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Can Sustainability be a Key  
Driver of Innovation and  
Competitive Advantage?  
Case of IKEA

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## **Abstract**

Corporate social responsibility (CSR) is a practice of companies on their way towards sustainability. It allows them to measure their impact on environment and society, and to create a balance between economic, social and environmental aspects. Becoming more and more sustainable means that companies need to find new ways of operating throughout the whole value chain that creates competitive advantage by providing an innovation opportunity. Innovation that concerns environmental as well as economic impact of the product/service on the society; that is called eco-innovation. Eco-innovation can be a guarantee of sustainable competitive advantage (SCA) to the companies that practice sustainability.

The purpose of this master thesis is to investigate the reasons companies practice sustainability and whether or not sustainability is a driver of innovation and competitive advantage. Since the global company IKEA is among top sustainability leaders in the Scandinavian region, we decided to study this company for our research.

Qualitative research and case study design were chosen as appropriate research methods to conduct this study. The global company "IKEA" was chosen as the case for the empirical studies of this thesis.

**Key words:** sustainability, innovation, competitive advantage, IKEA

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## List of Abbreviations

<b>BCI</b>	<b>Better Cotton Initiative</b>
<b>BOD</b>	<b>Board of Director</b>
<b>BSR</b>	<b>Business for Social Responsibility</b>
<b>CEO</b>	<b>Chief Executive Officer</b>
<b>CFO</b>	<b>Chief Financial Officer</b>
<b>CSR</b>	<b>Corporate Social Responsibility</b>
<b>FSC</b>	<b>Forest Stewardship Council</b>
<b>IWAY</b>	<b>IKEA Way</b>
<b>MDF</b>	<b>Medium-Density Fibreboard</b>
<b>NGO</b>	<b>Non-governmental Organization</b>
<b>R&amp;D</b>	<b>Research and Development</b>
<b>SCA</b>	<b>Sustainable Competitive Advantage</b>
<b>SME</b>	<b>Small and Medium Size Enterprises</b>
<b>TBL</b>	<b>Triple Bottom Line</b>
<b>TNS</b>	<b>The Ntural Step</b>
<b>UNICEF</b>	<b>United Nations Children's Fund</b>
<b>WBCSD</b>	<b>World Business Council for Sustainable Development</b>
<b>WCED</b>	<b>World Commission on Environment and Development</b>
<b>WWF</b>	<b>World Wild Fund for Nature</b>

## 1. Introduction

In the corporate world, the demand from customers and stakeholders has influenced significantly the way that managers think (Enquist et al. 2006). Moreover, the way that organizations think and act need to be changed extensively due to economic pressures, technological improvement and evolving needs of stakeholders (Brown & Eisenhardt 1998). According to Laszlo and Zhexembayeva (2011), the earth is not capable of supporting the current process from production till trash. The demand started to build from consumers, employees, investors, and society on companies to offer more eco-friendly products and services without sacrificing quality or price (ibid).

Nidumolu et al. (2009) argues that the concern to save the planet has created a battle between governments, consumer activists, and companies. Therefore, there is a need for companies to change their practices in the direction that addresses the issues related to the environment and society. The way of doing so is to implement sustainability into the company's daily practices (Guarnieri & kao 2008). According to Nidumolu et al. (2009), nature of competition is also changing because of more demand for sustainability thus enforcing companies to think differently about products, processes, and technologies. Moreover, the author emphasizes on the point that innovation is the solution for growth and improvement, especially in times of economic turmoil (ibid).

Several common themes emerge repeatedly across studies to suggest the linking of sustainability with innovation and competitive advantage; in context of several factors including environment and society.

All the firms encountering serious challenges in competition due to the rapid pace of social and technological change, increased awareness among customers, different social groups, NGOs, and governments, therefore innovation and technological advantage are the key factors in winning the market (Ansoff 1988; Miller 1989). They put pressure on companies to address these issues; therefore companies need to come up with innovative ideas. Nevertheless, some companies follow the proactive approach in order to deal with these concerns. The purpose of this thesis is to investigate and give an understanding of how companies can turn these challenges into opportunities for innovation and gain of sustainable competitive advantage.

Furthermore, we studied and analyzed the global company IKEA because the company's core business relies on the use of huge amount of natural resources

such as timber, and the company's operations has a direct relation to environment and society. Therefore, we found it interesting to investigate how IKEA practices sustainability, uses it as a source of innovation and in creating competitive advantage. At the end, we also tried to discover how IKEA could involve its stakeholders in sustainable innovation process.

### **1.1. Research Background**

There are several researches done on the topic of Sustainability and its link with the innovation and competitive advantage. Some of the leading researchers in this regard, on which our research is based as well, are Nidumolu et al. (2009), and Laszlo and Zhexembayeva (2011).

Nidumolu and his co-researchers (2009) - *a team of key professionals in the field of Sustainability, Innovation, Strategy and Environment* - had explored and enlightened the concept of sustainability as a key driver of Innovation, in terms of five main stages of achieving sustainability; and given some direction towards further in-depth study about the sustainability towards innovation and competitive advantage.

Laszlo and Zhexembayeva (2011) had explored the hundred of conversations and interactions and provided incisive glimpses into the future of sustainable business. They had given detailed insight about the embedded sustainability and the global challenges in order to achieve competitive advantage.

Although several researches have been done by various authors, as mentioned earlier in this part, on sustainability and its link with innovation and competitive advantage, a lack of thorough study on how firms can use sustainability in their daily practices as well as how these practices could be the source for innovation and competitive advantage was sensed by the authors of the thesis.

The main inspiration behind this thesis is from the article "*Why sustainability is now the key driver of innovation?*" written by Nidumolu et al. (2009). The article discusses the five distinct stages of change that most companies go through by studying 30 companies that have already begun the journey towards sustainability. However, this thesis provides a detailed description of how sustainability can be practiced by the firms, and employed as the main source of innovation and competitive advantage; this is done by investigating the case study of IKEA to illustrate how this particular company is exercising

sustainability and uses it in innovation process to gain a competitive advantage.

IKEA is among top sustainability leaders in Scandinavian region and is driven by innovation. The authors of this thesis had done several case studies during the course of their master's program at Karlstad University, therefore were inspired to learn more about IKEA and to discover how the firm practices CSR in the daily operations and how these CSR practices has helped the company in innovation process, and in sustaining its competitive advantage as the world market leader in furniture retail industry.

### **1.1.1. Sustainability**

The term sustainable development is defined as “... *development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (WCED, 1987:43). Firms need to embed sustainability into their core business. Laszlo and Zhexembayeva (2011) describe embedded sustainability, in the business context, as:

*“... the incorporation of environmental, health, and social value in the company's core business with no trade-off in price or quality.”* (p. 100)

The above definition is broad and consists of all factors needed to be considered by firms including economic, social and environmental responsibility.

### **1.1.2. Innovation**

One of the definitions of innovation used by various researchers (Amabile et al. 1996; Mulgan & Albury 2003; OECD 2005; Sundbo 1998, as quoted by Fuglsang & Sørensen 2011) is:

*“... development of a new product or service so as to gain acceptance in an organization, in the market or in society”* (p. 582).

The above definition is the general description of innovation which does not consider the effect of new idea on the environment and society. Therefore, there is a need to bring up the definition of eco-innovation; the type of innovation that is concerned about the environmental and societal impact of the new product/service or processes. According to Chen et al. (2006, p. 333), eco-innovation is “... *hardware or software innovation that is related to green products or processes, including the innovation in technologies that are involved in energy-saving,*

*pollution-prevention, waste recycling, green product designs, or corporate environmental management.”*

### **1.1.3. Competitive Advantage**

According to Porter (1998), competitive advantage initially comes from the value that a firm is capable of creating for its customers; which is higher than the cost of creating it. Firms can gain a competitive advantage on two bases: cost leadership and differentiation (ibid). In gaining competitive advantage companies must get the critical knowledge and information (Guo 2007) regarding the nature of competition and the fast pace changing needs of customers. It is also necessary for companies to develop new resources, capabilities, and activities; because of the scarcity of natural resources (Rodriguez et al. 2002). By doing so, following the path of innovation, firms will gain a competitive advantage that is long-lasting.

## **1.2. Aim of the Study and Research Questions**

The main aim of this thesis is to describe and understand how sustainability practices of the firm can be the main source of innovation and competitive advantage.

In order to achieve the aim of this thesis, two research questions are to be answered:

1. Could sustainability be a means for innovation towards sustainable competitive advantage?
2. How IKEA uses sustainability as a source of innovation and competitive advantage

## **1.3. Study Content**

In chapter 1, we included the research background that gives a summary of previous researches about the topic of this thesis and then we brought up the aim of our research as well as two questions to be answered throughout the study.

In chapter 2, we discussed the research methodology used to conduct this research and the advantages as well as disadvantages of the chosen method.

We then provided information regarding from where and how the data has been collected, and at the end we discussed the matter of validity and reliability as well limitations.

Chapter 3 includes the presentation of the theories and concepts related to this thesis namely sustainability, innovation and competitive advantage. At the end, we wrote a final reflection that summarizes the whole chapter, and constructed a table to help us in conclusion part of this thesis.

Chapter 4 includes the empirical part of this thesis. We gave general information (company background) about the IKEA case, and its practices regarding sustainability and innovation.

Chapter 5 is the discussion and analysis part of the study. We brought up the discussion part by reflecting on the empirical data provided in this thesis and based on theoretical and conceptual framework presented in chapter 3.

In chapter 6, we drew the conclusion based on all previous chapters and wrote the contribution of this thesis as well as opportunities for further research.

## **2. Research Methodology**

### **2.1. Introduction**

This chapter contains the methods used in preparing this thesis as well as how the data has been collected. Characteristics of qualitative method and its advantages as well as disadvantages are discussed in details. Furthermore, a discussion about case studies is brought up to give an understanding of the positive and negative aspects of doing a single case. At the end, the limitations faced by the researchers while doing this thesis, are illustrated.

### **2.2. Research Method**

#### ***2.2.1. Qualitative Method***

Qualitative method is a research methodology that focuses on words more than numbers, and data can be collected by using various sources such as documents, interviews (Bryman & Bell 2007; Porter 2007), observations and physical artifacts, among others (Yin 2003). Qualitative method is believed to be appropriate when studying organizations, groups and individuals (Strauss & Corbin 1990). Moreover, this method is commonly used and can grant researchers a detailed understanding when a social process or an event is complex and hard to revise with quantitative methods (Ghauri & Grønhaug 2010). However, since each method has advantages as well as disadvantages, Bryman and Bell (2007) explain that the main disadvantage of qualitative research is the accumulation of too much information. Therefore, the challenging task is not the data collection but rather how to jettison most of it (Wolcott 1990). In this thesis, qualitative method was employed to conduct the research which is followed by the case study of IKEA.

#### ***2.2.2. Case Study Design***

As it is mentioned earlier in this chapter, we employed the case study design to base the empirical part of our thesis on. According to Yin (2003) a case study is “*an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident*” (p. 13). Additionally, according to Bryman and Bell (2007) a case can be a single organization, a single location, a single person or a single event; however, the term “case” most often refers to an organization or a workplace. The main objective of single case study is to primarily elucidate this one case

and learn as much as possible from it rather than using it as a sample to understand other cases (Stake 1995).

Silverman (2010) in his book “Doing Qualitative Research” argues that there are three main challenges on doing a single case study. First is that the researcher should know what kind of generalizations s/he can make out of just one case. Secondly, there might be gatekeepers who limit the researcher’s access to the information about the organization. To overcome this, one must doubt what is said to him/her from the person in power as well as look for other opinions (ibid). Finally, the chosen case may seem insignificant to others; however, this is not a very important issue since it can have a better further implications if the analysis is done properly (ibid).

We chose the global company, IKEA, as the case for this thesis since the company is the largest furniture retailer in the world thus using huge amount of resources, and has a big impact on environment and society. This inspired us to select IKEA and to do an in-depth analysis of the company, and to investigate how the firm exercises sustainability that creates opportunity for innovation and for gaining a sustainable competitive advantage (SCA).

In order to overcome the challenges related to doing a single case study, we used various sources to collect the data about IKEA, and did not rely just on the documents prepared by the company, as we will mention in section 2.2.3. Furthermore, we did a thorough analysis of the case by using the Hermeneutic spiral.

### ***2.2.3. Data Collection***

In this thesis, we used two types of data namely secondary data and primary data. As Ghauri and Grønhaug (2010) describe **secondary data** are the information in the specific research area that are gathered earlier and can be used in formulating the researchers’ problem definition as well as assisting them in doing the literature review related to their research. Although using secondary data saves the researcher a lot of time and money, and the data is easily available; one should take into account the fact that these data may not fit researcher’s problem entirely, since they might have been gathered for different purposes in previous studies (ibid). In addition, these documents were not produced to the request of the researcher but rather they are available and can be collected and used in analysis (Bryman & Bell 2007). Moreover, the availability of this kind of data does not mean that it is less time

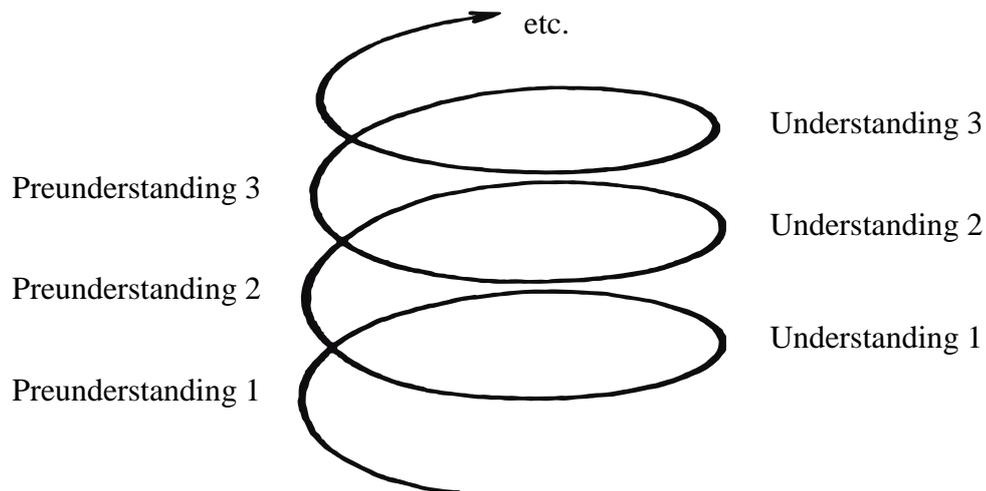
consuming to collect them, and less difficult to sort them out than when there is a need to collect primary data (ibid). In this thesis, we collected secondary data from printed books and scientific articles (Bryman & Bell 2007) available from online database resources such as Google scholar, Business Source Premier, Emerald, Scopus, EBSCO and Academic Search Elite.

**Primary data**, on the other hand, are collected when there is not enough information available for the research being done and usually include interviews, surveys, observations and experiments (Ghauri & Grønhaug 2010) as well as documents (Bryman & Bell 2007). The main advantage of primary data is that they are collected for the specific research which means they are more consistent and relevant to the researcher's research objectives; however, this may need a lot of time and significant amount of money to be invested in (Ghauri & Grønhaug 2010). We collected primary data by going through IKEA annual report 2010 and IKEA sustainability reports 2005 - 2010, several visits (over the two months period: March & April) to the company website and various press releases, and other documents, NGO reports related to the company; observation by visiting IKEA store at Karlstad; through analysis of different publications including journals, conference proceedings, and books (especially "*Values-based Service for Sustainable Business: Lessons from IKEA*" by Edvardsson & Enquist); PhD dissertation, conference papers and legal documents as well as available interview materials provided in other researches and books; that discussed the case of IKEA.

#### ***2.2.4. Data Analysis***

In this thesis, we employed hermeneutic spiral to interpret and analyse the data. According to Gummesson (2000), there is "*no understanding without preunderstanding*" and "*an understanding of the parts assumes an understanding of the whole*" (p. 70). Figure 1 demonstrates how the Hermeneutic spiral helps to develop an analysis part of the study. We got a preunderstanding of the subject of our study and our case by reading various books, articles, organization's documents and reports such as annual report and sustainability reports, Oxfam and other online sources. This provided a base for us to understand our case of IKEA by parts. First, we looked at sustainability and CSR practices of the company; this created a preunderstanding for us to make an understanding of how IKEA uses sustainability as a source of innovation. At the next stage, this understanding of the source of innovation created a preunderstanding for us to produce the understanding of how innovation is a

source of competitive advantage. All these preunderstanding and understandings shaped the empirical data of this thesis. Then we interpreted and analysed this data based on the conceptual and theoretical framework provided in chapter 3. Therefore, we tried to use this pre-understanding to create an understanding; which itself was the ground for the next level of pre-understanding, and this process continued throughout the whole thesis.



**Figure 1: The Hermeneutic Spiral (Gummesson 2000, p. 71)**

### **2.3. Credibility: Validity and Reliability**

We tried our best to choose from the publications of the recent years as well as use of several sources to give validity and reliability to our thesis. Furthermore, as mentioned earlier in this chapter, we also collected the data from virtual outputs (Bryman & Bell 2007). In this, there are three main criteria that need to be considered namely authenticity, credibility and representativeness of the website (Scott 1990, as quoted by Bryman & Bell 2007). Authenticity means that one should be aware of the fact that anyone is able to launch a website; so, it is important for the researcher to figure out the details about the website such as about the person or organization who launched it (ibid). The second one is the credibility; which means that there might be some distortions. For example, if a researcher relies on just one website such as the company's website; it might be misleading since the information could have been manipulated in a way to attract the customers (ibid). The last one questions the representativeness of the website and places emphasize on the fact that websites could be updated every day or week (ibid). To cope with the above mentioned criteria, we have used reliable online resources and did not depend on just IKEA's website but also looked through

previous researches done on IKEA case and newspapers to collect the data about the company and their activities. Moreover, we have mentioned the accessed date of each online resource to make sure that the website is true representative of the data.

#### **2.4. Limitations**

The main problem we faced while carrying out this research was the time limitation. It is not easy to find global CEOs and to conduct interviews in short-time. Therefore we had to collect the data by using other resources, such as articles and books, and tried our best to get the information about previously conducted interviews and to extract the related data from them.

### **3. Conceptual and Theoretical Framework**

#### **3.1. Introduction**

In this chapter, we discussed the definitions and related theories on sustainability, innovation and sustainable competitive advantage (SCA). We explained what sustainability is, what the drivers of sustainability are, different executives' perceptions on sustainability, and why companies should adapt CSR. We described what innovation and eco-innovation are, and how sustainability leads to eco-innovation. Furthermore, we discussed the sources of sustainable competitive advantage. At the end, we summarized the chapter, and constructed a table to bridge-up the theoretical and conceptual framework with empirical study and to create a ground for the analysis.

#### **3.2. Sustainability and Sustainable Business**

The definition of sustainable development is clearly stated in the Brundtland report, *Our Common Future*, as “... *development that meets the needs of the present without compromising the ability of future generations to meet their own needs*” (WCED, 1987:43). This shows the importance of paying attention to our activities and the impact they have on environment. According to Intergovernmental Panel on Climate Change (IPCC) – *Climate Change 2007: Synthesis Report* (p. 66), global carbon dioxide emissions as a factor that contributes to the climate change needs to be reduced significantly otherwise it will result in more severe climate change. To prevent this and therefore move towards sustainability, individuals and businesses as well as industrial organizations play a crucial role in the implementation of alternative practices, as sustainability cannot be achieved only through top-down approach (Roome 1998). According to Laszlo and Zhexembayeva (2011) “*embedded sustainability is the incorporation of environmental, health, and social value in the company's core business with no trade-off in price or quality.*” (p. 100). Hence, companies must include sustainability into decision-making regarding all activities taking place in the whole supply chain. Likewise, Nidumolu et al. (2009) suggests that companies need to investigate each link in the value chain to build up sustainable operations. First, firms mainly focus on changes in supply chains and then on the other areas such as operations, workplaces, and product returns. Now, that we know the concept of sustainability and the importance of it. It is the time to explore what the drivers of sustainability are.

### **3.3. Drivers of Sustainability**

There are different forces that drive companies to become more sustainable, this can be done by giving focus or being responsive to environmentally related issues. According to Bansal and Roth (2000), there are three environmental related issues; among them two are institutional, namely legal and societal related, and one is economic rational which addresses the financial benefits the company gains by becoming sustainable. First driver is the role of legislation because companies try to fulfill the requirements to avoid fines and other legal costs (Cordano & Frieze 2000). Nidumolu et al. (2009) emphasize on the point that although some companies think it is good to practice the lowest environmental standards, it is beneficial for them to have proactive approach to adapt the strictest rules and regulations before governments force them to comply; this will give them the advantage of first movers who can see the opportunities first. Additionally, firms follow proactive approach to adapt environment related activities to better understand and predict legal issues and keep themselves competitive (Aragón-Correa & Sharma 2003). According to King and Lenox (2000) clear sanctions are, too, necessary for firms to respond and address this issue more quickly; otherwise they may take actions slowly which destabilizes ecological performance. The second force is driven by stakeholders, customers, local communities and environmental groups as well as the natural environment; these put pressure on companies to reduce their negative impact on environment when making decisions (Berry & Rondinelli 1998). The third driver is economic. Companies which perform eco-efficiently can decrease their operating cost by minimizing waste, conserving energy, reusing materials and focusing on life cycle costs (Porter & Linde 1995). After knowing all three drivers of sustainability, it is interesting to discover what Corporate Social Responsibility is and what aspects it covers.

### **3.4. Corporate Social Responsibility**

An inseparable part of sustainability is CSR which includes corporate financial responsibility, corporate environmental responsibility and corporate social responsibility (WBCSD, p. 3). This means that organizations should take into account the impact of their activities on environment, society and various stakeholders such as shareholders, employees, communities and customers (Guarnieri & Kao 2008). To better understand the concept of CSR, two definitions are given below:

*“... an umbrella term for a variety of theories and practices all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and (c) that business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society.”* (Blowfield & Frynas 2005, p. 503)

*“... the way in which a company manages and improves its social and environmental impact to generate value for both its shareholders and its stakeholders by innovating its strategy, organisation and operations.”* (CSR Europe 2003, as quoted by Sebhatu 2010, p. 43)

These definitions show that in order to become a sustainable business, companies need to take into account not only economic aspect but also societal and environmental aspects; these are addressed in the “triple bottom line” (TBL). To make a better understanding of the concept of TBL, all three aspects of it are discussed in details below:

#### ***3.4.1. Economic Responsibility***

In the economic aspect, there are certain things companies must consider as well as some questions that should be asked (Elkington 1999). There must be an extended knowledge of what the economic capital is. The traditional definition is assets minus the liabilities, but there are other factors that need to be considered such as the human capital, the intellectual capital and the natural capital in long-term (ibid). This emphasizes on the fact that sustainable companies must take responsibility towards not only shareholders, maximizing their profitability, but also towards a wide range of stakeholders in consideration of the social and environmental bottom lines (ibid).

#### ***3.4.2. Environmental Responsibility***

Earlier, natural capital was mentioned; this is part of the environmental bottom line. The meaning of natural capital does not only include price and amount of the natural resources the organization has, but there must also be an extended knowledge of it (Elkington 1999). The organization must consider the effects the natural capital has on the environment when it is used or harvested (ibid). There is a need for legislation to make companies more responsive to environmental challenges (ibid). For this reason, many countries

have made regulations that must be applied and followed (ibid). This will help corporations to take greater responsibilities on the environment by making decisions to invest in protecting and improving the environment (ibid).

### ***3.4.3. Social Responsibility***

The social capital is an important part of the social bottom line. It reflects on the human capital in terms of their education, expertise and health (Elkington 1999). It is also important that it gives an extended knowledge regarding the potentials of society's health and welfare (ibid). In order for corporations to work well in the society, a trust must exist between the corporations and the stakeholders (ibid). In order for the long term sustainability to work, companies must have a level of trust in the stakeholders and vice versa (ibid). Corporations are part of society; consequently, they must take responsibilities on the areas which they affect (ibid). Although, making profit is the first purpose of a business, companies must also take social responsibilities into the account (O' Donovan 2002).

To sum up, businesses must incorporate TBL into their overall strategy, if they are to become sustainable. Hence, all three aspects of economic, environmental and social need to be considered by companies in order to satisfy the interests of not just shareholders but also all stakeholders. This does not happen unless and until the company is concerned about its impact on society and environment while taking care of its profitability. It should also be noted that the number of companies that are implementing CSR and are committed to its practices is increasing (Guarnieri & Kao 2008). Porter and Kramer (2006) believe that when companies treat CSR using the same approach which they apply on their core business, then CSR will be a source of opportunity, innovation and competitive advantage rather than expense, restriction, or a charitable deed.

### **Role of External Stakeholders**

In this competitive world, firms need to pay a careful attention to their business activities in terms of environmental and social concerns (Edvardsson & Enquist 2009). Doing so is made possible by integrating and treating external stakeholders, such as NGOs and citizens, as prospective business partners (Waddock 2008).

In recent era, corporate life is very much influenced by NGOs (Sebhatu 2010), working for different roles in society i.e. social causes/responsibilities,

environment, development. These NGOs are formed by people who agree to work for common needs, issues and purposes (ibid). Many of them have been working and successfully raised the awareness about the society and environment related issues imposing upon corporate governance and CSR. As Waddock (2008) has observed, the significance of these actors is that they effectively force companies to be responsible, accountable, and transparent with regard to moral and social issues. The role of NGOs as corporate watchdogs has become more prominent since the late 1970s in parallel with a growing belief that business should be more socially responsible (Sebhatu 2010).

According to Zadek (2004), there are “five stages of organizational learning” when companies integrate the broader concept of CSR into their practices. These five stages are briefly explained below:

- The defensive stage: i.e. companies deny CSR practices because it would affect their sales in short-term;
- The compliance stage: i.e. in this stage, organizations adopt the policy because they have to, in order to decrease the risk of litigation and loss of their reputation;
- The managerial stage: i.e. firms embed the concept of CSR into the core management processes by integrating CSR practices into their daily operations;
- The strategic stage: i.e. companies make CSR concept an integrated part of the organization’s core strategy by aligning CSR with their strategy and process innovation;
- The Civil stage: i.e. firms promote a wide participation in CSR practices by realizing the potential gains lied behind the collective action.

As per Frynas (2005) *“it became easier for NGOs to expose corporate behaviour in far-flung corners of the planet. As a result, firms have been pressurized to ‘do something’ about the environment, community development or global warming”*.

### 3.5. Innovation

Different authors (Amabile et al. 1996; Mulgan & Albury 2003; OECD 2005; Sundbo 1998, as quoted by Fuglsang & Sørensen 2011) describe innovation “... as development of a new product or service so as to gain acceptance in an organization, in the market or in society” (p. 582). Another definition of innovation is stated in the Summaries of EU Legislation on Innovation and the Lisbon strategy (2003) as “... the successful production, assimilation and exploitation of novelty in the economic and social spheres”.

Innovation can be seen as a major change in the product or an incremental change (Berchicci 2009). The main difference between radical and incremental innovation is that in the latter there is a slight change from the product predecessors or the existing alternatives in the market, whereas in radical innovation, there is a significant change (Freeman & Soete 1997). Companies, which focus on process innovation and efficiency, are trying to achieve incremental rather than radical innovation (Murphy & Gouldson 2000). These companies face decrease in return on their incremental eco-efficiency efforts, in terms of sustainability and financial improvements (ibid). On the other hand, if a company wants to face new environmental challenges it needs to take into account the application of radical eco-innovations (ibid). To give a better understanding of the concept of eco-innovation, the next section is dedicated to explore its different definitions, associated requirements and opportunities it creates for the organizations.

Finally, innovation can be put into two main categories, depending on where the source of innovation comes from. According to Chesbrough (2003), the two types are open and closed innovation. The author further explains that in an **open innovation**, companies are open to new ideas generated inside the firm and outside environment, and commercialize both their own ideas as well as ideas from outside the firm; whereas in **closed innovation**, the company relies only on its R&D department in terms of generating, developing and commercializing new ideas. But using only internal sources of knowledge in producing new ideas is not sufficient. Chesbrough et al. (2006) argues that even the most sophisticated R&D firms should use external sources in innovation process for the knowledge is widely spread and by doing so firms can create more value for customers. Now, the question is how customer involvement in innovation process could add more value to the product.

### **3.5.1. Eco-Innovation**

Now that we have explained what the innovation is and what types of innovation exist, the next step is to look through various aspects and definitions of eco-innovation. Different authors defined green innovation:

*“... as hardware or software innovation that is related to green products or processes, including the innovation in technologies that are involved in energy-saving, pollution-prevention, waste recycling, green product designs, or corporate environmental management”* (Chen et al. 2006, p. 333).

*“... the process of developing new ideas, behavior, products and processes that contribute to a reduction in environmental burdens or to ecologically specified sustainability targets”* (Rennings 2000, p. 322).

*“..... the development and implementation of new products, new technologies, new production processes, new resources, new markets and new systems that integrate economy and ecology”* (Blättel-Mink 1998, p. 49).

*“... new or modified processes, techniques, practices, systems and products to avoid or reduce environmental harms”* (Beise & Rennings 2005, p. 6).

The common point among all definitions of eco-innovation is the concern about environment. Companies, which choose to take one step forward and implement eco-innovation instead of innovation strategy, have to consider the impact of their new product, service, idea and processes, etc. on the environment. There are also some requirements that firms, which want to use green innovation as their strategy, have to fulfill. In this, De Marchi (2010) explains that changes in the areas of the use of raw materials, recycled products use or waste management are often necessary; this requires a coordination as well as cooperation between the partners both in the supply chain and business customers. Therefore, there is a need for the existence of a strong supply chain management and a robust relationship between business partners (ibid). Additionally, in order to design a sustainable product, companies need to carefully examine both consumer's concerns and product life cycles (Nidumolu et al. 2009). Companies also try to change their perspective from production cycles to life cycle; consequently, the interdependency of organizational and functional areas between firms is increasing (De Marchi 2010). The significance of having a life cycle perspective

in green product innovation can be found in the definition of green product given by Robert (1995), as quoted by Albino et al. (2009, p. 86):

*“... product designed to minimize its environmental impacts during its whole life-cycle. In particular, non-renewable resource use is minimized, toxic materials are avoided and renewable resource use takes place in accordance with their rate of replenishment”.*

Furthermore, as mentioned earlier, changes in waste management or waste minimization that is to diminish the negative environmental impact of a product is defined as a way to eco-innovation (Norberg-Bohm 1999). This method has also an effect on packaging dimension, specifically in terms of redesigning, reducing, recycling and/or reusing terms (Czinkota & Ronkainen 2007).

Additionally, Rodriguez et al. (2002) believe that although progressing towards sustainability brings challenges to organizations, they in turn create opportunities towards innovation through introduction of new technologies or products as well as processes.

In summary, eco-innovation is the type of innovation that takes into account the impact of innovation on environment such as using less raw materials and creating less waste, to name but a few. Moreover, firms should meet different requirements, namely having a life-cycle approach, strong supply chain management and cooperation with NGOs; if firms choose the strategy of green innovation. Additionally, since eco-innovation reflects the interest of a wider range of stakeholders, it is more complicated than plain innovation. Despite this difficulty, integration of sustainability awareness in innovation process gives a competitive advantage to the companies adapting it.

### ***3.5.2. User Innovation***

Previously, the role of customers in product development was seen in almost the end of development cycle; where customers were involved in product development by having the opportunity to offer incremental changes to the already completed products (Edvardsson et al. 2010). Whereas, customer co-creation suggests the involvement of customers, as co-developers in innovation process from the beginning stage (ibid). Co-development means involving customers in innovation process and design shop by using their capabilities and skills (ibid).

Furthermore, Alam (2002) considers the opportunity of developing new services that have distinctive benefits and better value-in-use, as the main advantage of co-development. According to Edvardsson et al. (2010), *“the ability of the customer to identify and translate manifest and more importantly latent needs is central for customer co-development.”* (p. 19). Moreover, customer co-development in service innovation provides the company with valuable and critical information; which will assure the company that the customers want, choose and prefer these new services (ibid).

According to Norton et al. (2007), people believe that they get more value by the products which are created by them, even if the exchange value of the products which are produced by others is more.

### **3.6. Sustainability as Competitive Advantage**

Today, the nature of competition has changed due to the quest for sustainability; therefore companies that gain the knowledge of this changing environment and set the sustainability as their goal will enjoy the advantages of first movers (Nidumolu et al. 2009). In this global competitive marketplace, acquiring critical knowledge and information is the key element in company's survival and gain of competitive advantage in both domestic and international arena (Guo 2007). In addition to this, Rodriguez et al. (2002) emphasize on the importance of the fact that natural resources are scarce; consequently, firms need to think of developing new capabilities, resources and activities. Companies also have to be responsible towards the society and develop social resources that will result in creation of sustainable competitive advantage (ibid). According to Guo (2007), superior performance and long-lasting superior performance are believed to create competitive advantage and sustainable competitive advantage, respectively. Moreover, to gain a sustainable competitive advantage firms need to adopt a long term proactive environmentally friendly approach (Aragón-Correa & Sharma 2003). Managers must set a strategy which is consistent and the one that encourages simplification of contradictory environmental challenges (ibid). Appropriate organizational and managerial knowledge has to be developed in order to affect the existing interface between business and natural environment, as well as encouraged continuous learning (from various stakeholders), innovation, and growth (ibid).

### 3.7. Final Reflection on Conceptual and Theoretical Framework

So far, we have discussed three main concepts namely sustainability and innovation with focus on eco-innovation and sustainable competitive advantage (SCA) on which the thesis is based. We explained that sustainability is a source of innovations and sustainable competitive advantage. In addition, we discussed that businesses have to draw their attention to sustainability concept and its practices, especially the environmental aspect of it due to climate change issue, thus companies need to integrate CSR into their core business values which at the end will lead to innovation. The reason behind this is that sustainability stimulates companies to seek new approaches to production processes, resource use and waste management. We also discussed that innovation can create competitive advantage for companies; however, if a company wants to gain a sustainable competitive advantage, it needs to take a proactive approach in addressing sustainability and to apply the eco-innovation strategy.

In chapter 5, we will analyze a global organization IKEA based on the theoretical and conceptual framework in this chapter. To do this, we constructed table 1 to help us cope with the task.

**Table 1: Summary of the conceptual theoretical framework**

<b>Sustainability</b>	More sustainability & Less Innovation <ul style="list-style-type: none"> <li>• CSR</li> </ul>	More sustainability & More innovation <ul style="list-style-type: none"> <li>• Eco-innovation</li> </ul>
	Less sustainability & Less innovation	Less sustainability & More innovation <ul style="list-style-type: none"> <li>• Innovation</li> </ul>
	<b>Innovation</b>	

**Description of table 1:** The table shows the degree of sustainability and innovativeness of companies, based on various factors discussed in the theoretical framework of this thesis. To make a better understanding of the table, we described each factor on the next page.

- **CSR**

1. Economic responsibility: This shows the level of company's profitability in long-run considering a wide range of stakeholders.
2. Environmental responsibility: This concerns the impact of company's activities including operations and productions on the environment.
3. Social responsibility: this includes various steps taken by the company to improve the overall conditions of community such as education and the health condition of people

- **Innovation**

1. Incremental vs. radical: Innovation can be either incremental - slight changes to the product or processes compare to the old one, or radical - a big change such as the whole new product or processes. However, companies practicing sustainability need to consider radical changes.
2. Design: In this, companies must adapt the life cycle approach and take customers' concerns into consideration when designing a product. New design could be in product or packaging dimensions.

- **Eco-innovation**

1. Raw materials use: In producing environmentally friendly product, changes in the usage of raw materials are needed most of the time such as using less materials and produce more.
2. Use of recycled product: This indicates that companies need to find new methods to use the recycled product instead of throwing it out.
3. Waste management: Companies need to minimize their waste and that is why it is necessary for them to discover new designs of e.g. packaging that leads to less use of materials and therefore less waste.
4. Lifecycle approach: This is when the company uses non-renewable energy at the lowest level possible and uses renewable energy instead, and avoids using toxic materials.
5. Pollution prevention: One of the factors that must be considered in green innovation is the amount of pollution, such as air or water, produced by the company.

6. Production processes: Finding out new production processes that concerned with economy and ecology, and successfully implementing them into the firm's practices.

## **4. Empiricism**

In this chapter, we presented general information about the case of IKEA and the company's practices. At the end, we wrote a summary of the chapter.

### **4.1. Company Background**

IKEA was founded by Ingvar Kamprad in 1943 in Sweden, and the four letters of the company name were formed by combining the owner's name Ingvar Kamprad with Elmtaryd, the farm, and Agunnaryd, the village, where he grew up (IKEA 2011a). At the beginning, IKEA sold pens, wallets, picture frames, table runners, watches, jewellery as well as stockings to meet the customers' needs by offering reduced prices (ibid). The company started selling furniture in 1948, which were produced by the local companies, and then expanded its product line after receiving positive feedback from the customers (ibid).

A significant moment in the growth of the IKEA concept was the introduction of their first furniture showroom in 1953 in Älmahult, Sweden (IKEA 2011a). A price war between IKEA and its major competitor had taken place; so at this point, the company opened the showroom to take over the competition (ibid). This innovative idea of the showroom provided a chance to IKEA to prove that its low-price products have the features of functionality and quality (ibid). The main reason behind this was that the customers could actually see and touch IKEA products for the first time before ordering them and to choose the products offering the best value for money (ibid).

To achieve more growth and to enter new markets, IKEA opened stores in big markets such as the USA, Italy, France, UK and Belgium in 1980s (IKEA 2011a). The company introduced its new customer club card called "IKEA FAMILY" in 1984. Today's modern IKEA has started its formation during this time (ibid).

During 1990s, IKEA became larger by introducing IKEA's children product line to the market. The company's focus was to provide furnishing solutions for families with children to meet their needs accordingly. Furthermore, IKEA Group was also created at this time (IKEA 2011a). In 1990, the company introduced its first environmental policy and realized that doing good business was made possible by taking social and environmental responsibility into

account (ibid). In 1991, IKEA began cooperating with Greenpeace organization (ibid).

In 2001, IKEA was one of the manufacturers which took the initiative to introduce the print-on-board technique to make furniture with patterns shaped directly on fiberboard and particleboard (IKEA 2011a). In 2002, in order to reduce waste and to repair the returned products in more than 100 stores in Europe, the company implemented a product-recovery idea (ibid). In the same year, the company started cooperating with WWF to deal with matters related to forestry worldwide, and the result was the start-off of some forest projects both regionally and globally (ibid). This was to support the responsible forestry growth (ibid).

In 2010, IKEA had 1,074 home furnishing suppliers (including Swedwood and Swedspan that are part of IKEA Group) that operated in 55 countries worldwide (IKEA 2010a, p. 37). The number of IKEA transport service providers was 251 (excluding Customer Delivery vehicles). The company had 90 food suppliers globally and 39 catalogue suppliers (ibid).

Today, IKEA is the largest home furnishing company in the world (IKEA 2011b) that has wide variety of products from toys to plants to furniture, needed to furnish your home and the whole kitchen (IKEA 2011c). At the end of fiscal year 2010, IKEA had operations in 41 countries, 29 trading service offices in 25 countries, 27 distribution centers and 11 customer distribution centers in 16 countries, 280 stores in 26 countries (as of August 31, 2010) as well as 127,000 co-workers globally (IKEA 2010a, p. 3)

IKEA vision is *“to create a better everyday life for the many people”* (IKEA 2010b, p. 6). And the IKEA business idea is *“to offer a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them”* (ibid). Mikael Ohlsson, the president and CEO, states in the Sustainability Report 2010 (p. 5) of the company that *“We believe that home is the most important place in the world. We offer affordable home furnishing products and solutions, while also taking responsibility for people and the environment. We want our customers to be able to freely choose from our range, knowing that they do not have to choose between sustainability, style, function or price”*.

According to Edvardsson et al. (2006), IKEA has three core values namely price (economics), planet (environment) and people (social perspective) which *“... interact and provide direction for brand meaning during the co-producing and co-creating*

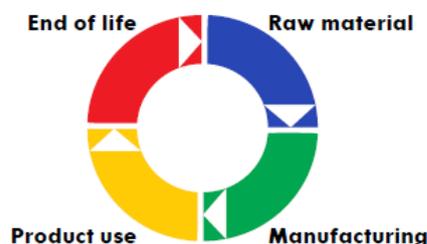
*learning process with customers and other stakeholders*” (ibid, p. 240). They explain that these core values lead to low prices, innovation, responsibility and leadership.

Now that we know the history of IKEA, it is time to bring up the company’s practices towards sustainability, innovation, eco-innovation and what creates a sustainable competitive advantage for the company.

## 4.2. Sustainability

An integral part of the business at IKEA is sustainability. The company started reporting on its sustainability from 2005 onward. As part of its sustainability program, IKEA started the partnerships with organizations such as WWF to cope with the environmental aspect of CSR, and UNICEF and Save the Children to cope with the social aspect of it (IKEA 2010a, p. 65). Moreover, IKEA works together with trade unions, NGOs as well as other organizations to improve the organization’s impact on both society and environment at local, national and global levels (IKEA 2010a, p. 15). Above all, IKEA has created a directive called “IKEA Sustainability Direction” for the Fiscal Year 2015; which is a guideline to assist them to achieve their goals by moving everyday operations to the right direction in all levels of value chain; they do this by creating a set of orders in five key areas, namely ”product development and sourcing of raw materials of home furnishing and food products, production and distribution, marketing, stores and shopping centers, and the products end-of-life” (ibid, p. 8).

In addition, the company uses the e-wheel to ensure the product safety, quality and environmental impact throughout the product’s life cycle (IKEA 2006). This wheel is composed of four phases, as shown in figure 2.



**Figure 2: IKEA's e-wheel (IKEA 2006, p. 11)**

IKEA has also introduced an assessment tool to evaluate its products development and purchasing level of sustainability in 2011 (IKEA 2010a, p. 19). This tool is called “IKEA Sustainability Product Score Card”. By using

this, the company addresses all the issues related to the whole product life cycle including but not limited to raw materials, manufacturing, transportation to the product use (see appendix 1). If a product and its packaging gain required number on the score card then that product and its packaging will be considered more sustainable as compared to the previous ones or to the similar products (ibid).

### **4.3. Drivers of sustainability**

Legal: Top of the Dave laptop table is made out of Medium Density Fiberboard (MDF). In production of MDF, one of the materials used is veneer glue containing formaldehyde (IKEA 2009, p. 36). IKEA took an action to remove this toxic and cancer-causing substance (National Cancer Institute 2011) wholly from the glue and nearly 40% decrease in formaldehyde emissions from MDF during past few years; this is considerably below EU requirements (IKEA 2009, p. 36).

Economic: Cost-consciousness is a base for IKEA's idea to create a better everyday life for everybody. The company believes that using less resources and finding innovative solutions will lead the company to achieve low cost (IKEA 2010a, p. 22).

Social: In 1998, IKEA was threatened to be boycotted by the International Federation of Building and Wood Workers because of bad working conditions in Romania (Bailly et al. 2006). This has led to an agreement between IKEA and the union (ibid). The company has also started partnerships with UNICEF, Save the Children, WWF and Greenpeace organizations as a reaction to environmental groups and different stakeholders regarding use of timber and child labour (ibid).

### **4.4. Corporate Social Responsibility**

IKEA faced serious problems in 1980s when Denmark made regulations regarding the use of formaldehyde in the production of particle board, and in Germany issues related to the packaging waste and use of PVC (TNS 2011). In 1990, managers of IKEA had already agreed on the fact that the company must address problems related to the environment (ibid). Therefore, in 1991, the company adopted the policy to address issues related to environment and society (ibid). The company has also received criticisms about the number of catalogues produced and the usage of timber (Edvardsson & Enquist 2009). In 2000, IKEA introduced IWAY as code of conduct to monitor working

conditions of employees and suppliers (IKEA 2005). IKEA also started reporting on sustainability since 2005 to show their concern and commitment about society and environment, and to demonstrate how they work towards sustainability. IKEA is working with different organizations as partners such as WWF, UNICEF, Save the Children, BCI, BSR and FSC (IKEA 2007). Below, we brought up the IKEA's practices of CSR and how the company addresses issues related to economy, environment, and society.

#### ***4.4.1. Economic Responsibility***

IKEA is concerned about economic capital, human capital and natural capital. Regarding human capital, the company believes that their most valuable resources are their colleagues (IKEA 2010a, p. 16). IKEA emphasizes on the fact that the company grows when their colleagues, as the company calls its employees, grow and the company has a commitment to be a good employer (ibid). Therefore, the company provides a working environment where health and safety as well as growth opportunities are offered. (ibid).

#### ***4.4.2. Environmental Responsibility***

Resource extraction, suppliers, customer transportation and the product use are the main sources of IKEA's carbon dioxide emissions (IKEA 2009, p. 49). IKEA is willing and committed to reduce this amount, although it is a challenging task. In order to tackle climate change the company is also concerned about lighting, heating and cooling systems used in their buildings (ibid). They perform this task by expanding cooperation with WWF leading to start of four new climate projects and by collaborating with others in order to establish standards on emissions measurement and to scrutinize impact of their operations on climate, in all levels (ibid). One of IKEA's project that aims to reduce carbon dioxide emissions from their own buildings is "IKEA Goes Renewable" (IKEA 2009, p. 68). Another example that shows the company's commitment with regards to environment is having 17 buildings with solar panel systems in 2010 (IKEA 2010a, p. 75). This number is almost double the number of 2009. In addition, IKEA has planned to increase the number to 40 by the end of 2011 (ibid)

#### ***4.4.3. Social Responsibility***

IKEA knows its social responsibility very well. The company is involved in several projects and is committed to contribute to improvement of the society. Mikael Ohlsson, president and CEO of IKEA, believes that in order for the

company to reach more customers and give them more accessibility to the product range by expanding in both existing and new markets, high level of profitability is required (IKEA 2011d). He adds that this long-lasting profitability will also benefit IKEA Social Initiative through its investment in several social projects; for example, helping 100 million children (ibid). Apéria et al. (2004) in their article "A reputation analysis of the most visible companies in the Scandinavian countries" studied 46 companies, and IKEA was found to be the top company in Sweden in the ranking of workplace environment and social responsibility.

IKEA contributes to the Save the Children and UNICEF in their projects that are intended to increase the quality of children's education. To do that, the company donates €1 per soft toy sold in its stores globally during end of the year holidays each year (IKEA 2009, p. 43). The campaign is called "One euro is a fortune" in which the customers helped raise €23.8 million from 2003 to 2009. This amount enabled roughly eight million children in more than thirty countries to get access to a good education (ibid)

In 2000, IKEA introduced its code of conduct called "IWAY". This document highlights what requirements the company sets for its suppliers as well as what IKEA is expected to do for them in return (IKEA 2009, p. 14). It should be noted that IWAY is not the only code of conduct used by IKEA; there are also various industry-specific supplements as well as a particular code of conduct for child labor (ibid). Moreover, suppliers should apply principles of the IKEA's code of conduct to their staff and sub-suppliers. In addition, IKEA provides assistance to its suppliers to become more sustainable (ibid). For instance, the company sends its representatives to the suppliers' sites on frequent bases so that both parties can interact and have an open discussion that promote environmental and social responsibility and addresses the related issues (IKEA 2010a, p. 36).

### **Role of external stakeholders**

IKEA has started cooperating with WWF and Greenpeace because of the pressures from different environmental groups that were complaining about the use of timber (Bailly et al. 2006).

*TNS and IKEA case (Source: TNS 2011):* IKEA faced an environmental problem in 1980s that affected the company's furniture line significantly; when the research on the company's particle boards showed that the emissions of

formaldehyde was more than the standard set by environmental law in Denmark (Reichert 1996). IKEA was looking for the solution, found it in the German E-1 standard, and decided to apply it to all markets by enforcing its suppliers to comply with the standard. Later in 1980s, different environmental groups in Europe were putting pressure, on IKEA to stop the usage of tropical rain forest wood, by the means of boycotting the company. Therefore, executives of IKEA-Group realized that the future credibility of the company would be affected by the environmental issues. It was at this time when the CEO appointed a manager to deal with the issues related to the environment.

In 1990s, IKEA established its environmental policy after company's BOD meeting with the founder of TNS; who had different perspective, about environmental challenges, than other environmental groups. TNS provided a guideline for IKEA on how the company was involved in environment-related issues and how IKEA could address them both in strategic and operational level. Furthermore in the same era, 25 top managers from IKEA participated in a two-day seminar; where the president of Swedish Greenpeace, an environmental legislative expert, and other environmental speakers gave speech. Following this seminar, IKEA made an action plan to improve its environmental practices.

#### **4.5. Innovation**

IKEA's president and CEO, Mikael Ohlsson, emphasizes on the importance of innovation as a tool for sustainable solutions by stating that *"Innovation is needed to build sustainable solutions into the IKEA range"*(IKEA 2009, p. 4). In addition, IKEA relies on the company's own co-workers for new designs and product innovation; it creates the atmosphere in the factory where everybody feels free to share ideas and exchange information (IKEA 2010a, p. 17).

Furthermore, Mikael Ohlsson states that *"We see sustainability as a catalyst for further innovation and change within IKEA. It will transform the way we economise with resources and do business, for future generations and continuing success. IKEA is always about working together – customers, co-workers and suppliers."* (IKEA 2010b, p. 15)

Flat packaging: Now IKEA designs flat packs because it makes possible to load more material on vehicles, thus save costs (IKEA 2009, p. 27 & 49). By using flat packs IKEA can transport more products by using less number of vehicles which will reduce CO<sub>2</sub> emission (ibid).

Use of less raw materials: IKEA is trying to use less raw materials to make more products, the company makes STUVA storage boxes from wood. Few years ago they were producing 13 boxes from one tree but now they are producing 23 from one tree (IKEA 2010a, p. 19). IKEA replaced some wood with air; using a technique called board on Stiles instead of the traditional 18 mm chipboard and this enables them to produce twenty three STUVA boxes instead of thirteen from one tree (ibid). Another example can be seen in the production of LACK side tables which are produced by filling up the frames made of stiff and inflexible wood with recycled honey combed papers (IKEA 2009, p. 27 & 49). This makes the table production use less raw materials than particleboard, lighter in weight and therefore easier to carry in company transportation and to the customer (ibid).

Recycling and IKEA's policy: IKEA has very strict policy about the recycling and they are trying to use recycled materials to make a new product such as TEPPAS drawer. This drawer is made from the old plastic bottles (IKEA 2009, p. 53).

Minimization and use of waste: minimization of waste in the production process is one of IKEA's goals and they are trying to use the waste in manufacturing of other goods (IKEA 2009, p. 52). IKEA is also trying to use every tree trunk to make something useable. IKEA introduced NORDEN birch tables in 1998 which are made from the knotty top part of the birch tree (IKEA 2009, p. 55). Before the introduction of the table, this has been used for fireworks or in chipboard production (ibid). Versatile NÄSUM basket is another very good example of how IKEA is using waste to make a product (IKEA 2009, p. 53). These baskets are made out of the leftovers after banana trees are harvested. Most people think that these remnants are waste and so leave them behind. But, what IKEA does is they let the trunks dry under the sun after being cut into strips and then use them to make baskets (ibid).

Removal of toxic substances: use of total chlorine free (TCF) paper for publication of color catalogue was one of the initiatives taken by IKEA (IKEA 2009, p. 26). Furthermore, the company has also begun using elementary Chlorine free (ECF) paper during the bleaching process since elementary Chlorine is a harmful material (ibid).

## 5. Discussion and Analysis

### 5.1. Sustainability

As mentioned in the theoretical part of this thesis, companies need to consider sustainability practices (Roome 1998) due to recent year's issues related to climate change, which is the result of a significant increase in the level of CO<sub>2</sub> emissions. IKEA, as the biggest furniture retailer in the world, plays an important role in the shift towards sustainability since it has a big impact on both environment and society. Therefore, having a holistic view about sustainability and how to implement it into the whole value chain is necessary. According to Laszlo and Zhexembayeva (2011), companies should incorporate sustainability into their core businesses without compromising the price and quality. We can see that IKEA's vision and business idea as well as the statement said by the company's president and CEO, Mikael Ohlsson "... *We offer affordable home furnishing products and solutions, while also taking responsibility for people and the environment. We want our customers to be able to freely choose from our range, knowing that they do not have to choose between sustainability, style, function or price*", clearly show the importance of the environment and all stakeholders in the society to the company.

According to Nidumolu et al. (2009), in order to create sustainable operations, companies should make sure that each link in value chain is sustainable. Introduction of IKEA's Sustainability Product Score Card and e-wheel show that the company has a very strict policy in relation to the whole value chain. We believe that these are very strong and useful tools for IKEA in order to advance in its sustainability practices. Moreover, the company does not accept the products, from its suppliers, which do not meet IWAY's environmental and social requirements. We believe that these two commitments assist the company not only to practice sustainability but also to measure its progress on the path towards becoming a more sustainable business.

At the end, being a global organization, IKEA takes the responsibility for the betterment of the society by addressing financial, social as well as environmental issues. All these three aspects are under the umbrella of CSR and discussed below in details.

## 5.2. Drivers of Sustainability

**Economic:** Sustainability enables companies to decrease their costs by better waste and resource management practices (Porter & Linde 1995). IKEA is a cost-conscious company, it needs to economize on resources. We found that the company has achieved this by practicing sustainability through a good waste management, using less resources, using recycled materials and reducing their energy consumption as well as use of renewable energy resources.

**Legal:** in chapter 3, we discussed the role of legislation in forcing companies to become more sustainable through imposing fines (Cordano & Frieze 2000). As per example of Dave laptop table, we can see that the company had to fulfill the EU requirements by reducing the cancer-causing material "formaldehyde".

**Social:** According to Berry and Rondinelli (1998), social and environmental groups force companies to become more environment friendly. As per case of IKEA, these groups exert pressure on the company to become more sustainable by the means of providing a better working condition, practicing child labour laws and the use of timber.

According to Nidumolu et al. (2009), the low cost approach leads to higher return on investment and provide an opportunity for the company to invest in new projects. To compare changes in sales and net profit for the last two years, we have drawn table 2. We can see that as IKEA practices sustainability more and more, its annual sales and profit have increased; which enabled the company to invest in new stores and facilities. It also created an opportunity for the company to invest in different environmental and social welfare programs.

**Table 2: IKEA's sales and profit growth (IKEA 2010b)**

YEAR	SALES	% CHANGE IN SALE	% CHANGE IN NET PROFIT
2009	21.4 Billion Euro	1.4	11.3
2010	23.1 Billion Euro	7.7	N/A

### **5.3. Corporate Social Responsibility**

According to the definitions of CSR (Blowfield & Frynas 2005; CSR Europe 2003, as quoted by Sebhatu 2010), companies are responsible for their actions towards environment and society. In case of IKEA, the company shows its commitment towards environment and society by reducing its impact on environment and by contributing to the health and welfare of the society, as we discussed below in details.

#### ***5.3.1. Economic responsibility***

Elkington (1999) explains that companies are not only responsible for economic benefits of their shareholders but also the wide range of stakeholders. We found out that IKEA is not only concerned about shareholders' profit but further, it takes care of the natural capital and all stakeholders including human capital. The company provides good working conditions for its co-workers (as the company calls its workers) by considering health and safety issues, helping them grow by providing learning and skill enhancement programs. Moreover, IKEA gives special attention to the natural capital by using less raw materials, more renewable resources and taking part in different activities such as reforestation.

#### ***5.3.2. Environmental responsibility***

We discussed in the literature review that carbon dioxide emissions reduction is crucial task that has to be performed in order to tackle the climate change and global warming (IPCC 2007). Therefore companies need to invest in eco-friendly projects (Elkington 1999). We found that IKEA, as a multinational company, plays a significant role and carries a big responsibility to contribute in reduction of CO<sub>2</sub> by installing solar panels and the use of less polluting transportation systems. Furthermore, we noticed in Oxfam's report that IKEA follows a reactive approach to become environmental-friendly because of pressure from different social and environmental groups.

#### ***5.3.3. Social responsibility***

According to Elkington (1999), there must be a level of trust between companies and a wide range of stakeholders, and companies can build the trust by contributing in society's health, education and welfare. We found that IKEA is investing in various projects to improve the overall conditions in the society in terms of education, health and economy; such as increasing the level

of education in the society by funding projects conducted by the Save the Children organisation and UNICEF. Moreover, IKEA was ranked the top among Swedish companies with regards to workplace environment and social responsibility (Apéria et al. 2004). This is also the proof that the company is doing well in taking responsibility towards society.

In addition, we believe that by introducing "IWAY", IKEA's code of conduct, the company has proven its commitment to improve people's living conditions and the society as a whole. The reason is that IWAY creates obligations for the suppliers and subsuppliers to provide better working conditions for their employees, improving their production processes from the purchase and use of raw materials to the final product supplied to IKEA. The company assists its suppliers to become more eco-efficient and cost-effective, which helps to build trust between the company and its suppliers. Besides this, the company has other code of conduct, as we mentioned earlier in chapter 4, that addresses issues such as child labor. In addition, by participating and contributing in projects such as the ones mentioned in the previous paragraph, a trust between IKEA and the society is created, people see that the company is working for the betterment of the society and the wide range of stakeholders instead of just being focused on shareholders' profit.

### **Role of external stakeholders**

According to Sebhatu (2010), NGOs have common interest and work for the same causes, and they have played a significant role as corporate watchdogs since last four decades. They put pressure on companies to act in a responsible way towards social and environmental issues (Waddock 2008; Frynas 2005). IKEA was criticised by some environmental groups regarding its use of timber thus the company has started working together with WWF and Greenpeace (Bailly et al. 2006).

The above example is the proof that NGOs have the power to influence companies and the way the firms practice. As per case of IKEA, they put pressure on the company in one way or another because of its false practices on the use of lumber. They forced the company to practice CSR and to be committed to its social and environmental responsibility.

According to Zadek (2004), in compliance stage, companies agree to set a policy in order to avoid the risk of litigation and reputation. During 1980s, IKEA was under pressure from different environmental groups because of the

use of formaldehyde in particle board (TNS 2011); company had to comply with the German E-1 standard to avoid legal actions from the governments and to respond to the pressure from activists in Germany and Denmark. In this stage, we believe, IKEA had taken a reactive approach.

Zadek (2004), also mentioned in managerial stage, firms embed CSR concept into their core management processes. We found out that IKEA has started working on social and environment-related issues by coordinating with NGOs such as TSN (proactive approach); because the company realized that simply complying with rules and reacting on external stakeholders' pressure were not enough to cope with long-term problems. Therefore, IKEA selected a number of managers from its core management team to find out how the company could tackle these issues (TSN 2011). To assist these managers, IKEA sent them to the conference; where experts had given speech, about problem areas and possible solutions. As a result, IKEA's managers were able to create a new environmental program.

In the strategic stage, companies integrate CSR into their core business strategy by bringing CSR concept to the same direction as their strategy and process innovation (Zadek 2004). By coordination with TSN, the company has started addressing the environmental issues such as use of timber, recycling, waste management and transportation by integrating CSR concept into its core business strategy. By doing so, company discovered new opportunities to come up with innovative solutions resulting in cost reduction; that gave a long term competitive advantage to the company.

As we discussed in our literature in last learning stage, civil, companies promote the collective actions (Zadek 2004). As per case of IKEA, we found out that the company has been promoting collective actions by contributing to different educational projects done by organizations such as Save the Children and UNICEF, projects to save the forest such as Sow the Seed, and by assisting its supplier to create awareness about the use of wood, and to find new solutions to the social and environmental-related issues.

#### **5.4. Innovation**

According to Chesbrough (2003), in closed innovation companies rely on their own R&D department for generating new ideas. By looking at IKEA's approach towards innovation, we found out that the company is following closed innovation approach to introduce new products, processes, and

designs. Moreover, the company believes that their own designers, technicians and other staff are more capable of producing novelty ideas for product development.

**Flat packaging:** According to Beise and Rennings (2005), companies that strive to become more eco-innovative, try to find new solutions to reduce their environmental impact. Czinkota and Ronkainen (2007) emphasize on the point that eco-innovation affect the packaging dimension of the product with regards to redesigning and reducing. We believe that the idea of flat packaging shows how IKEA is using sustainability as a source of innovation. The main concern of the company was the betterment of the environment by reducing the usage of non-renewable resources like fuel, renewable resources like timber, and by reducing its carbon dioxide emission. This concern prompted IKEA to come up with an idea of flat packaging that does not only reduces company's costs but also reduces negative impact on environment and society. Additionally, it is easy for the customers and employees to handle flat packages and takes less space during transportation.

**Use of less raw materials:** According to De Marchi (2010), the companies which strive to become more sustainable need to change their approach towards the use of raw material. The production of STUVA storage box and LACK side table demonstrate this concept. We found that the main issue IKEA is facing in its pursuit of becoming more sustainable is the use of huge amount of lumber in manufacturing of its furniture; consequently, the company has come up with an innovative idea to reduce its wood consumption for the betterment of the environment.

**Recycling policy:** Companies reduce their impact on environment by good waste management (Norberg-Bohm 1999). Moreover, according to Rodriguez et al. (2002), practicing sustainability creates an opportunity for companies to introduce new products. One of the examples in IKEA case was the introduction of TEPPAS drawer that is based on innovative idea of manufacturing the product by using recycled bottles. We think that the basic idea behind this innovation was to become more sustainable by using the waste to develop a new product. The other examples that are NORDEN birch table and versatile NÄSUM basket, demonstrate the awareness that IKEA shows to the usage of raw materials and wastage. We found that the main issue in this situation was to reduce the usage of wood in furniture production and to find new ways to make products, and this challenge has created an opportunity for the company to change waste into new products.

Removal of toxic substances: According to Robert (1995), as quoted by Albino et al. (2009), in producing green products, companies must avoid the use of toxic materials. Introduction of TCF paper and using it in production of catalogue by IKEA is a vivid example of removing a poisonous material from the company's product. This example also shows that IKEA has employed radical innovation strategy that is required for companies becoming more sustainable (Murphy & Gouldson 2000). We believe that the company has implemented radical innovation strategy; they came up with completely new idea and introduced total chlorine free (TCF) paper. This shows IKEA's concerns about environment and their approach to innovation in order to gain advantage over competitors.

### **5.5. Sustainability as Competitive Advantage**

As we discussed in our literature review, sustainability is a source of innovation and sustainable competitive advantage (Rodriguez et al. 2002). In literature, we also mentioned that the companies which use sustainability as a source of innovation try to create environmentally friendly value chains (Nidumolu et al. 2009). It is clear that IKEA is organizing the whole value chain to become more efficient. IKEA is concerned about their suppliers and how things work throughout the whole supply chain. One example is that, IKEA assists its suppliers by giving them critical information related to their production processes and improvement of their CSR practices. The outcome of this approach will result in more productive and cost-effective suppliers, and as a result they can provide IKEA with materials at lower prices, which gives IKEA a competitive advantage.

According to Rodriguez et al. (2002), by practicing sustainability, companies develop social resources that help them create sustainable competitive advantage. IKEA's social responsibility practices include cooperating with organizations such as Save the Children and UNICEF by funding their projects to provide education for children. The company also works to improve the environmental conditions by contributing to projects such as Sow a Seed in Borneo, Malaysia. In addition, IKEA offers products with good value for money which leads to a win-win situation. We believe that this approach helps the company to create a positive image in the mind of people and different organizations, which results in positive word of mouth and creation of a long-lasting competitive advantage.

In summary, we found that IKEA has created a sustainable competitive advantage by practicing sustainability and managing its value chain accordingly, and by creating social resources that are difficult to imitate.

### **5.6. Critical Analysis of IKEA Closed Innovation**

According to Chesbrough (2003), companies that follow closed innovation strategy rely on their own R&D department for creating new ideas. IKEA is also following closed innovation strategy. This means that the company believes that their own staff and co-workers (employees), rather than their customers, have the best knowledge that enables them to generate new ideas which are concerned with their way of thinking, specifically “flat packaging”. IKEA believes this way of innovation and packaging also contributes to sustainability, for instance climate change in relation to CO<sub>2</sub> reduction. The idea of flat packaging is mainly concerned about transportation which is just a minor contributor to reduction of CO<sub>2</sub> emissions. As in their 2010 sustainability report, carbon dioxide emissions produced from transportation was 2.1 million tonnes (IKEA 2010a) that is only 7% of the overall number. The rest, 93%, comes from material extraction, product use and products end-of-life (ibid). IKEA can reduce the 93% of CO<sub>2</sub> emissions by introducing innovative design, activities and coordinating with all its stakeholders and involving them in innovation process. However, IKEA’s reliance on closed innovation have missed the opportunity of user innovation and integrating their customers and other stakeholder’s way of thinking.

In addition, contribution of customers is important for the company, which contradicts the IKEA’s innovation strategy. For example, the company gives an opportunity to their customers to try new products in experience room but the role of customers is just limited as end users of the product. They do not engage their customers in the innovation and product development processes. However, Edvardsson et al. (2010) believe that customers know their latent needs better which is the essential part of customer co-development. Customers have latent needs, they know their needs better than the company and also as they are becoming more aware of environmental issues and the importance of sustainability practices, they can come up with innovative ideas and better solutions.

IKEA has a platform of experience room, it can be used as a ground for innovation where customers interact with each other and share innovative ideas with the company’s employees. In the company’s production or design

department, there are only few people who can produce innovative ideas, whereas in the experience room thousands of new ideas could be generated because of customers' involvement.

In China, marketing manager of IKEA said that *"IKEA needs to keep its home-life study up to date because change happens so fast"* (Enquist et al. 2007, p. 390). In order to cope with the fast pace of current changes, the company can use its experience room, because when people visit the stores they can give a better idea of their changing demands.

IKEA thinks that its main focus is to produce well-designed products which provide solutions for real life problems and give their customers better value in use at home (Enquist et al. 2007). However, according to Norton et al. (2007), customers can get more value if they create their own products. Therefore, we believe that involving customers as co-developers could result in more intrinsic satisfaction and a better value in use, since the product is based on their latent needs.

Moreover, IKEA states that they are working together with their stakeholders, but in their reports we noticed that the role of suppliers is just to provide raw materials to the company. They do not involve their suppliers in generation of innovative ideas in the production processes or product development.

At the end, we believe that IKEA can use its customers, suppliers, and other stakeholders as alternative sources of innovation that address sustainability because they are becoming more and more aware of issues related to environment and society. They may have critical knowledge that can help the company to introduce eco-friendly products.

## **6. Conclusions and Recommendations**

As companies become more and more sustainable, there is a need for alternative approaches that implies innovative strategies on all levels of production and processes, starting from the choice of materials and energy sources, and finishing with a product/service design and waste disposal. Therefore, an innovation per se does not make the company sustainable; it is rather an implementation of eco-innovation, which brings a new dimension of economic and ecological integration that directs a company towards sustainability (Blättel-Mink 1998). Additionally, companies must have a life-cycle perspective, meaning that environmental impacts of a product must be minimized through its whole life-cycle (Albino et al. 2009). There are different definitions of eco-innovation but they all emphasize on one common point which is the importance of environment in innovation (Chen et al. 2006, Rennings 2000, Blättel-Mink 1998, Beise & Rennings). Green innovation often requires companies to alter three areas of use of raw materials, recycled products use or waste management (De Marchi 2010).

It should also be noted that although sustainability brings new challenges to the companies, it is a source of innovation. The reason is that it encourages them to look for new processes, technologies and products in order to overcome the challenges (Rodriguez et al. 2002).

Companies that adopt sustainability practices will gain a sustainable competitive advantage. On the path towards sustainability companies must acquire critical knowledge and information (Guo 2007), develop new unique capabilities, resources, activities as well as social resources (Rodriguez et al. 2002) and a proactive environmentally friendly approach (Aragón-Correa & Sharma 2003) that will ensure their long-term competitive advantage.

We continue the conclusion of this thesis by answering the two research questions that we were in search of, based on all five previous chapters.

### **6.1. Sustainability as a means for innovation towards sustainable competitive advantage**

Sustainability is becoming more and more important in today's business world because of increased awareness about environmental and societal issues among customers, pressures from NGOs and the legal requirements from the government. Companies need to respond positively in order to compete and

even survive in some situations. They are required to find new solutions that help them achieve this goal. Challenges that companies are facing are mainly the overuse of resources, waste management and non-renewable energy consumption, all these issues are causing global warming and climate change.

By providing innovative solutions which address sustainability, companies will make more profit as well as gain a sustainable competitive advantage. The two bases of sustainable competitive advantage are: First, cost reduction by minimizing the use of input materials, waste management and by finding alternative resources of raw materials and sources of energy. Second, sustainability practices result in creating overall better image of the company leading to a positive word of mouth in the society.

## **6.2. IKEA's application of sustainability that has led to innovation and sustainable competitive advantage**

IKEA's executives see sustainability and its practices as an opportunity rather than cost; therefore, the company takes all aspects of CSR into the consideration throughout the whole value chain. The company takes economic and environmental as well as social responsibility (three aspects of CSR) into the consideration by cooperating with organizations mainly WWF, UNICEF, Save the Children and by creating projects such as "IKEA Goes Renewable" to tackle climate change, and by setting goals such as helping 100 million children. Furthermore, IKEA has a code of conduct "IWAY", "IKEA Sustainability Direction" and "IKEA Sustainability Product Score Card" to reduce its impact on environment and to show its responsibilities towards society.

The drivers of sustainability for IKEA are mainly legal and economic. Legal in a sense that the company has to comply with different rules and regulations such as removal of toxic materials from its products. The second one, economic, is related to the profitability of IKEA by practicing sustainability.

IKEA's sustainability practices are the source of innovation and competitive advantage. The company needs to look for new solutions to the problems such as the overuse of resources, waste management and non-renewable energy consumption since these issues are causing global warming and climate change. The largest retailer of furniture, IKEA, uses resources on large scale; therefore, there is a very high pressure on the company to tackle these issues. Company is taking these challenges as opportunities to offer innovative solutions that meet the requirements of all stakeholders.

By addressing the above mentioned issues through new solutions such as introduction of flat packaging, IKEA could reduce its CO<sub>2</sub> emissions. The reasons are that more products could be loaded and transported on one lorry, and it is also easier for customers to carry them. The company also decreases its input resources by using less raw materials, as well as incorporating recycled material use and the use of so-called waste into production of new products. This results in a decreased cost of production, and provides a base for the company to offer low price products with innovative designs which is the source of competitive advantage. This enables customers to choose among a wide range of products with reasonable prices which result in more customer satisfaction.

Moreover, sustainability practices of IKEA and investing in social projects such as "Save the Children" create a positive image in peoples' mind. The result of this customer satisfaction and good reputation in the society creates a positive word of mouth which helps the company to gain a sustainable competitive advantage.

At the end, by analysing IKEA case we found that despite the challenges sustainability brought to the company, it offered opportunities for innovation and investing in social projects. Eco-innovation has helped the company to reduce the cost by developing new resources, capabilities, and reducing the waste; while, the social projects helped the company to gain publicity. These two factors have led the company to achieve a long-lasting competitive advantage as well as more economic growth. Furthermore, we found that the company has missed the opportunity of customer co-creation by applying a closed innovation strategy and by not involving different stakeholders in innovation process.

In this thesis, we discussed that sustainability can be a source of innovation and competitive advantage using the theories related to sustainability, innovation and sustainable competitive advantage. We illustrated how these concepts are related and how IKEA is using sustainability as a driver of innovation and sustainable competitive advantage. This is the contribution of the thesis to the ongoing research on sustainability and its link to innovation as well as provides a guideline for companies pursuing the path of sustainability.

### 6.3. Final Reflection

In the discussion part, we analyzed the company with regards to the theoretical and conceptual framework presented in chapter 3. In this section, we refer to table 1 (on page 20) to examine the level of IKEA's sustainability and innovation. To cope with this task, we gave a summary of IKEA's practices in numbered points.

**Table 3: Summary of final reflection**

<b>Sustainability</b>	<p>More sustainability &amp; Less Innovation</p> <ul style="list-style-type: none"> <li>• CSR</li> </ul>	<p>More sustainability &amp; More innovation</p> <ul style="list-style-type: none"> <li>• Eco-innovation</li> </ul> <p style="text-align: center;"><b>IKEA</b></p>
	<p>Less sustainability &amp; Less innovation</p>	<p>Less sustainability &amp; More innovation</p> <ul style="list-style-type: none"> <li>• Innovation</li> </ul>
	<b>Innovation</b>	

- **CSR**

1. Economic responsibility: economic capital, human capital and natural capital.
2. Environmental responsibility: working with WWF, IKEA Goes Renewable project, installation of solar panel systems in the company's buildings.
3. Social responsibility: IKEA Social Initiative and IWAY, cooperating with UNICEF and Save the Children organization, helping employees decrease their energy bills

- **Innovation**

1. Radical: Flat packaging, use of total Chlorine free (TCF) paper
2. Design: Flat packaging

- **Eco-innovation**

1. Raw materials use: STUVA storage box, LACK side table

2. Use of recycled product: TEPPAS drawer
3. Waste management: NORDEN birch table, NÄSUM basket
4. Lifecycle approach: introduction of IKEA Sustainability Product Score Card
5. Pollution prevention: use of total Chlorine free (TCF) paper in catalogues, use of elementary Chlorine free (ECF) paper in bleaching process
6. Production processes: STUVA storage box and all other innovations are the result of change in one or more production processes

Based on table 3 and IKEA's practices (mentioned above), we conclude that IKEA is among companies that has gained its long-lasting competitive advantage by having strong sustainability practices and being highly innovative.

#### **6.4. Recommendations**

*Further study.* The result of this thesis has been heavily based on qualitative data gathered from in-depth literature review. It would be interesting to use quantitative approach to map exactly how information is gathered, exchange, interpreted and used to support that the sustainability is a key driver of innovation and competitive advantage in corporate world.

*Finally,* we urge other researchers to conduct a multiple case study to examine the link between sustainability and innovation. We also suggest the researchers to investigate how users could be involved in eco-innovation process.

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# Appendix 1

**IKEA Sustainability Product Score Card criteria, in brief** (IKEA 2010a, p. 19):

- More from less (using less material in the product)
- Renewable material
- Recycled material
- Environmentally better material
- Separable & recyclable material
- Product quality
- Transport efficiency (number of products per container)
- Energy efficient production
- Renewable energy in production
- Raw materials utilization at suppliers
- Product use (less use of energy and water, and less waste in customers' homes)



