

Case Study

IKEA: Fostering Continuous Improvement

As corporate supply chains grow ever more vast and global, smart business strategists must equip themselves to anticipate and manage an array of environmental and social impacts, dilemmas and trade-offs outside the company's direct footprint.

Unchaining Value, a report by SustainAbility, the UN Environment Programme, and the UN Global Compact, explores a variety of best practices, drawn from different sectors.

The report illustrates how multinationals like IKEA, Unilever and Hewlett-Packard are working with suppliers towards a shared understanding of the role of sustainability in supply chain management and the mutual value to be achieved.

Included in the report are several case studies that illustrate a range of benefits that companies – and their supply chain partners – can realise from a collaborative, proactive and sustainability-minded approach to management across the chain, such as improved engagement & communication, capacity building, efficiency improvement, resilience, and risk avoidance.



Case study IKEA

Project 'The Staircase Model' for continuous improvement

Illustration Improved engagement and communication

Authors Daniel Esty and Andrew Winston describe IKEA as "a true environmental pacesetter" in their recent book *Green to Gold*.²⁰ Much as Nike and Disney suffered in the early 1990s, Esty and Winston describe how IKEA was attacked on a range of fronts for supply chain issues such as child labour, the use of woods from endangered forests and the presence of formaldehyde in one of its products.

In response, the IKEA Management Team developed a supply chain management system known as 'The IKEA Way on Purchasing Home Furnishing Products' – or IWAY. The initiative is resourced by some 80 employees, who work around the world, visiting suppliers and rating them on their social and environmental performance. A further 18 employees are foresters by training and work exclusively on understanding the sourcing for all wood in IKEA's products.

Central to IKEA's approach is 'the Staircase Model', which encourages continuous improvement from its suppliers by establishing four levels of progressive achievement. Every new supplier must be audited against the Staircase Model before delivering its first shipment. Level 1 of the staircase is basically unacceptable and means the supplier must have an action plan for reaching Level 2, IKEA's minimum standard. Level 3 is a progressively higher standard, and Level 4 suppliers must meet strictest third party standards, such as those of the Forest Stewardship Council.

IKEA audits are not limited to 'tick-box' exercises, but – as their 'Notes to auditor' set out – each auditor must take care to "check that procedures work in reality". Auditors are required to "explain the IKEA philosophy and check that the supplier understands the key environmental impacts and has started to measure and follow-up". If necessary, IKEA will step in to raise standards. Esty and Winston give the example of a loan made by IKEA to a Romanian furniture supplier so that it could invest in modern ventilation and air filters, and a machine to turn briquettes from waste to energy and profit. The auditors are subject both to internal audits by IKEA and third party audits. The IWAY Council, which oversees the operation, is chaired by IKEA's CEO.

Insights:

- A staircase approach to standards drives continuous improvement.
- Good auditors are also coaches, enabling understanding of mutual benefits.
- Good relationships enable investments to help raise supplier standards.
- Suppliers can experience progress, benefits and long-term stability.
- All of the above helps to anticipate and solve potential problems.
- Leadership from the top is a powerful calling card and enabler.