	1,000	98%	1,052	97%	879	95%
Transport Suppliers	344	90%	236	97%	339	98%	349	97%	244	94%
Food Suppliers	88	63%	79	87%	158	96%	129	97%	108	99%
IKEA Components	381	97%	232	99%	201	99%	210	98%	300	95%
IKEA Industry Suppliers	805	38%	736	60%	514	60%	421	77%	398	72%
IKEA Catalogue Sites	31	80%	46	63%	51	80%	41	87%	31	93%

***IKEA Industry Suppliers dropped in FY20 due to the limited audit capacity caused by COVID-19. Source: IKEA 2021.**

The above table is the consolidated 2016 to 2020 report showing the number of suppliers working under the IKEA trademark and their percentage fulfilment to the IWAY conduct. The drop in the numbers in the year 2020 is due to the COVID-19 pandemic that restricted business as usual for all industries. The above numbers imply that while the number of suppliers is crucial to the business, IKEA ensures sustainability standards and requirements are also met. In Lee and Yan's 2019 study on the relationship between suppliers and buyers, they have determined that suppliers are better able to provide when they have a thorough concept of the product. Suppliers included in an organization's plans and strategies have more confidence and cooperate better with their buyers. Few studies have already been conducted that validate the causal relationships in supply chain bargaining, aside from the economic goal, developing a framework that supports collaborative innovation builds a win-win business relationship. The said study concluded that such cooperation and collaboration enable suppliers to lower their cost of market development and inventory management and those being supplied can achieve value at a reasonable cost. A contractual

arrangement with mutual benefits provides supply chain stability, collaboration, and consistent sustainability. (Lee & Yan, 2019).

Annual revenue of the IKEA Group worldwide from 2001 to 2021 (in billion euros)



*** Source: Statista. IKEA – Statistics & Facts. 2022.**

Presented above is a decade's worth of IKEA's yearly revenue from 2001 to 2021. Shareholders invest in a company due to its profitability as making big revenues mean higher shares and dividends, and vice versa, it is beneficial for the company to have shareholders as their invested capital can be used to fund its operations. The mutual relationship between the corporation and its shareholders allows opportunities for the investments to grow considerably, which reflects the success of a company. (Stein, 2018). The ability of the company to generate revenue is vital to the shareholder interest as this provides insight into the company's financial health and its ability to generate profit.

The World's Most Valuable Brands 2022

Rank	Brand	Brand Value	1-Yr Value Change	Brand Revenue	Industry
19	Walmart	$29.5 B	12%	$341 B	Retail
34	Home Depot	$19.2 B	6%	$110.2 B	Retail
40	IKEA	$15.8 B	3%	$46.2 B	Retail
41	Zara	$14.7 B	9%	$21.9 B	Retail
55	CVS	$12.3 B	-10%	$187.2 B	Retail

***Source: Forbes (2022).**

According to a Forbes 2022 survey, IKEA placed 40th in the Most Valuable Brands list in all categories and tops 4th in the retail category. It was highlighted in the report that IKEA is highly valued due to its consistency and transparency to its customers. The percentage increase of its value from the recent year reflects strong trust and preference amongst its consumers. In a study by Danziger (2021), it was stated by Katie Thomas of the Kearney Consumer Institute that "people are looking for and still desire institutions that strive for the greater good." Businesses that have built their foundation on trust with customers by picking the right message that is in line with what is socially important and are consistent, honest, and transparent have proven to attract and gain consumer trust. More so, those built on trust can leverage to further strengthen customer relationships and have a competitive advantage. Brand image is simply consistently proving to society the alignment of the company values and actions.

While speculations continue to arise on the negative correlation between corporate performance growth and sustainability, IKEA's data and strong market presence contradict otherwise. Sustainability strategies have been implemented at every step of their value chain with the proper

metrics to measure, evaluate and monitor. By tackling the very first step of the problem, which is raw materials sourcing, the company has been slowly able to resolve natural resource depletion while attaining its social and environmental responsibilities. While suppliers are given a set of strict requirements and standards and are audited in doing green business with the company, it is evident in the numbers that many share the same principles. IKEA's presence and superior value chain put the company in an advantageous stand in the competitive market. With the fast-changing world and the need to keep up with the limitations of the planet, innovation has been a top priority. Focusing on circular product and design standardization, the company can utilize raw materials and reduce its production in manufacturing parts for products. The continuous effort to innovate and find alternatives in materials have resulted in producing and enhancing product quality with the efficient use of resources. In addition, its fibre-made flat-packaging and the efficient usage of the fleet have added to the company's sustainability achievements by reducing costs in package production and transportation fees. IKEA's generous returns policy is a step forward to being a 100% circular business by 2030 as it encourages customers in the responsible handling of used and unwanted products. With the renewable and recyclable materials used, the company is easily able to refurbish or re-use materials into creating new products with a much lesser cost in re-manufacturing.

Even amid controversies that come with green businesses, IKEA pursues being transparent and consistent with its sustainability goals. To ensure that products are manufactured to their standard, the company integrated a close monitoring system, regular audits, and rules that require all processes of the value chain to be at par with their commitment. Small steps, honesty, and consistency have gained IKEA the competitive advantage of being favoured by consumers and its stakeholder. The organization is fully aware that sustainability is no easy goal and is unattainable

alone, critics and issues are welcomed as they believe these will help them improve better processes that align with their social and environmental responsibilities.

7. Discussions

The overall objective of this paper is to examine the relationship between sustainability strategies and company performance with a special focus on the top player in the manufacturing/retail industry, IKEA. Known for its branding in its commitment to the people and planet welfare, this study explores its sustainability incorporated value chain through a case study method through which we delve into sustainability performance.

There is much controversy on how sustainable IKEA is compared to what is portrayed in its branding. There are also contradictory studies as to whether a green business is possible in a good-performing company. The development of a broad view on sustainability is an important task as it should consider the economic, environmental, and social aspects. The study indicates that while much has already been done on tackling environmental and social issues that are at par with success, the process is a never-ending journey as resources are continually being fast depleted due to humans' non-stop production and consumption. Learnings from the Swedish company's value chain show that while there are notions that investing in the future of our planet is a setback in revenue generation, IKEA proves otherwise. Tackling root causes and building a strong foundation are also key in its integration. Making certain that the first step of the supply chain is already sustainable enough would ensure a smoother process in the next steps as the value chain is a domino effect - from raw materials sourcing to manufacturing, distribution to retail, and as this is a closed-loop framework, end-of-life product handling. Companies should incorporate

sustainability aspects into their operations and business strategy perspectives, employ a thorough reporting system, and develop strong collaboration with employees and suppliers.

Implementing eco-friendly processes and values into an already complex system requires agility and flexibility - Quick enough to keep up with the ever-changing world and its issues and the ability to easily adapt. The action and reaction of a company reflect its knowledge and commitment to social and environmental issues. The determination of a company to preserver even with all the challenges while also being honest and transparent has earned its favour from consumers. Sustainable profitability can be measured in many ways, while the most common is through financial statements, it is also important to note that the driving factors in a company's revenue are consumer and shareholders' favours. Further studies should include the desirability and trust of customers and shareholders in an organization in determining a corporation's performance and success. This study was able to learn that while consumers will always be sceptical of green business, a company that continuously proves to be honest, transparent, and consistent with its commitment is better preferred.

8. Theoretical and Managerial Implications

With the findings of this dissertation, the theories presented hold to be supported by further studies and research that proves there are vast opportunities in sustainable businesses. It is important to note, however, that there is truth in this only with proper execution, integration, and effective management of the supply chain network.

Companies should build a strong foundation based on sustainability values to be able to properly execute and integrate this into the system. Its current framework must be reviewed to determine the necessary and unnecessary steps in the implementation of sustainability – all steps within the

chain have a domino effect. Setting standards and requirements that follow criteria is needed to measure performance which will help assess targets met and areas that require improvement. It is also vital to earning the trust of not only suppliers and shareholders, but also consumers. A strong rapport is crucial to strengthening the company standing in the market.

It is important to identify pain points and concerns to help businesses improve and develop further. Surely nothing is perfect even for a retail giant that already seems well put up. Equally important as profitability is a company's reputation, with the new normal after the COVID-19 pandemic hit the company has been facing backlashes due to services and demands not being met. IKEA should be more proactive in handling critics and issues to appease unsatisfied consumers. Due to the massive inventory storage, the organization can also learn from this unexpected event and investigate further improving its inventory handling and costing. More so, preparedness strategies should be put in place moving forward to ensure the minimal effect of future events on the business.

9. Limitations and Future Directions

9.1. Strengths and Limitations

One of the strengths of this paper is the sector-by-sector analysis of the organization's sustainability implementation in its supply chain system. Data on the organization's annual reports beginning in 2010 was collected to identify the possible factors and the impacts of the changes in their financial performance over the years during which was a time IKEA continuously revolutionized to become a sustainable company. This study has significant relevance to today's concern in the fight against climate change. Many are leaning towards organically sourced products, and businesses have had this ongoing drive to constantly improve and brainstorm worthy

products without sacrificing profitability. Through this study, organizations with a similar supply chain setup like IKEA will be able to gather information on their successful implementation of sustainable processes and apply them appropriately as needed.

There are a few limitations that this study brings about. The information gathered is pre-pandemic data only. While completing this paper, there was a substantial decrease in the overall business performance of the company when the pandemic started. COVID-19's effects were massive and were felt all over the globe, this comes with a lot of factors including manpower capacity, transportation restrictions, etc. Another is that data is based purely on secondary sources. No primary resource was utilized in this paper. Much of the information was taken from other related studies, journals, articles, and IKEA's publications. Lastly, the scope of this paper revolves around the normal situation, meaning the event that the pandemic brought about is not explored.

9.2. Future Research

There are a few suggestions for future research than can be conducted as an extension of this paper. The exploration of the COVID-19 pandemic's impact on the business performance of IKEA would be an interesting study given the heightened supply chain problems that occurred at the said time. In addition, adaptations to the improvised processes to tackle the pandemic supply chain issues can also be studied further. Should this be pursued, the study will be touching on the organization's supply chain risk management. An additional study to this can be the comparison or discovery of how IKEA handles its supply chain in circumstances with "normal" risks and "abnormal" risks.

Another idea is to explore the returns system of the business and how this reverse supply chain system (with the goal of becoming a 100% circular supply chain framework) can contribute to

their sustainability goals, improve their operational performance, and strengthen their supplier and customer relationships.

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