

Sustainability as a competitive advantage: IKEA as a case study

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Abstract

Companies seek to utilise sustainability strategies to gain a competitive advantage and improve their performance. This research focuses on the role that sustainability plays in companies and its impacts on the firm performance and competitive advantage by taking Ikea as a case study. Ikea has made significant efforts to promote sustainability. The environment and local communities have benefited greatly from it. Ikea creates a variety of environmentally friendly items, such as those that conserve water or energy. It has also adopted new packaging techniques that can cut down on shipping and emissions. Additionally, many of Ikea's stores, shopping centres, etc. now have solar panels installed. Ikea engages in several sustainability strategies that are effective in preserving resources. Despite all of Ikea's environmental initiatives, the research revealed that Ikea sees sustainability as a competitive advantage. However, focusing on other sustainability practices in the future may have a positive impact on the company's performance. Starting with customer awareness of and interest in sustainable development, as well as customer satisfaction with the company's sustainable products, the impact may be felt over a longer period.

Keywords: Sustainability, Competitive advantage, IKEA

1. Introduction

The term sustainability was developed in 1980. It became important for the public, science, and politics within less than forty years. On the other hand, sustainability is an inconsistent perception such as the welfare of animals, conservation of nature, and reduction in hunger. The philosophy behind sustainability is the desire to encompass but should have trust in scientific knowledge (Noe and Alroe, 2015).

The first record of sustainability was used in the context of the environment which was like the record of 1980. The terminology of environment refers to the summation of exterior conditions that are required to sustain life that goes to the nineteenth century. It can also be said that sustainability is the replacement of the natural economy which has been used to raise the natural world since the 17th century (Portney, 2015).

The development in sustainability is such an improvement that fulfils the need of the present world without compromising the future needs of coming generations (Brundtland, 1987). The United States Environmental Protection Agency (EPA) defined a complete description of sustainability in 1969. According to the US agency, “sustainability maintains and forms such conditions which are suitable for human beings to live in a productive world which fulfils the economic, social and other needs of present and future generations”.

The overall aim of this study is to explore the role that sustainability plays in the firm, particularly its impacts on Ikea's performance, and if it can be a competitive advantage. The competitive advantage explains the company's advantages over the rival companies (Burn, 2008). It can also be defined as the resources and features of a corporation that are helpful to compete with its competitors (Leaning, 2009; Ojo et al., 2015).

Competitive advantage is the quality of any company to deliver both tangible and intangible assets in competition with its rivals. It can be any patent, service, innovation, product, or anything that differentiates the company from its competitors in a positive manner (Ojo et al., 2015).

2. Literature review of sustainability impact on the IKEA performance

IKEA Group announced a total investment of EUR 2.8 billion in warehouses, distribution networks, customer satisfaction, shopping malls, renewable energy, and forestry during the year. (Schneider and Bermudez, 2018). IKEA's FY18 sustainability report ensures that some preliminary structural changes have been made in the company over the next three years at the company. The report also stated that the relevant investment and business transformation of the company will be affected by the cost structure and result (Schneider and Bermudez, 2018). To reward environmental protection, company management identifies the specific set of incentives, threats, restrictions, and opportunities (Schaltegger and Synnøstvedt, 2002). Then, goals and objectives should be defined, plans created, and substantial action is taken. This new thought will lead to a new and different environmental profile, which may reduce costs. It has been assumed that beginning at a specific point of economic success; the economic success will be reduced by every environmental activity, which is anticipated to decline in the short term. The marginal cost can be reduced by developing environmentally friendly technology, which leads to improved economic performance. Due to legislation, marginal costs of environmental protection across countries and industries might be different. The relationship between economic success and environmental performance depends on the level of economic success, and the environmental performance level (Schaltegger and Synnøstvedt, 2002).

The linkage between environmental and economic performance depends on the company's internal variables affected by management, and the company's external variables (regulations) (Ameer and Othman, 2012). Additional costs are created due to environmental regulations thus profits decrease. It has been argued that firms in industries with higher environmental effects confront a competitive disadvantage if rigorous regulations cumber them with relatively higher environmental costs than other industries. Another “revisionist view” proposes that environmental performance reduces costs, which leads to an increase in sales and thus improves economic performance. It can be said that the best possible description of the relationship between economic and environmental performance is an inversely U-shaped curve (Wagner and Schaltegger, 2004). Companies have the motive to research new production approaches and technologies to alleviate negative externalities. In this regard, companies have been helped to systematically define, gauge and managed their environmental risk and obligations (Epstein and Roy, 2001, Adesun et al., 2018).

The revisionist view states that, from a dynamic perspective, a greater determinant of economic success and competitiveness is the ability to develop and innovate new production processes and technologies (Ameer and

Othman, 2012). Winning time is a crucial problem for sustainability, especially in uncertain duration, and when costs are more than benefits, as best practice is not cost-effective it may be stopped (Rimmer et al., 1996). It has been argued that paying attention to intermediate performance measures such as brand loyalty and customer satisfaction is important (Ameer and Othman, 2012). Those companies which value philanthropic behaviour, environmental protections, and ethical business practices can attract customer loyalty and distinguish themselves from competitors (Cacioppo et al. 2007). By implementing sustainable practices adopted by the Global, most sustainable companies can differentiate themselves in a long term in their business practices, which eventually leads to better financial performance (Ameer and Othman, 2012). A firm's performance can be negatively affected due to the costs of social responsibility (Friedman, 1970). In the same sense, firms' value maximisation might be constrained by social responsibilities leading to poorer financial performance (Preston and O'Bannon, 1997; Jensen 2001). Ameer and Othman (2012) found that companies which concern about sustainability practices have higher financial performance measured by cash flow from the operation, profit before taxation, and return on assets than those without such commitments.

The findings of the previous research vary; empirical studies showed that the relationship between corporate financial performance and corporate sustainability performance is negative, positive, and non-significant (Margolis et al 2007, Flammer, 2015). The current study shows that there is no clear answer to whether sustainability strategies do influence a firm's performance or not. IKEA's sustainability reports between the years 2016 and 2018 do not have a clear statement that indicates the existence of any relationship between its sustainability practices and the firm performance. Although the sales of IKEA's sustainable products have increased, the company has not gained more profit because of such products as its sustainability reports say that the increased sales and profits are due to the currency exchange.

This can be explained based on the past literature in different ways. First, the effects of sustainability practices on financial performance might be seen in the long run (Ameer and Othman, 2012). Second, the cost of social responsibility is relatively high (Friedman, 1970). Third, the additional cost that might be created by environmental regulations (Ameer and Othman, 2012). Fourth, this relationship depends upon the economic success level and the level of environmental performance (Schaltegger and Synnestvedt, 2002). And finally, the country's level of involvement in sustainability.

2.1 Is sustainability a competitive advantage for IKEA?

Organisations aim to develop a sustainable competitive advantage to be able to provide value to the customers better than the existing competitors at a lower or affordable price. Price and sustainability are the two-principal value-creating strategies of IKEA (Rankin, 2015). IKEA has been focusing on developing a sustainable competitive advantage by offering its products at the most affordable prices to discourage inequalities within the consumer market (Li, 2010). For over 50 years, IKEA had been successfully leading the value chain link, where it does not only sell furniture but also manufactures it enjoying economies of scale on the raw material.

IKEA is a wide-ranging home furnishing brand that offers to furnish at affordable prices. Instead of adopting cost leadership in its competitive market, IKEA offers low prices on home furnishing products that help more customer base to afford them reasonably (Li, 2010). IKEA's sustainability strategy called "People & Planet Positive" is focused on creating a better living for most people. According to Dudovskiy (2017), IKEA's business strategy constitutes integral points that ensure sustainability. IKEA promotes cost-effectiveness as one of its competitive advantages. IKEA, being able to sell the most comprehensive range of home furnishing products at lower prices, offers technology integration and economies of scale.

Moreover, the full range of home furnisher product portfolio of IKEA offers it a competitive advantage. IKEA offers over 9000 products and launches approx. 2500 new products annually (IKEA Group, 2016). Moreover, IKEA is found to be expanding its product portfolio within the catering and food industry (Dudovskiy, 2017). The global expansion strategy of IKEA involved it in new market development. Presently, IKEA has a chain of 340 stores across 28 countries which also enables IKEA to pertain a competitive advantage over the competition.

IKEA has focused on philanthropy "giving back to society" to develop a positive relationship with society. IKEA's sustainable management believed that sustainable thinking is crucial to organisations for long-term survival and to have a positive impact on the community. As organisations seek to move towards sustainable management, it gets better at understanding society. This helps the organisation in maintaining its reputation for "environmental, social and governance" (ESG) within the community. In the case of IKEA, its campaign "give back" made an impressive record for €50,000 in waste cost and converted them into €40,000 net profit.

From the research conducted by (Li, 2010), the competitive advantage of IKEA came from its sustainable utilisation of competitive forces (Li, 2010). The following table represents IKEA’s competitive advantage model and the methods that IKEA used in achieving competitive advantage.

Table 1: IKEA’s competitive advantage model

Five Competitive Forces	Methods Used
Suppliers’ bargaining power	<ul style="list-style-type: none"> • Suppliers from across the boundaries • The array of suppliers providing economies of scale
Customers’ bargaining power	<ul style="list-style-type: none"> • Quality in products • Affordable price • Quality service • High-quality designs • Vast product portfolio
New Entrants	<ul style="list-style-type: none"> • Highly efficient SCM • Economies of Scale
Substitute Products	<ul style="list-style-type: none"> • Development of new technology and technological developments
Existing Competition	<ul style="list-style-type: none"> • Economies of Scale for the low price • Developing public reputation • Logistics model

Moreover, (Li, 2010) highlighted how IKEA can increase its competitive advantage. As for cost leadership, product differentiation and focus are the three generic ways by which brands like IKEA can develop sustainability in performance and revenues.

3. Result and discussion

In 2015, IKEA launched SDGs to provide an inspiring framework highlighting what a company is looking forward to. The figure below represents the overview of IKEA's ambition for sustainable living for the year 2030. The critical enablers for IKEA as represented are advocacy, inclusiveness, partnership and co-creation and entrepreneurship that could support IKEA in developing sustainable and better living. IKEA (2018) defined its vision for sustainability as “We are committed to creating a better everyday life for many people and to be People & Planet Positive” (IKEA, 2018).



Figure 1: IKEA’s SDGs

1. Healthy and Sustainable Living

For the goals of "healthy and sustainable living", IKEA use households as a perfect example that use 1/3rd of global energy and 10% of water. IKEA enabled people in generating renewable energy instead of water consumption and home energy that would have a significant impact on environmental sustainability (Edvardsson and Enquist, 2011). In this manner, the consumer base expected IKEA to have made a living more sustainable and innovative. Besides that, IKEA in the catering and food industry ensures nutritious and healthy food. According to IKEA (2018), the company had been sustainably offering resources and energy efficiency, and in future, the company has the aim to influence the mindsets of customers toward healthy living. The company aims for 2030 and committed to creating a social movement, enabling, and inspiring people towards a healthy lifestyle and promote sustainable consumption (Fröd promoting Lawrence, 2010).

2. Circular and Climate Positive

To remain environmental-friendly, IKEA has focused on preserving natural resources. According to IKEA (2018), fisheries and agriculture, pressure on forests, loss of wildlife and biodiversity are and profoundly being affected by an organisation's operations. To develop "people, planet and planet positive", IKEA has developed responsible programs to ensure improve and efficient use of scarce improves. By the year 2030, IKEA aims to transform into a circular business that uses sustainable ways of using resources, to become climate positive, and regenerate resources (Jones and Comfort, 2020).

3. Fair and Equal

IKEA has always looked forward to challenging inequality within society. Thus, IKEA has embraced change in a way to make people's lives better. IKEA has been producing decent and fair products to create a "fair and equal" society. By 2030, IKEA aims to provide and support meaningful and reasonable products throughout the value chain, to become an inclusive business and to promote equality (Bookman and Hall, 2022).

Conclusion

Ikea has extensively switched with sustainability. It has done a lot to preserve communities and the environment. Regarding the Sustainable Development Goals framework, Ikea produces a range of sustainable products, for example, products that save energy or water, it has also employed new packaging ways which can reduce the number of shipments, and thus, reduce emissions. Additionally, Ikea has installed solar panels in many of their stores, shopping centres, etc. there are many sustainability practices that Ikea uses which are really contributing to sustaining res

Despite all the sustainability practices that are followed by Ikea, the research found that sustainability is considered as a competitive advantage of Ikea. But it can be in the future may focus on other sustainability practices may positively affect the firm perform that performance, starting from customer's awareness and interest in sustainable development, and customer satisfaction with the company's sustainable products, the impact may be noticed in a longer time.

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