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Jiang, Yan, Jia, Fu orcid.org/0000-0002-9830-121X and Gong, Yu (2018) IKEA : Global sourcing and the sustainable leather initiative. International Food and Agribusiness Management Review. pp. 627-639. ISSN 1559-2448

https://doi.org/10.22434/IFAMR2017.0109

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*International Food and Agribusiness Management Review*
***Volume 21 Issue 5, 2018; DOI: 10.22434/IFAMR2017.0109***

Received: 30 October 2017 / Accepted: 6 March 2018

# IKEA: global sourcing and the sustainable leather initiative

*Special issue: Teaching case studies in food and agribusiness management*

**CASE STUDY**

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## Abstract

The leather industry has traditionally been characterized by global operations across both developed and developing countries. Due to the long distance and contextual differences, there are numerous sustainability issues occurring along the global leather supply chain. Addressing these issues is both a responsibility and a challenge for multinational companies, especially in their global sourcing (GS) activities. This teaching case provides an example of implementing the sustainable leather initiative in the global sourcing process at IKEA. The case demonstrates IKEA's sustainable leather initiative supported by its tailored GS strategy and GS structure and provides a benchmark of Sustainable GS for multinational companies and allows for a thorough discussion of how to implement a sustainability initiative while conducting GS. The case can be used to teach graduate/postgraduate in agricultural business, MBA and executive students on sustainable supply chain management and corporate social responsibility.

**Keywords:** sustainable leather initiative, supply chain, global sourcing strategy, global sourcing structure, teaching case
**JEL code:** D22

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## 1. Introduction

In a sunny afternoon, Peter Agnefjäll, the President and chief executive officer (CEO) of IKEA Group and the Group Management team members sat in the board meeting room, summing up the results of the past year and discussing the following reorganization issues that the Group is facing in the next three years.

IKEA Group is a leading retailing company and has been engaged in sustainability for many years. In today's business environment, multinational companies sourcing globally face pressures from consumers, governments, media and Non-Governmental Organisations (NGOs) of not addressing environmental and social issues sufficiently. IKEA is one of the leaders in sustainable global sourcing (SGS) practices.

Peter Agnefjäll concluded that FY16 was a remarkable year for them in many ways. The sales grew to EUR 34.2 billion. Together with the rental income from the shopping center business (IKEA Centers), total revenue increased by 7.4% to EUR 35.1 billion. Meanwhile, On 31 August 2016, they sold their product development, supply chain and production companies to Inter IKEA Group and made the food served and sold in their stores more healthy and sustainable. Peter Agnefjäll highly affirmed the past achievements and called into questions running through his mind.

He indicated that, next, the Group plans to implement a sustainable initiative for the leather supply chain, and it requires the transformation of their GS organizational structure to better fit its SGS strategy. However, implementing such an initiative is complicated due to the various challenges involved, such as long distances of transportation, difficulty of managing overseas suppliers, significant resources investment and cultural differences, among others. To carry out GS initiatives, Peter Agnefjäll proposed the following questions for Group Management team to consider: IKEA aims to restructure the way of GS by product category, so what appropriate GS strategy and structure is needed in order to enable the sustainable leather initiative? How do GS strategy and structure shape a sustainable leather initiative? What processes could IKEA adopt to implement a sustainable leather initiative?

These questions stirred a hot debate among the Group Management team members. To answer these questions, we first provide the background of leather products and its supply chain, then IKEA company's background followed by a detailed explanation of IKEA's GS strategy and structure. Finally, the leather initiative is elaborated in light of the GS strategy and structure. Supplementary Materials S1 contains the list of interviews.

## 2. Leather products and supply chain

Leather and leather products are the most widely traded products worldwide. It is estimated that the international trade of leather product exceeds USD 80 billion annually and is expected to continue growing alongside the increasing population and urbanization in the worldwide range (ITC, 2015). This is because the leather industry relies on the by-products of the meat and dairy industries as for its raw materials. The dramatic growth of the demand for meat and milk resulted from the increasing population over the last three decades facilitates the extension of the leather stock around the world. The four major types of meat, i.e. bovine, poultry, pig, and ovine, also represent the main types of leather raw materials. Table 1 shows the alignment between the world population and cattle leather stock in 2017. The global cattle stock in 2017 was calculated at 998.3 million head and the world population is estimated to be 7.4 billion people, resulting in 0.13 head per capita. Table 1 shows the top 10 countries with per capita cattle stock in 2017.

Leather can be used in a variety of product sectors, such as footwear, furniture upholstery, clothing, leather goods, vehicle upholstery, gloves among others. The leather supply chain is long and complex, which normally comprises a sequence of steps, as shown in Figure 1.

Figure 1 summarizes a generic leather supply chain consisting of three phases. Phase 1 covers the part of the supply chain from animal to rawhide or skin; phase 2 covers the supply chain from rawhide or skin to

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**Table 1.** The world population and cattle stock in 2017 (adapted from FAS, 2017).

| Rank | Country | Cattle stock (millions) | Population (millions) | Per capita |
|---|---|---|---|---|
| 1 | Uruguay | 11.845 | 3.444 | 3.44 |
| 2 | New Zealand | 9.903 | 4.565 | 2.17 |
| 3 | Argentina | 53.515 | 43.847 | 1.22 |
| 4 | Australia | 27.750 | 24.309 | 1.14 |
| 5 | Brazil | 226.037 | 209.567 | 1.08 |
| 6 | Belarus | 4.320 | 9.481 | 0.46 |
| 7 | Canada | 12.100 | 36.286 | 0.33 |
| 8 | United States | 93.500 | 324.118 | 0.29 |
| 9 | India | 303.350 | 1,326.801 | 0.23 |
| 10 | Turkey | 14.047 | 79.622 | 0.18 |

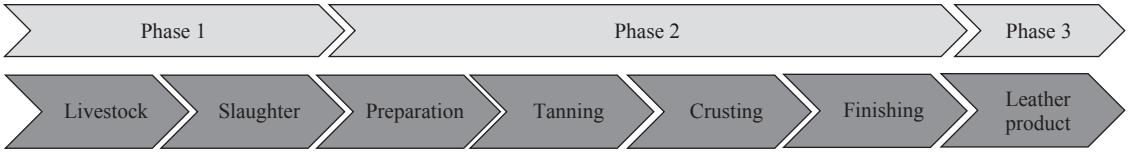


**Figure 1.** The leather supply chain (adapted from Ernst and Young, 2013)

leather (Ernst and Young, 2013); and finally, phase 3 is the manufacturing process from leather to leather product, which normally consists of a sequence of operations including cutting, splitting, skiving, assembling, sewing, fixing accessories, and finishing (UNIDO, 2010). The sustainability related issues can occur at every step of the leather supply chain, such as deforestation, climate change, animal welfare, poor labor conditions, water wasting and pollution. Table 2 outlines the specific issues that can occur in each of the leather production steps.

**Table 2.** Sustainability issues along the leather supply chain (adapted from Ernst and Young, 2013).

| Issue | Livestock | Slaughter | Preparation | Crusting and finishing | Leather product |
|---|---|---|---|---|---|
| Climate change | × | × | × | × | × |
| Biodiversity and deforestation | × | | | | |
| Pollution of air, water and soil | × | × | × | × | × |
| Water use/water availability | × | × | × | × | × |
| Waste | × | × | × | × | × |
| Animal welfare | × | × | | | |
| Resource scarcity | × | | | | |
| Land acquisition | × | | | | |
| Nuisance | × | × | × | × | × |
| Discrimination of small local farmers | × | | | | |
| Health and safety workers and community | × | × | × | × | × |
| Child labor | × | × | × | × | × |
| Forced labor and human trafficking | × | × | × | × | × |
| Freedom of association | × | × | × | × | × |
| Labor conditions | × | × | × | × | × |

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These sustainability related issues reflect the potential negative impact of activities along the leather supply chain on the environment, animal welfare, community, and human rights, which are difficult to track due to the nature of leather production and the distribution in a complex global supply network. Phase 1 (raw materials) is usually located in the country/region with a well-developed livestock industry such as Australia, Brazil and New Zealand. Phase 2 (production) is based in the country/region characterized by lower cost labor, e.g. China, Indonesia and Viet Nam. Phase 3 (consumption) is associated with the high living standards countries such as the USA, European countries most notably Italy, the UK, Germany, France and Japan (Ernst and Young, 2013). The long distance of such globalized chain and contextual differences among the countries decrease the transparency of the leather supply chain, and increase the difficulties of assessment and traceability. Therefore, improving the sustainability of the leather supply chain is not only a responsibility but also a challenge for actors along the whole leather supply chain, among which the international brands usually have the most power. One representative brand that excels in the sustainable leather initiative in the global sourcing activities is IKEA.

## 3. IKEA and its sustainability agenda

### *3.1 IKEA company background*

IKEA is a multinational group, headquartered in the Netherlands[1], designs and sells ready-to-assemble furniture, kitchen appliances and home accessories. IKEA has become the world's largest furniture retailer since 2003. Founded in Sweden in 1943 by the then 17-year-old Ingvar Kamprad, the company's name is an acronym that consists of the initials of Ingvar Kamprad, Elmtaryd (the farm where he grew up), and Agunnaryd (his hometown in Småland, southern Sweden). The company is known for its modernist designs for various types of appliances and furniture, and its interior design work is often associated with an eco-friendly simplicity. In addition, the firm is also known for its attention to cost control, operational details, and continuous product development. These corporate attributes have allowed IKEA to lower its prices by an average of 2-3% over the past decades during a period of global expansion. All of these are summarized in its business strategy, i.e. "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" (IKEA website).

As of December 2016, IKEA owns and operates 392 stores in 48 countries, 22 pick-up and order points in 11 countries, 41 shopping centers in 15 countries and 38 distribution sites in 18 countries. In FY16 (financial year 2016, from September 2015 to August 2016), IKEA had 783 million store visits and 425 million shopping center visits, and sold EUR 34.1 billions in FY17, representing a 3.5% increase over FY16. Meanwhile, the IKEA website contains about 12,000 products and is the closest representation of the entire IKEA range. There were over 2.1 billion visits to its websites and EUR 1.4 billion online sales across 14 country markets of IKEA Group in FY16, an increase of 9% compared to FY15 (IKEA Group, 2016).

IKEA has a long tradition of embedding sustainability in its operations. The company is keen to show leadership in integrating sustainability across its business operations. As Steve Howard, the Chief Sustainability Officer (CSO) of IKEA Group said in his TEDTalk (talk videos from expert speakers on education, business, science, tech and creativity),

> Sustainability has gone from a nice-to-do to a must-do. It's about what we do right here, right now, and for the rest of our working lives...If you're a business leader, if you're not already weaving sustainability right into the heart of your business model, I'd urge you to do so.

The vision of IKEA is to create a better everyday life for many people and it adopts a People and Planet Positive strategy to work towards this vision. The strategy focuses on three aspects: inspiring and enabling millions of

[1] Most of IKEA's store and factories are currently owned by INGKA, a holding company controlled by the Stitching INGKA Foundation, which is a Dutch foundation founded in 1982 by Ingvar Kamprad.

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customers to live a more sustainable life at home; striving for resource and energy independence; and taking a lead in creating a better life for the people and communities influenced by its business. By adopting this, IKEA sets minimum requirements on environmental and social sustainability including working conditions throughout its supply chain, i.e. IWAY (IKEA, 2016) – the IKEA way on purchasing products, materials and service. IWAY is the IKEA supplier code of conduct, which ensures a mutual understanding on sustainability with its suppliers. IKEA sets up the IWAY function that takes the responsibility of monitoring suppliers' compliance on IKEA's code of conduct. IKEA has been utilizing IWAY to ensure that products are made to an environmentally and socially acceptable standard since 1999. Furthermore, IKEA pays particular attention to vulnerable groups in its supply chain, such as migrant workers and home-based workers, to ensure that they can access decent employment including wages, working conditions and labor rights (IKEA Group, 2016).

## 3.2 IKEA sustainability agenda

IKEA has been committed to sustainability for many years. According to Peter Agnefjäll,

> Urgent action is needed to tackle climate change – communities across the world and the success of business depend on it. That's why IKEA Group is going all-in to be part of the solution. We see action on climate change as a driver of innovation, investment and renewal.

Following the UN's Sustainable Development Goals, IKEA develops its own sustainability agenda to guide and inspire itself in achieving sustainability in the global operations. IKEA has mapped its People and Planet Positive strategy against the goals, and identified seven in particular, where it can make the greatest contribution. The seven goals for excellent achievements are: gender equality, affordable and clean energy, decent work and economic growth, reduced inequalities, responsible consumption and production, climate action, and life & land. Responsible sourcing is the main strategy related to the life and land goal. Following this strategy, IKEA sources its key raw materials, such as cotton, wood and leather, from more sustainable sources.

Meanwhile, to find the most competitive supply market and suppliers, IKEA also considers a list of factors for supplier selection including total cost, quality, availability, sustainability and preferred partner. Stefan Karlsson, the Sustainability Compliance Manager at IKEA Purchasing Service (China) Co., Ltd., said:

> IKEA is a global company and we have stores almost around the world. We consider a series of factors when sourcing globally. On one hand, we pursue a lower cost of materials with maintaining a good quality. On the other hand, as a leading international brand, we have the responsibility of keeping sustainability in our global sourcing activities. During this process, we engage to build the long-term partnership with our suppliers, which can both ensure the availability of materials and share our sustainability goals with our suppliers.

IKEA implements responsible sourcing by going beyond the direct suppliers to ensure sustainable resource management across its multi-tier supply chains. Sustainable resource management is protecting the raw materials that go into IKEA products and ensuring a sustainable supply chain, which is vital for the long-term sustainability of the business. The raw materials include wood, cotton, palm oil and leather. By June 2015, the IKEA Foundation has implemented programs to promote children's rights, fight child labor and create opportunities for families living in the cotton supply chain communities in India and Pakistan, and leather supply chain communities in Brazil.

By August 2015, 100% of the leather IKEA sourced is chromium-free[2], and from September 2015 onwards all IKEA's leather is produced using 'wet-white' tanning or other alternatives to chromium, which is highly

[2] Chromium is the chemical used in the leather tanning process, but it is harmful to the environment. Chromium free leather replaces chromium with vegetables in tanning.

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polluting. By August 2016, IKEA has achieved traceability of cattle leather and hides back to slaughterhouses. By August 2017, IKEA has secured traceability of all leather back to slaughterhouse level and has developed and started implementing requirements of social and animal welfare issues.

Peter Möller, the Category Area Comfort Sustainability Manager of IKEA of Sweden AB – Inter IKEA Group, stated that the goals for sustainable leather initiative are (1) to have a traceable supply chain; (2) to set the requirements in the supply chain; and (3) to secure IKEA's requirements in this transparent supply chain. Peter explained clearly IKEA's understanding of animal welfare:

> When it comes to the requirements, it is of course about the animal welfare in the supply chain, but also about the workers welfare as well in the supply chain. We identified the Five Freedoms to guide our animal welfare work, i.e. all animals in its leather supply chain have (1) freedom from thirst or hunger; (2) freedom from discomfort; (3) freedom from pain or injury and disease; (4) freedom to express natural behaviors; and (5) freedom from distress. Regarding the workers welfare, it is mainly about ensuring the compliance of working conditions and health and safety in IWAY within upstream supply chain.

Next, the sustainable leather initiative is used to illustrate the SGS practice influenced by IKEA's GS strategy and GS structure for leather.

## 4. IKEA global leather supply chain

### *4.1 IKEA leather profile*

At present, the retailers from major business districts and international brands are facing the requirements of knowing the product sources and production conditions requested by consumers and NGOs, so retailers and brands need to ensure that the sources of leather are legal and in line with the Convention on International Trade in Endangered Species of Wild Flora and Fauna. In recent years, the leather industry has been questioned by human rights organizations, environmental organizations and animal protection organizations, as they believe that the leather industry is in violation of the relevant laws in aspects of work conditions, environmental controls and animal welfare. In response to these challenges and to prove that the leather supply chain is open and transparent, more and more brands and retailers are trying to introduce a traceability system for their leather supply chains. In the era of globalization, traceability of the leather industry has become increasingly complicated. Throughout the whole process from the transaction of raw hides to leather production and sales, multiple stakeholders from different parties around the world are involved. The leather making process also consists of many physical-chemical processes, which makes monitoring each hide or skin a challenge (ITM, 2017).

In respect to this, IKEA collaborates with the external stakeholders to address the environmental and social issues along the leather supply chain. For example, IKEA works together with its suppliers and chemical companies to find solutions of reducing chemical use, carbon emission and water consumption during the tanning process. Using such approach, IKEA has achieved the goal of 100% chromium-free leather in 2015 and reduced the carbon emission and water consumption to a certain extent. Meanwhile, in order to improve working conditions, IKEA sets the minimum standards (IWAY) regarding the health and safety of workers, the maximum working hours, the minimum wages among others for its tier one suppliers. Furthermore, IKEA pays particular attention to animal welfare and develops the specific guidelines for its suppliers, which mainly concerns the issues of whether animals are treated humanely and whether animal can express natural behaviors. The commitment to animal welfare is important for animal-derived raw materials used as food ingredients, or in its home furnishing range, such as leather.

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### *4.2 IKEA global leather supply chains*

Every year IKEA uses about 3 million $m^2$ of leather in its home furnishing products, including sofas and rugs. This comes from eight leather suppliers and three hair-on-leather suppliers. The leather used by IKEA comes from three main types of raw materials. Brazil supplies around half of the leather and sheepskin IKEA uses annually. The function that is responsible for sourcing leather in IKEA is the Leather Competence Center (LCC), which is the only one of its kind at IKEA and located in Shanghai, China thanks to the significant demand for leather products from Chinese consumers and relatively cheaper labor cost of China.

IKEA's leather supply chain includes cattle farms, slaughterhouses, tanneries and finishers. According to Frank Ouyang, the LCC Manager of IKEA global, LCC is responsible for sourcing three kinds of leather globally, i.e. cattle, sheep and goat. The reason for GS is the lack of resources in the Chinese market. Due to the Chinese meat consumption habits, there are many pig breeders, so the large volume of raw hides are pigskins and the volume of cattle skins and sheepskins is very small. Thus, for the tanneries located in China even in Asia, cattle skins and sheepskins are almost all imported. IKEA has three leather supply chains corresponding to the three kinds of leather, as shown in Figure 2. Leather from cattle is purchased mainly from South America, North America, Europe and a small amount from Africa. The major GS destination countries include America, Brazil, Germany, the United Kingdom, Australia and France; leather from sheep is sourced from Australia and New Zealand, a small quantity from the United Kingdom and Argentina; and leather from goat is procured mainly from Australia.

According to Frank Ouyang, IKEA's three types of leather supply chain begin at farms, which may include several different types of farms. For example, a beef cattle farm keeps the cattle newborns with their mothers until weaning; then a cow-calf farm buys the calf from the beef cattle farm and continues to raise the calves until they become young beef cattle; after that, the young beef cattle are usually sold to a feedlot to be raised for meat. All these farms are treated as one tier in the leather supply chain, and next the cattle are sold from the feedlots to slaughterhouses. It is also possible that there is no feedlot, and the cattle are sold directly from a cow-calf farm to slaughterhouses. This depends on customer demands, such as cattle breeds, ages, grades, among other.

After the slaughterhouse, there are various packers and traders (both are companies) involved before the tanneries. The packers, who are mainly responsible for sorting and salting the leather, sort the leather first according to several criteria, such as size, quality, scar area, among others. Meanwhile, the leather also needs to be salted to avoid rotting. After sorting and salting, the leather is distributed by traders to tanneries, which are local suppliers in the example of China.

After the tanneries, there are three routes of supply chain: leather from sheep is sold directly to IKEA stores; leather from cattle is sold to sofa manufacturers and then to IKEA stores; and leather from goat is sold to chair manufacturers and then to IKEA stores. The reason for this is that there are two kinds of leather usage in IKEA. One is called Carpet leather (i.e. leather from sheep), which is sold directly to IKEA stores after

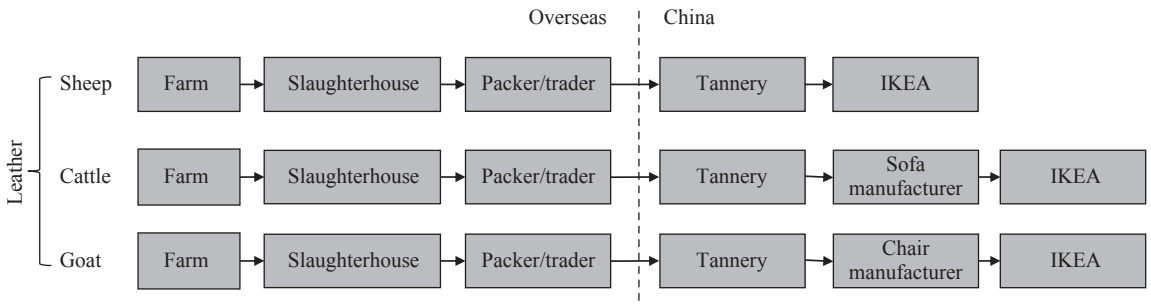


**Figure 2.** IKEA's three leather supply chains.

being bought from the tannery. The other type is Upholstery leather (i.e. leather from cattle and goat), which needs to be manufactured for sofas and chairs after being bought from the tannery.

## 5. IKEA global sourcing design for sustainable leather initiative

### *5.1 IKEA global leather sourcing strategy*

All the leather is sourced globally following the overall GS strategy at IKEA, which is characterized by the five factors (cost, quality, availability, sustainability and preferred partner) and can be further explained by its Three Cornerstones agenda, i.e. lower total cost from material to customer, IKEA supplier – partners for growth, and one IKEA purchasing – simple and professional.

- *Lower total cost from material to customer*

IKEA sells the leather products at a low cost by collaborating with all the tiers of suppliers along its leather supply chain. This approach allows IKEA to make the decisions of the sustainable leather initiative closer to where the environmental impacts are created. IKEA links the leather suppliers to the needs and expectations of the customers. By integrating internal functions and external stakeholders, IKEA has achieved sustainability throughout the supply chain from raw materials all the way down to the customers. It starts with the design of leather products, choosing sustainable leather raw materials and technologies, protecting animal welfare, and ensuring the safety and health of workers in the leather production.

Meanwhile, IKEA has established long-term relationships with its leather suppliers through bulk purchases and shares its sustainable agenda with the suppliers. IKEA, normally purchases a significant amount from its Tier 1 suppliers; thus it owns a strong bargaining power in negotiating with these suppliers, which results in the lower prices and good quality. Furthermore, the large bargain power also ensures that IKEA participates in the selection of suppliers, such as requiring that the tier one suppliers comply with the full IWAY terms and the sub-tier suppliers comply with the mandatory IWAY terms (i.e. I-Must). Through such a plan, IKEA succeeds in pursuing the low cost and maintaining the sustainability agenda simultaneously.

- *IKEA suppliers – partners for growth*

IKEA builds a diverse and concentrated supplier base to offer the leather products and meets the need of its customers. Such kind of supplier base is able to handle more leather products with a higher flexibility as well as a faster speed of responding to market requirements. Comparing to the size of supply base previously, IKEA currently has a smaller number of suppliers and a more integrated way of working with them, which contributes to the development of leather products and the standard solutions of sustainability.

IKEA positions itself as the preferred business partner for existing and potential suppliers. The partnership with IKEA has been characterized as one of mutual respect, trust and transparency. Based on the shared sustainability goals, IKEA creates the conditions for suppliers to take full responsibility for their sustainability performance. Empowering responsibilities to suppliers helps IKEA shift the focus from control to sustainability development, in which its suppliers are more proactive in following sustainability requirements for GS.

- *One IKEA purchasing – simple and professional*

IKEA develops GS strategies for product categories and implements action plans with suppliers in a simple and professional way. The work is based on and contributes to IKEA's leadership. IKEA develops a business intelligence platform internally and has a common framework for defining, communicating and mitigating risks, so that the consensus on trade barriers, market, political and sustainability risks as well as volatility in currency and raw material price can be reached. To deliver sustainable objectives, IKEA takes the required

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measures to implement its strategies and action plans, by organizing the key initiatives as projects (e.g. cotton project and sustainable leather initiative).

To enable simple but professional SGS process for leather, LCC at IKEA purchases all animal leathers. The goals for the leather GS strategy include not only resource (e.g. animal skins) seeking and cost reduction, but also sustainability. According to Frank Ouyang,

> We purchase leather in the global scope, we have a lot of pre-conditions for leather global sourcing, for example, our raw hides of leather cannot come from the Amazon, because in some of its region, herdsmen deforest the forest for grazing, which will have a negative impact on not only the local indigenous peoples, but also the entire ecological chain; meanwhile, our raw hides also cannot come from the primeval forest area, even if it is not the Amazon region, because cutting down the forest in this area will also cause the destruction of the entire environment. Thus, we don't use the raw hides coming from these regions. Another point is that our raw materials are by-products, this is to say, animals are fed for meat instead of raw hides, after animals are slaughtered and meat is taken, the rest, i.e. raw hides is what we use. Furthermore, we don't use the raw hides coming from rare animals, this is a clear point in our pre-conditions.

The main product in slaughterhouses is meat sold to meat-processing companies or food services, e.g. McDonald's, which have high bargaining power. IKEA has relatively low bargaining power in their relationship with slaughterhouses as animal skins are a by-product and are sold with low value. In this case, it is not easy for IKEA to persuade the slaughterhouses to collaborate in the implementation of sustainable leather initiative.

*5.2 Global sourcing organizational structure for leather at IKEA*

■ *Centralized GS planning*

GS at IKEA is centrally planned and organized into category areas. There are four GS levels with each level contributing in different ways. According to Echo Ye, the Deputy Category Manager for leather at the Shenzhen IKEA trading office,

> When planning GS, the first level is 7 category area managers in global, who are responsible for the 7 category areas respectively and directly lead the work of category managers (CMs); the second level consists of CMs also located in global, who are in charge of drawing up the 5 years GS strategic plan; the third level is made up of CMs and business developing managers (BDMs), who are working together to make the 2-3 years tactical plan according to the 5 years GS strategy; the fourth level is BDMs in local, who take charge of working out the 1-2 years operational plan according to the 2-3 years GS tactics, and directly lead the business team which is organized for interface with suppliers in local.

From the global to the local level, GS activity for leather is structured as a Business Team (BT). Daniel Xu, the Business Developer at the IKEA Qingdao trading office claims that one BT usually consists of three staff: business developer, supplier planner and production engineer. Sometimes there is also a product engineer, who supports more than one BT at a time. Usually a BT is established for one type of products, e.g. sofa and chair.

■ *Matrix management and support functions*

IKEA GS's structure is centrally planned with matrix management. IKEA Range and Supply also consists of several matrices and a number of support units. One example is the IKEA Sustainability Management Group. Steve Howard, as the CSO, is a member of Group Management team and reports directly to Peter Agnefjäll, CEO of IKEA. The CSO chairs the Sustainability Management Group, which brings together



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sustainability managers from the main business areas. Together they review performance against the targets and make strategic decisions on sustainability for the whole IKEA Group. Progress towards the goal is reported to Group Management team and the Supervisory Board every three months. In FY16 the Sustainability Management Group comprised the Heads of Sustainability Policy and Compliance, Sustainability Innovation, Sustainability Communication, and sustainability managers from Range & Supply, IKEA Industry and Retail & Expansion. From September 2016, the Sustainability Management Group comprises the IKEA Group Chief Sustainability Officer, the Heads of Sustainability Integration & Development, Sustainability Policy & Compliance, Sustainability Innovation and Sustainability Communication, and sustainability managers from IKEA Centers, IKEA IMS, Customer Fulfilment and IKEA Property.

In addition, there are several other functions/units operating in IKEA Range & Supply, such as IKEA Components, Regional Supply teams, Logistics Development, Sales & Supply planning, Transport, Purchasing operations, Quality Support Centers, IKEA communications AB, and Product Development Centre (China).

The GS structure for leather is highly integrated and is led by the leather competence center manager (LCCM) with centralized planning and follows a matrix management structure, as shown in Figure 3.

The LCC is headed by the LCCM – Frank Ouyang, and consists of a business developer, a production engineer and a supplier planner. The supplier planner also belongs to the sofa business team, which is led by the BD manager of the sofa category. Different from the typical matrix structure, which consists of an operational and a functional line of reporting, the GS structure for leather follows a matrix structure composed of two reporting lines, both of which are based on products or raw materials. For leather raw materials, the supplier planner line reports to the LCCM; for sofa products using leather, the same supplier planner dotted line reports to the BD manager of the sofa category. With this approach, decisions can be made based on sustainability themes that are common to one sub-area (i.e. leather including leather raw materials and sofa product procurement) and costs can be cut as the supplier planner is able to perform cross-leather or cross-sofa activities. Moreover, besides the cross-product working groups, there are also other cross-organizational

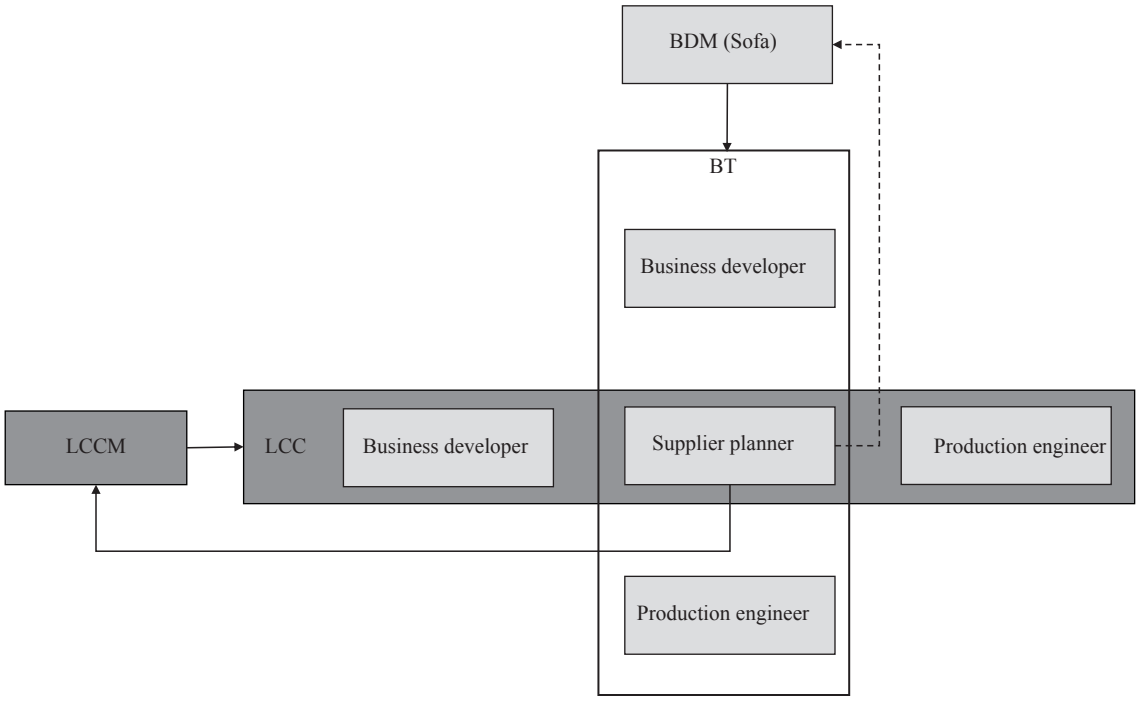


**Figure 3.** Global sourcing structure for leather (matrix). LCC = leather competence center; LCCM = leather competence center manager; BDM = business developing manager; BT = business team.

working groups covering topics such as energy, waste, circularity, community involvement and sustainability reporting. The cross-organizational working groups provide leadership, best practices, research and support on the sustainable leather initiative. With the integration of these two internal working groups between leather raw materials and sofa products, IKEA's GS practice for leather is organized efficiently and economically.

Meanwhile, the GS practice for leather also includes external integration with NGOs and suppliers. The main challenges to achieving sustainable objectives for the sustainable leather initiative are mainly focused on animal welfare and workers' welfare. When interfacing with suppliers, the LCC works together with the Food Animal Initiative – a British NGO committed to better farming practices, to provide knowledge about animal welfare to slaughterhouses. Meanwhile, the slaughterhouses would further be required to ensure the animal welfare of their own suppliers – farms. Workers' welfare is the responsibility of the IWAY function, which audits tier one suppliers on the IWAY standard and further requires them to audit nominated sub-suppliers based on the IMust requirements.

## 6. Five steps of sustainable leather initiative

The leather supply chain is complex and IKEA conducts the sustainable leather initiative for the whole chain. According to Frank Ouyang, IKEA has already traced down to the slaughterhouse level, and continues to work towards having traceability to the farm level. Furthermore, IKEA has also developed a requirement for leather traceability. In August 2017, IKEA tested this requirement in their leather supply chain. That means IKEA goes out to suppliers to check if the existing requirements are met and whether IKEA has these requirements fit for purpose. By the end of 2017, all of the leather is fully traceable and produced according to standards that help protect forests and respect animal welfare. IKEA pursues animal welfare through protecting and promoting the good health and physiological needs of animals.

There are five steps in the IKEA's sustainable leather initiative, as shown in Figure 4.

### *6.1 Supply chain mapping*

The first step is traceability, which is achieved through supply chain mapping. To have a clear picture on the existing leather supply chain, IKEA first conducted a supply chain mapping exercise. The leather supply chain is notoriously complex since the production involves many steps and leather is the by-product of the meat industry. To map the leather supply chain, IKEA collected information on almost all of the slaughterhouses within its leather supply chain. After tracing back to the slaughterhouse, IKEA required the slaughterhouse to provide the mapping of their direct farms. With such an approach, IKEA completed the leather supply mapping by the end of 2017. Frank Ouyang claimed that,

> Mapping the upstream leather supply chain is not easy since leather is the by-product of the meat industry. Meanwhile, the slaughterhouses usually are large scale, but farmers are normally scattered and small scale, which are difficult to be traced back.

IKEA only traced down to the direct farms, which are the first farms after slaughterhouse and directly interacting with slaughterhouse. There are a number of tiers of farms involved in the animal rearing process. Some farms raise the animal up to an infancy stage while other farms raise the animals to an adult stage.

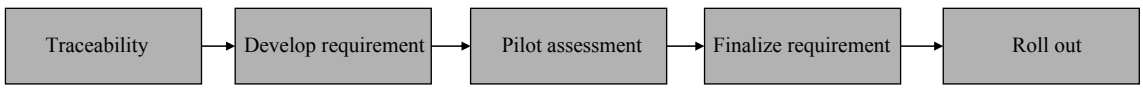


**Figure 4.** Five steps of IKEA sustainable initiative for leather supply chain.



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*6.2 Requirements development*

The second step is developing IKEA Slaughterhouse and Transport Requirements. According to Frank Ouyang, IKEA has produced a traceability specification for the leather supply chain, which is IOS-MAT-0093, IOS is short for IKEA of Sweden, and MAT is short for material. This specification has been prepared and issued by Leo Chen, who is the Global Leather Engineer at the Leather Competence Center of IKEA. According to Leo Chen, this specification describes the traceability requirements for leathers used in IKEA articles, and the requirements are based on IKEA's commitment to social and environmental responsibility around the world. This specification addresses the production of cattle leather and cattle hair-on-leather. The requirements for leather/hides originating areas are broken down into Brazil and the rest of the world. This is because Brazil has its own characteristics, i.e. it is located in the Amazon region, which involves the forest conservation and biodiversity problems. With regard to Brazil, this specification particularly describes the requirements for protecting the Amazon Biome, which is mainly related to the issues of farms and slaughterhouses in this region. For both Brazil and the rest of the world, this specification describes the requirements for farms, slaughterhouses and manufacturers as well.

*6.3 Pilot assessment*

The third step is pilot assessments at selected slaughterhouses. Frank Ouyang said that,

> As now we have already traced back to the slaughterhouses of cattle, sheep and goat, the next step is that we are going to do the assessment of slaughterhouses. For example, in early August this year, we select 4 to 5 slaughterhouses in Australia to assess our requirements, including standards for animal welfare and transport, how to deal with the welfare of animals and how to solve the transport issues. In this assessment, we believe we will have lots of findings and learnings, which will help us to finalize the specification with a good improvement.

There are three parties who are expected to attend the pilot assessment, i.e. IKEA IWAY auditors plus one representative from the business team, representatives from tanneries, and animal welfare experts from the Food Animal Initiative. This step is to assess the feasibility of the developed specifications instead of a pass/fail audit for suppliers.

*6.4 Finalize requirements and roll out*

By the middle of 2017, the first and second steps have been achieved; the third step was completed by assessing two Australian slaughterhouses in August 2017; what is going on is the fourth step – finalizing requirements; after that, the project will be carried out in all of the global leather supply chain of IKEA, i.e., the fifth step – roll out. Based on the lessons learned in the pilot projects, IKEA will finalize the requirements and roll out the program in their whole supply chains.

By the end of FY16, IKEA has seen 100% of the leather sourced from the sustainable leather raw materials. Implementing the sustainable leather initiative has contributed partially towards IKEA's sustainability agenda, i.e. 31.8% of the energy consumed by the tier one suppliers from renewable energy (an increase by 7% comparing to FY12); 13.7% reduction of the greenhouse gas emission; and 27.4% reduction of the water consumption comparing to the indexes in FY12. Meanwhile, by the end of FY16, more than 88% of the IKEA co-workers have been trained in safety culture and worked in a health working condition.

## 7. Conclusions and look forward

The implementation of sustainable leather initiative has led to several improvements for IKEA sustainability performance, including not only economic performance but also social and environmental performances. IKEA has achieved successful expansion in the global market and established close and long-term relationships

with suppliers, assuming global leadership through its sustainability agenda. The sustainable leather initiative illustrates that IKEA's SGS strategy and structure works well in a complex global supply chain and represents a key lever of IKEA's sustainability agenda. Although until now the sustainable leather initiative hasn't been fully completed, it is anticipated that IKEA will implement more leather related sustainable initiatives and achieve a fully sustainable leather supply chain in the end.

Due to the long distance and contextual differences among the participants along the leather supply chain, there are still some potential problems that require particular attention despite IKEA's leadership position. Besides designing the appropriate GS strategy and structure internally to support the implementation of the sustainable leather initiative, how to maintain the sustainability compliance of all the tiers of suppliers, especially the overseas suppliers in the long term, is still a challenge that both IKEA and other multinational companies need to consider and address when implementing sustainable initiatives while conducting GS.

In the future, IKEA is expected to face new challenges. First, IKEA may consider the limitations of the matrix management. There may be a conflict of loyalty between line managers and dotted line managers over the allocation of resources; employees may be confused by the roles that are played in different teams. In addition, due to the low bargaining power IKEA has in GS for leather, implementing sustainable leather initiative still faces some challenges, such as the issues of how to persuade slaughterhouses to comply with the IWAY standards and animal welfare requirements; what governance mechanisms can be adopted to govern multi-tier suppliers, and how knowledge of animal welfare can be transferred to slaughterhouses and farms.

## Acknowledgements

We highly appreciate the time devoted by IKEA Global Sourcing organisation (Category Area), Sustainability organisation (IWAY) and Leather organisation (Leather Competence Center) during the preparation of this teaching case. Special thanks are given to Stefan Karlsson, Peter Möller, Frank Ouyang, Leo Chen among others.

## Supplementary material

Supplementary material can be found online at https://doi.org/10.22434/IFAMR2017.0109.

**Teaching note.**
**Materials S1.** List of interviews.

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