Foundation Ownership at IKEA [1] [2]

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27 August 2018

Overview

This case study examines the governance role played by the Interogo Foundation as the owner of the Inter IKEA Group (the owner and franchisor of the Ikea concept) and its other subsidiaries. The IKEA businesses are the largest home furnishing operation in the world. In total, the various companies have around 200.000 employees and annual revenues exceeding €38.3 billion. The IKEA businesses have exhibited impressive self-financed growth since their inception in 1943. During the 1980s, the original IKEA business was divided into three independent holding companies owned respectively by two independent foundations and the third part owned by the founding Kamprad Family. In addition, the IKEA franchise businesses also include a number of other franchisees owned by listed companies or private owners.

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[1] This paper is part of The Research project on Industrial Foundations at the Center for Corporate Governance, Copenhagen Business School. See www.tifp.dk for more information about this project.

[2] I am deeply grateful to Anders Bylund, Johannes Burger, Hans Gydell, Søren Hansen, Fredrik Lagerbielke, Per Ludvigsson and Hans Christian Madsen for helpful interviews and inspiring conversations. Thanks especially to Anders Bylund who helped me with drawing graphs and fact checking.

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The IKEA world

IKEA is a brand name, and not a single company or business group. The IKEA businesses consist of 12 different, independent groups of companies.

1. Inter IKEA Holding (owned by the Interogo Foundation) is the owner of Inter IKEA Systems B.V. (franchisor for all IKEA stores) and has recently taken over IKEA's product development, procurement and manufacturing. The Interogo foundation also has strong long- and short-term investment and financing subsidiaries (Interogo Holding and Interogo Treasury), which serve as a financial base for the foundation and as a reserve for rainy days, and which Ingvar Kamprad sometimes referred to as the "piggy bank".

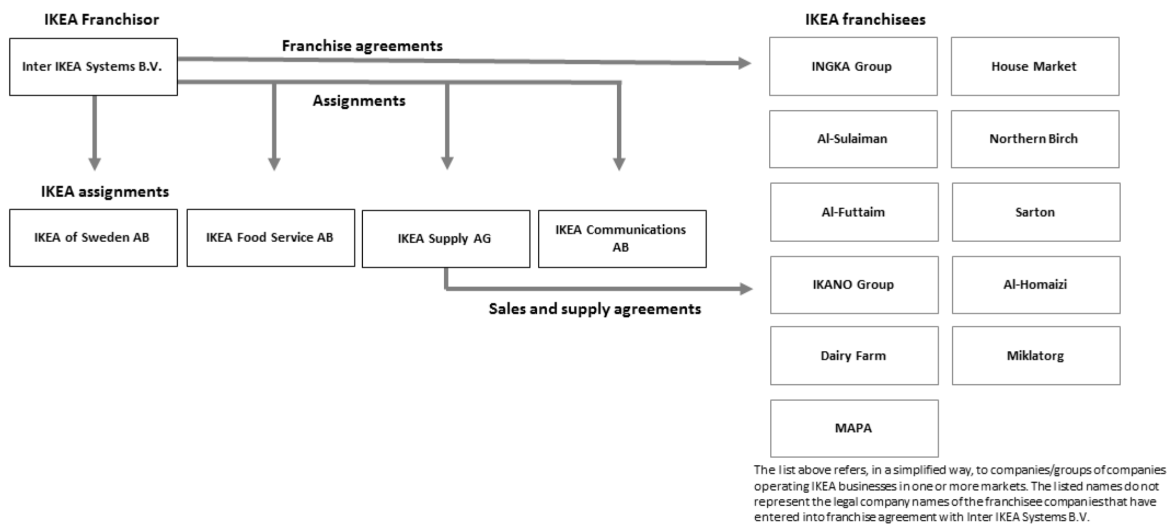
2. Ingka Holding (owned by the Stichting Ingka foundation) owns and operates 355 of the 408 IKEA stores, and has franchisee rights in 29 markets.

3. The Ikano Group (owned by the Kamprad family) operates a range of IKEA-related and IKEA-unrelated businesses. The IKEA-related businesses include franchising of the IKEA stores in three markets in Southeast Asia, supply of IKEA mattresses and provision of and advice on sustainable risk solutions for the IKEA franchise concept. The IKEA-unrelated business includes banking (Ikano Bank) and real estate (Ikano Bostad). The Kamprad family is also active with minority board membership of both the Ingka Foundation (1 of 5 members) and the Interogo Foundation (1 of 7 members).

4. Finally, a number of stores are operated by nine franchisees outside the Ingka and Ikano Groups including the Dairy Farm Group (10 stores in China and Asia) and the House Market Group (seven stores in Southeastern Europe). These nine franchisees have franchise rights in 19 markets.

Together, the different IKEA businesses employ around 200.000 people. In addition, there are many more people employed by the almost 1.000 home furnishing suppliers and other suppliers around the world. In figure 1, we have included a description of the IKEA franchise business model and the roles of, and relationships between, the different businesses.

Figure 1. The IKEA franchise system

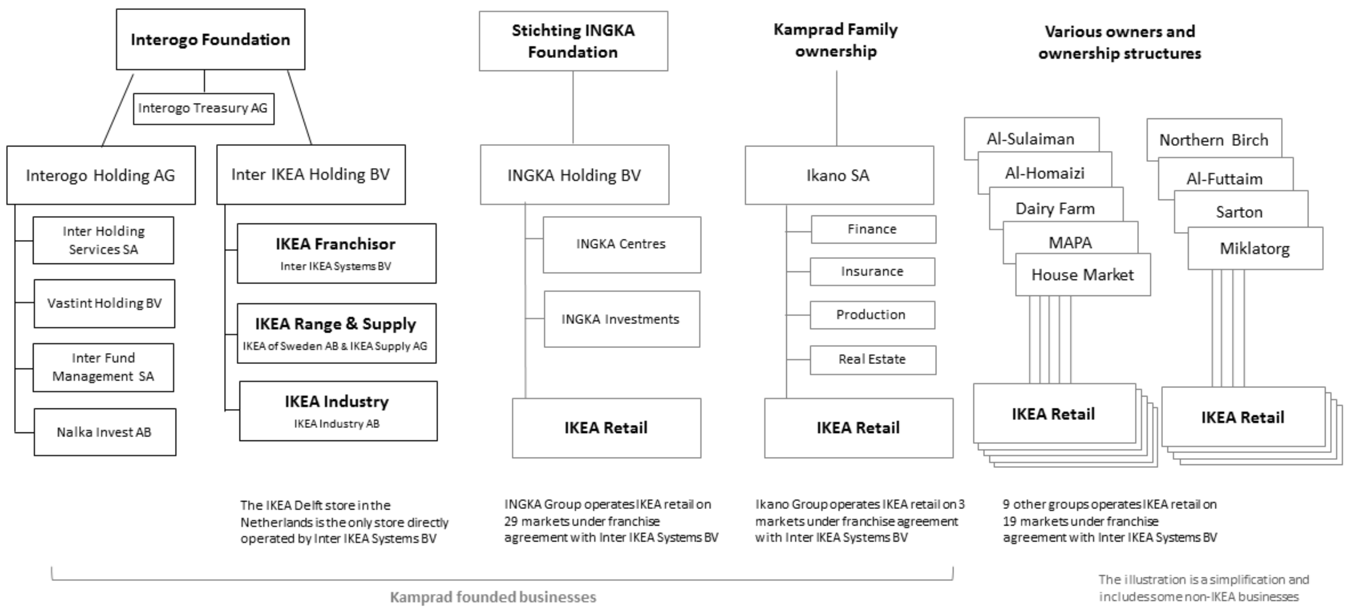


Source: Based on "This is IKEA" published by Inter IKEA Systems B.V. in October 2017.

In the IKEA franchise system Inter IKEA Systems B.V. (the franchisor) grants other parties (the franchisees) the right to operate IKEA stores and other sales channels, marketing and selling IKEA products. The franchisor (Inter IKEA Systems B.V.) also authorizes business units to carry out specific assignments such as product development, supply, communication and food services. The franchise relationship is based on a carefully crafted contract in which franchisee pay a one-time franchise fee (depending on market attractiveness) and a fixed percentage of net sales revenue (3%) as franchise fee. The franchise agreement gives the franchisees access to the IKEA retail system and the right to operate an IKEA business under the IKEA trademark in a defined territory. Franchisees also enter into separate agreements with suppliers as well as agreements to use IT systems. After due diligence, a potential franchisee first enters a market study agreement, then a franchise development agreement and finally (if all appropriate conditions are met) a fully-fledged franchise agreement. The franchising agreement reflects a sophisticated implementation of the IKEA concept – product range, systems, methods and symbols - based on extensive past experience. Franchisees must adhere to this concept and its standards including a low price profile, and they pay for construction of stores, marketing, financing and training.

In figure 2, we provide a simplified sketch of the ownership- and governance structure of the different IKEA businesses, which senior employees describe as *"one brand and many companies"*.

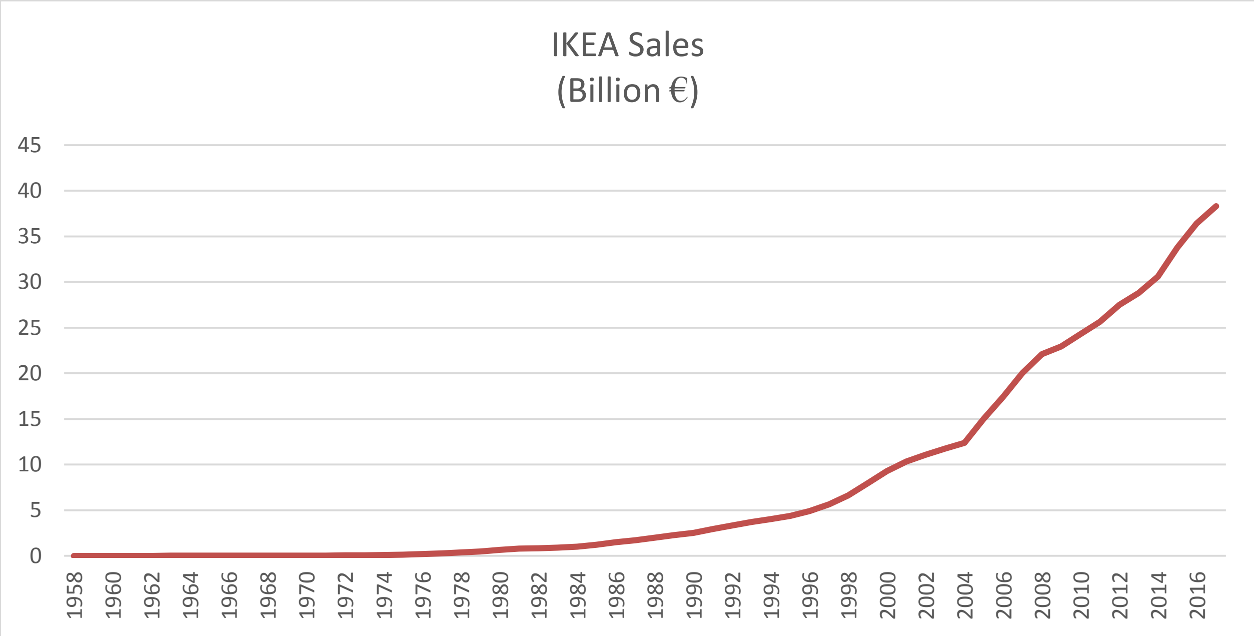
Figure 2. The ownership and governance structure of the main businesses



Source: Interogo Communications

The IKEA businesses were founded by Ingvar Kamprad in 1943 as a Swedish mail-order service, while the first furniture store opened in 1958. Ingvar Kamprad (1926 – 2018) is recognized as a visionary and charismatic entrepreneur and founder, whose influence is strongly felt throughout the IKEA business. Since then, the IKEA businesses have experienced steady growth, and there are now more than 400 stores worldwide. The graph below (figure 3) shows the combined sales of the IKEA retail business and e-commerce over time.

Figure 3. The total IKEA sales in a historic perspective



Source: Inter IKEA Systems B.V.

Growth rates were high – above 20% - up to 1983, but declined to around 10% in 2010 and have been around 7% in recent years. This measured expansion partly reflects a philosophy of learning from experience so that each new shop would be the most efficient so far. Thus, growth was combined with profit levels, which enabled the Ingka Group expansion to be self-financing.

During the 1980s, the original IKEA business founded by Ingvar Kamprad was divided into three separate groups - Interogo, Ingka and Ikano - as part of a carefully crafted ownership succession process. Ikano became owned by the founder's family, while Interogo and Ingka became foundation-owned in an attempt to ensure the longevity of the IKEA concept and businesses. As Ingvar Kamprad put it: "*Nobody can guarantee a company or a concept eternal life, but no one can accuse me for not having tried to.*" The franchise model had previously been found to be a successful business model and matched the founder's wish to diversify risk (i.e. not to put all eggs into the same basket). It provides checks and balances on the individual organizational entities since potential underperformance by either the franchisor or the franchisee would be expected to lead the other party to take measures to improve the situation. Traditional motives for franchising like attracting outside capital or providing local incentives appear to have been of secondary importance, since most of the Ikea stores are franchised by the Ingka Group. The number of markets operated by the non-Ingka franchisees is growing, and today 22 markets are operated by non-Ingka franchisees versus 29 Ingka markets.

To some extent, the checks and balances in the franchise system play the same governance role as a minority listing would have: outside monitoring increases the chances that mistakes can be discovered and repaired. This was very clear in Ingvar Kamprad's conception of Inter Ikea as a prefect or guardian of the IKEA concept, a role which arose gradually in the development of the IKEA businesses as the costs of not streamlining the brand and the product range became apparent.

In addition to Inter IKEA group's role as a franchisor (through Inter IKEA Systems B.V.), the Interogo Foundation and its investments businesses (Interogo Holding AG and Interogo Treasury AG) play a role as a financial buffer ("piggy bank") to ensure robustness, if the IKEA Concept were at some time in the future to face serious challenges.

Risk considerations here would include political risk (expropriation), which could potentially be mitigated by transferring ownership internationally to less threatening locations. The historical background includes nationalization and expropriation of ownership during the Second World War and subsequently in communist Eastern Europe. Taxes appear to have played a role in moving the Ikea businesses and Ingvar Kamprad out of Sweden, but they appear to have been less important for the dual foundation structure.[4]

The Interogo and Ingka Foundations were intended to provide an optimal base for Ikea businesses, while the Ikano Group provides a separate financial base for the founder's descendants. The foundations have no beneficiary owners and do not allow donations to founding family members.

The Interogo foundation

The Interogo Foundation was founded as an enterprise foundation ("Unternehmensstiftung") in Liechtenstein in 1989. Liechtenstein was chosen primarily because its foundation law allowed foundations to be established with the purpose of securing the survival of a company, but secondarily apparently also for tax reasons, and as an insurance against political risk because foundations in two countries rather than one provided some insurance against political risk (e.g. expropriation).

The Interogo foundation is regulated by a foundation charter[5], whose key provisions are described in the following.

The Interogo foundation's purpose is "*the acquisition and survival of a business group"* (originally Inter IKEA Group), which involves *"the exercise of a corresponding influence on the governance of this group"*. By business ownership and governance, the foundation is intended to aim for the "*realization, development and safeguarding of the group's business concept"* (i.e. the IKEA business concept) as well as donations to architecture, house furnishing, design or medical research.

The central idea of the IKEA business concept (articulated in the founder's brief "Testament of a Furniture Dealer" and quoted in the foundation charter) is to "*create a better everyday life for the many people*" by offering *"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"*.

The Interogo Foundation is established to ensure *"longevity and independence"* of the IKEA concept in harmony with the following principles:
- longevity and independence of the business group
- to make use of the unique business model of the Group in a sustainable and economic way
- to further develop the unique IKEA concept and to keep it undivided in *"one hand"*.

[4] For a summary of current tax discussions see Appendix 2.
[5] Charter of the Interogo Foundation (Statuten der Interogo Foundation).

- to ensure flexible implementation of the IKEA concept in harmony with the ideas and goals articulated by Ingvar Kamprad in the "Testament of a Furniture Dealer"[6]
- support for the franchising of the IKEA concept in case of financial distress

The Interogo Foundation is governed by a Foundation Council (Stiftungsrat, equivalent to a foundation management board) and a Supervisory Council (Beirat, equivalent to a foundation supervisory board). The Supervisory Council (currently 7 members) appoints, dismisses and advises the Foundation Council (currently 3 members).

The Kamprad family is entitled to minority representation on the Supervisory Council, but does not appoint Supervisory Council members. Each outgoing member of the Supervisory Council appoints his or her own successor.

The foundation donation is irrevocable (§ 17) meaning that neither Ingvar Kamprad nor his descendants can take it back. Moreover, the foundation is excluded from directly or indirectly benefitting the Kamprad family[7]. The Kamprad family cannot constitute a majority of the Supervisory Council, nor can they sit in the Foundation Council. No outside party has any legal claim to the foundation endowment or foundation profits.

The Foundation Council is charged with full decision-making power as well as representation of the foundation to the outside world. It may elect a president to chair meetings, but decisions are made by majority vote. In case of deadlock, the vote of the chair is decisive. The Supervisory Council is advisory.

Foundation Council members can be dismissed by the Supervisory Council or by the Liechtenstein foundation authority (the "Registeramt") on request of concerned parties.

The Foundation Council must employ a recognized auditor to monitor its accounts and compliance with the foundation charter and its individual provisions. The foundation council must maintain a protocol of its deliberations and decisions.

The Foundation Council can enact bylaws, which do not conflict with the foundation purpose, its charter or prevailing laws. It can change or supplement charter provisions with the exception of the purpose, and what is proscribed by foundation law. Changes to the purpose can only be effected by a court judge if the purpose has become unobtainable, illegal or irrational. The founder or governing bodies of the foundation have no right to change the charter.

The Foundation Council is empowered to transfer the foundation to a trust or another nonprofit institution if its purpose and governance structure (including limitations on decision powers) remain unchanged. The Foundation Council can also (under the same conditions) place the foundation endowment in a trust with a

[6] See the section on Values below.
[7] I.e. Ingvar Kamprad, his descendants and their spouses and life companions are irrevocably excluded from all any kind of donation or distribution from the foundation. They cannot receive payments "without recompense". However, they can receive normal board fees or salaries should any of them become employed, and business transactions can take place at conditions as with other parties.

domestic or international trustee. However, the rights of the Foundation Council and the Supervisory Council to ensure the purpose of the foundation must be kept intact.

The Interogo Businesses

The Interogo foundation has three corporate subsidiaries: Inter IKEA, Interogo Holding and Interogo Treasury, which are the foundation's only assets (apart from a small cash pool).

Inter IKEA Holding B.V. is registered in the Netherlands as a private limited company (a besloten vennootschap) and employs a two-tier board structure with a management board and supervisory board. After insourcing range development, supply and production activities in 2016, the company has total assets of €18.7bill and equity of €4.2bill (22% of assets). Net income amounted to €912mio or 21% of equity (Inter IKEA Holding B.V. Annual Report FY17).

The company is organized in three core businesses: Franchising, Range & Supply, and Industry.
- IKEA franchising (Inter IKEA Systems B.V. in the Netherlands) is the franchisor for the 408 IKEA stores, which in 2017 generated €38.3bill in global sales.
- IKEA range and supply (IKEA of Sweden AB in Sweden and IKEA Supply AG in Switzerland) provides product development and procurement to the IKEA stores.
- IKEA industry (IKEA Industry Holding AB in Sweden) manufactures wood furniture for the IKEA stores and is the largest producer of wood furniture in the world. It employs 18.000 people in 40 factories across 10 countries.

Interogo Holding AG (based in Switzerland) undertakes long-term investments to ensure a stable financial base for the IKEA businesses. It has four main subsidiaries:
- Vastint (which develops and manages properties and commercial real estate, registered in the Netherlands)
- Inter Fund Management SA (fund management of listed and non-listed equities and bonds, registered in Luxembourg)
- Nalka Invest AB (a Swedish private equity firm focused on small- and medium-sized firms)

- Inter Holding Services SA (a group service company based in Belgium)

Interogo Treasury AG (based in Liechtenstein) manages primarily liquid assets, such as cash and securities on behalf of the Interogo foundation with a view to securing liquidity for the Inter IKEA and Interogo Holding businesses.

Corporate Governance

Corporate governance is directed at two main objectives: independence and long-termism, both of which are required to realize the vision of creating *"a better everyday life for the many people*". Losing independence by diluting ownership could arguably jeopardize the vision if outside investors demanded short-term dividends and share price appreciation, which could conflict with low prices, good design or other IKEA values. A long-term perspective is arguably required to grow the IKEA businesses in order to serve *"the many*" at a global level. The vision could also be jeopardized by leverage, excessive risk taking or opportunistic behavior that could threaten the survival of the businesses and their ability to live up to the values.

Ingvar Kamprad was quite explicit about this strategy from early on. In a letter to all IKEA co-workers from 2012, he expressed it as follows:

"Back in the 1980s I made the decision that we would never float our shares on the stock market. We had no interest in letting ourselves be governed by big banks or any of the sharks in the world of finance. We would save, penny-pinch if necessary, and develop based on what we ourselves had created…

..I hope you can see that from the very start, our aim has been to create the greatest possible financial security for our employees and for the various groups of companies that we have founded. There are very strict rules for how the money is to be used and these rules must always be observed. We always want to be in a position where we ourselves can make the important decisions. We don't want to be at the mercy of the banks or other financiers."

Foundation ownership is ideally suited to promote both independence and long-termism. It avoids the well-known problems of family ownership succession including sibling rivalry. Moreover, it ensures that the IKEA businesses are insulated from takeover attempts and stock market fluctuations. The Interogo foundation itself is a perpetuity, whose main goal is the continued pursuit of Ikea's vision. Research on foundation ownership indicates that foundation owned companies tend to survive longer, invest more long-term, and have lower leverage and more stable management Thomsen et al. 2018).

Both independence and long-termism confer competitive advantages. The "competitive edge" (ővertak) strategy pursued so successfully by the IKEA businesses offers key products at prices, which are much lower than those of the competitors. The low prices may sacrifice short-term profitability, but allow high volume sales that create economies of scale, which make a base for long-run competitiveness and profitability.

While steady and consistent, IKEA's growth was never particularly high compared to the rapid expansion of other franchise businesses. The ambition was – and is – that any new store would be the best so far by drawing on previous experience, which seems to be a clear example of learning by doing.

The Interogo foundation exercises corporate governance in part by representation on the board of its corporate subsidiaries (see Appendix 1). Thus, Interogo foundation Supervisory Council members are represented on both the Inter IKEA supervisory board and the Interogo Holding board. There are frequent meetings between foundation officers.

The foundation Beirat (supervisory board) currently meets twice a year with members of the Stiftungsrat (management board), and a member of the Stiftungsrat chairs the meeting. It is foreseen that the meeting frequency will increase in the future.

Important decisions including extraordinary transactions in the subsidiary companies or capital allocation policies must be ratified by the foundation boards, and (as in most boards) decisions are often unanimous, but the board members also occasionally disagree.

The foundation board members are well informed about what goes on in the IKEA businesses because of dual roles in subsidiary companies and other IKEA businesses, informal contacts and past experience in IKEA. A "*financial coordination council*" with members from both the Interogo foundation and subsidiary companies acts as a forum for information and consultation. However, the outside (non IKEA) board members obviously have to rely more on formal information like annual reports.

The founding family has a special role to play in IKEA governance. It is entitled to and is expected to be represented on the supervisory boards (of both the Interogo and the Ingka Foundations), but always in minority. The family's most important (self-defined) governance role is guarding the IKEA values.

IKEA Values

Foundation ownership is uniquely suited to committing a business to core values. In the case of IKEA many of the key values are written into the charter of the Interogo Foundation and further articulated in the *"Testament of a furniture dealer"* written by Ingvar Kamprad after input from experienced IKEA executives. There is a recognition of *"Our shared values and strong culture make IKEA unique"* (Peter, Jonas and Mathias Kamprad 2016) and that *"IKEA is not like other companies, and we don't want to be"*. Appendix 3 provides excerpts of "The Testament" and the revised value statement by Peter, Jonas and Mathias Kamprad (2016).

The values play multiple roles, for example stating the greater purpose and vision, laying down governance principles, guiding group strategy, informing leadership, outlining desired individual behavior and many other aspects of the IKEA businesses.

The values state the overall vision and purpose, which is to create a better everyday life for the many people. This is believed to make *"a valuable contribution to the process of democratization"* and to human development by "*breaking free from status and convention – becoming freer as human beings."*

Strategically, the values guide the strategy to cost consciousness, high volumes and *"a substantial price difference compared to our competitors"* – all in order to serve the many people. Cost consciousness is evident throughout the businesses. "*Wasting resources is a mortal sin at IKEA".* It is necessary to *"reach good results with small means" and "Everything we do must have a clear price tag before we can make a decision".* There is a strategic focus on core business. The product range *"must not overflow"* and "*the main emphasis must always be on our basic range – on the part that is* "*typically IKEA"*, which must "*have its own profile… It must reflect our basic way of thinking by being as simple and straightforward as we are ourselves."* This is a vivid example of *"firm commitment"* in the sense of Mayer (2013).

At the governance level, the values emphasize that Ikea's patient foundation ownership does not make profits any less important. On the contrary, they are even more necessary for a company that wants to maintain its independence since it has to rely predominantly on self-financing. *"Profit is a wonderful word! Let us be self-reliant in the matter of building up financial resources..."*

Organizationally, the main enemy is held to be bureaucracy, the root of which is regarded to be *"the fear of making mistakes".* As a counterweight, Ikea employees are encouraged to take responsibility and dare to make mistakes.

At the individual level, the values emphasize "*humbleness, simplicity and common sense"*, "*togetherness"* and *"taking responsibility".* Employees are encouraged to make mistakes and correct them. Togetherness implies that *"Everyone is important, everyone is heard and everyone contributes. We involve, care for, acknowledge and trust one another in a spirit of humbleness, honesty and mutual respect. We are strong when we trust each other, pull in the same direction and have fun working together."* All IKEA employees are regarded as *"co-workers".*

Finally, the values commit IKEA to "renew and improve" ambitiously. "*The word impossible doesn't exist in the IKEA language. It is finding solutions to the impossible challenges that has made us successful."*

Philanthropy

According to its charter, the Interogo Foundation may donate to philanthropic causes, but is not required to do so. So far, its direct donations have gone primarily to the Berta Kamprad Foundation, which supports cancer research. Over the last years, Interogo Foundation has donated €4 million annually, and in total an estimated €30 million since 2003.

In addition, companies owned by the foundation also make donations, the most important of which are the Inter IKEA Group donations to the Kamprad Family Foundation (Familjen Kamprads Stiftelse) for Entrepreneurship, Research and Charity. An initial donation of €100 million in 2011 was followed by €29 million annually 2012-2016 (a total of €145 million). The Kamprad Family Foundation is an independent charitable foundation.[8] According to Swedish media[9] half of Ingvar Kamprad's remaining personal funds (2013 estimated at SEK 750 million in the probate after his wife had passed away) have been left to Familjen Kamprads Stiftelse for charitable activities in the North of Sweden, while the other half went to his descendants.

Inter IKEA Group has also initiated a project within social entrepreneurship.

In sum, historical donations of some €31 million a year are a little more than 0.1 percent of total combined assets (in Interogo Holding and Inter IKEA) of almost €30 billion, which underlines that the Interogo foundation is primarily an enterprise foundation.

In addition, the IKEA Foundation[10] - a charitable foundation financed by funds from Stichting INGKA Foundation - has donated more than $1 billion for charitable causes since its inception and its goal is to increase donations to €200 million annually in the future.

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[8] See www.familjenkampradsstiftelse.se.

[9] Source: Dagens Nyheter (https://www.dn.se/ekonomi/global-utveckling/hit-gar-ingvar-kamprads-arv/)

[10] See www.ikeafoundation.org

The "Transaction"

On 31 August 2016, Inter IKEA Holding acquired the range, supply and production activities, which had formerly been outsourced to INGKA Holding B.V. The board of Inter IKEA Holdings judged, that there was a need to simplify the IKEA franchise system, in order to improve customer focus and to better support future expansion.

The transaction was huge, and since it required financial support, it was necessarily discussed by the Interogo foundation boards as well as the board of Inter IKEA and the investment companies. The accounting value of the business acquired – an amount, which Inter Ikea had to pay for the acquired units after tough negotiations - was about €5.2 Billion and involved the transfer of about 25.800 employees. IKEA Range & Supply employs about 6,800 co-workers around the world. IKEA Industry consists of 40 production units in 10 countries and has around 19,000 employees.

The main reasons cited were the increasing size/complexity of the IKEA businesses and the rapidly changing retail environment. The advance of on-line purchasing and changes in consumer behavior imply a trend towards multi-channel sales, in which stores are not the only outlet, and in which all channels need to be served.[11] Moreover, not all IKEA stores are owned or operated by the INGKA Group, which makes it less obvious that the sourcing and range units should be owned by one of the franchisees. Given the changing retail environment and challenges of global expansion, it seems possible that non-Ingka franchisees will come to play a greater role in the future. It may also be necessary to rely more on pick up points, display rooms, city stores, preassembly and other departures from the traditional IKEA model.

Coordinating sourcing and retailing is crucial for IKEA's business model, which has low margins and therefore depends on high sales volumes and low costs to maintain profitability. With high volumes, shortfalls in sales or supply can be extremely costly. Coordination is ensured partly by "democratic design", and by retailing and production being consulted about product development. However, insourcing product range development and supply to the franchisor (Inter IKEA) was apparently motivated by a need to improve coordination between concept development and product development as well as between market expansion strategy and supply decisions.

The idea of insourcing range and supply to Inter IKEA was not new. By some accounts, it had been around since the 1980s when the franchisor gave the assignments to the two functions in the Ingka Group. After commissioning a benchmark report on franchising systems, Inter Ikea took the initiative and approached the Ingka group. The idea was first to focus on range and supply, but during the negotiations it was decided to include production (Ikea Industry) in the transaction.

Administratively, the transaction was decided by the two Holding companies (Inter IKEA Holding and Ingka Holding). The two group's respective Management Boards managed the negotiation process.

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[11] Ironically, IKEA started as a mail order business, so e-commerce is in some sense a return to its origin.

Future governance

Historically, most decisions in the Interogo foundation were made (or at least influenced) by Ingvar Kamprad, IKEA's charismatic and visionary founder, who was aided by a group of trusted and experienced employees, most of whom had worked in the company for decades. Ingvar Kamprad's retirement in 2013 had been prepared for decades, including how to operate the formal governance system, but still left many issues to consider. What – for example – should be the role of the Interogo foundation vis-à-vis the subsidiary companies? How should the foundation board ideally be composed in the future? What competences are needed? How active should the foundation boards be? Are 2-4 meetings a year sufficient? Should the foundation supervisory board elect a chairperson? What topics should they address and what should be left to the companies? How actively should foundation ownership be exercised? What information should the foundation boards get? What should be the relationship between the core IKEA businesses and the increasing successful investment branches?

The consensus view appears to be that the Interogo foundation will remain a passive owner which does not get involved in business strategies and decisions but leaves these matters to be decided by the relevant company boards. *"The core role will continue to be a passive stabilizing factor safeguarding the purpose, by exercising its shareholder rights in the three subsidiaries",* as one senior officer of the foundation stated it.

Going forward, it seems possible that the Interogo foundation board could become busier with more board meetings and more frequent information updates. Over the past decade, the foundation has had to decide on several large-scale reorganizations in the IKEA businesses as a result of changes in the environment. As such, it may become beneficial to admit new competence profiles to the foundation boards, but it seems clear that prior experience in the IKEA businesses will remains important for effective governance given their many unique characteristics. However, in keeping with the IKEA tradition for decentralization the foundation is unlikely to become more proactive in corporate governance or other matters.

The most important and undisputed task of the foundation is to elect the board members of the subsidiary companies. That includes electing the Management Board of Inter IKEA Holding, but the foundation also expects to be consulted on the Interogo Holding and Interogo Treasury boards' choice of chief executives.

The ownership role is exercised partly by having members of the foundation supervisory board (or the Foundation Council) sit on the boards of the operating companies, which ensures a smooth flow of information and consultation. This is an option, which is currently being used since two foundation supervisory board members sit on the board of Inter Ikea Holding (cf. appendix 1).

Another option is informal meetings – for example, presentations by corporate CEOs at foundation board meetings, meetings between the respective chairpersons of the foundation and subsidiary companies, or joint membership of coordination groups like the financial coordination group. All these communication channels are currently in use.

One challenge for the future governance is the success of the investment businesses, which provide both new opportunities and new pitfalls. How – for example – can it be avoided that increasing financial wealth generates complacency in the retail businesses? So far, the investment businesses have played a support role as the "piggy bank", which could enable acquisitions and large investments, and assist in emergencies, but their wealth could also invite strategic opportunities outside retailing that challenge the notions of what is or is not core business.

Another challenge is how to maintain the values. For example, it could be considered necessary for the foundation board to take stock of the values of the workforce and to what extent they are in harmony with the IKEA values.

Finally, the Interogo foundation has historically chosen to live a quiet life outside the limelight of public scrutiny. This relatively low public profile has been changing for some time, for example with disclosure of information about the Interogo foundation on the Inter IKEA and Interogo Holding webpages. It seems likely, going forward, that the tendency to greater transparency will continue in order to strengthen public legitimacy.

Discussion

The IKEA businesses are unique in many ways – their business models, their values, the dispersed business structure, their long-term time horizon, their global reach, their commercial success and more. Foundation ownership provides a secure base that allows these characteristics to be maintained and carried forward into the future.

Foundation ownership appears to be a uniquely well suited platform for the IKEA businesses. This is no accident. On the contrary it reflects a carefully considered and deliberate choice by their founder Ingvar Kamprad, who was concerned from early on with the long-term continuation and prosperity of the business concept, he had created.

Foundation ownership ensures the continuation and independence of the IKEA businesses which are insured against hostile takeover and to a great extent also against political risk. The franchising model provides internal governance which ensures checks and balances on the individual businesses. The separate financing branch provides a financial buffer in crisis situations and safeguards financial independence.

Finally, and perhaps most importantly, foundation ownership is particularly well suited to preserving IKEA's values, which serve several crucial functions. The values articulate the higher purpose - the good of the many – and in effect commit the IKEA businesses to serving that purpose by pursuing a cost leadership strategy with a strategic focus on the core business in furniture retailing. They focus the businesses on profitability and self-financing as a way to preserve financial independence and to realize the vision of serving the many. They mandate a decentral and non-bureaucratic leadership style which dares to experiment and which regards employees as co-workers rather than subordinates. They call for togetherness, simplicity and mutual respect at the individual level.

It would be difficult, perhaps impossible to preserve these essential characteristics in a company which was always for sale to the highest bidder or whose ownership had to change hands in each successive generation. At the same time the values imbue the businesses with an enterprising, almost rebel spirit that seems likely to function as an antidote to conservatism and centralization. The franchise system provides additional checks and balances on the operating companies similar to public listing.

From a research viewpoint, foundation ownership at IKEA displays many of the generic characteristics of foundation-owned companies, including strong values, long-termism, financial conservatism (low financial leverage) social and environmental responsibility, moderate executive pay and strong employee relations.

The dual foundation structure (Interogo foundation and Ingka foundation) is somewhat unusual, but there are also multiple foundation owners in other large multinationals like the Wallenberg sphere, the Tata Group and A. P. Moeller-Maersk.

Foundation governance is similar to other industrial foundations with boards composed of a mix of former group executives, founding family members and outsiders. The aim appears to be a balance between continuity/experience and renewal. Having one or two foundation board members represented on the boards of the operating companies is also standard and in accordance with research in the area (Hansmann and Thomsen 2017).

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Appendix 1. Interogo Foundation and its Subsidiaries: Board Overlaps August 2018

	Interogo Foundation Supervisory Council (Berirat)	Interogo Foundation Council (Stiftungsrat)	Inter IKEA Holding Supervisory Board	Inter IKEA Holding Management Board	Interogo Holding Board	Interogo Treasury Board
Hans Gydell	X				X	
Mathias Kamprad	X		X			
Birger Lund	X		X			
Magnus Mandersson	X					
Mats Agmen	X					
Urs Wickihalder	X				X	
Alfred Wiederkehr	X					
Johannes Burger		X				
Per Ludvigsson		X				
Herbert Oberhuber		X				
Anders Dahlvig			X			
Søren Hansen			X		X	
Torbjörn Lööf				X		
Martin van Dam				X		
Jean-Louis Ouellette					X	
Fredrik Persson					X	
Lennart Steen					X	
Ole Damgaard Nielsen						X
Sascha Bonderer						X
Daniel Damjanovic						X

Appendix 2. Taxation

The IKEA businesses have been criticized for aggressive tax planning in the so-called Greens Report written for the Greens/EFA Group in the European Parliament (Auerbach 2016). Auerbach claimed that IKEA engages in "*profit-shifting and tax avoidance on a grand scale"*, that *"IKEA is paying royalties to itself presumably to reduce overall taxation (disguised by the supposed independence of two corporate groups)"* and that *"the Inter IKEA Group seems to have used a Dutch conduit company to avoid paying tax on 84% of the €14.3 billion in royalty income it received from IKEA stores around the world".*

Inter IKEA Systems disputes these accusations. *"As Inter IKEA stated at the time, the EFA/Greens Report was on vital points based on incorrect assumptions and misunderstandings, leading to wrong conclusions. To give one example*, *the EFA/Green report fails to recognize that Inter IKEA Group and INGKA Group are unrelated."*

Nevertheless, the EU Commission requested information from the Netherlands in April 2016, and in December 2017 it started an in-depth investigation of the Netherland's tax treatment of the Inter IKEA Group. The Commission will assess whether the annual license fee paid to I. I. Holding (which at the time held intellectual property rights related to the IKEA concept) *"reflects economic reality"*. The implication is presumably that these fees were inflated to reduce taxation in the Netherlands. The Commission is of the opinion that selective tax advantages can distort competition in in breach of EU state aid rules. The Commission also wants to examine whether the price which Inter IKEA systems paid for the property rights when it acquired them in 2011 *"reflects economic reality",* i.e. presumably whether the acquisition price and associated interest payments were too high and whether tax payments by the Inter IKEA system therefore too low.

Inter IKEA Systems responded by a statement that "*Inter IKEA Group, including its subsidiary Inter IKEA Systems B.V., is committed to paying taxes in accordance with laws and regulations wherever we operate. The way we have been taxed by national authorities has in our view been in accordance with EU rules. It is good if the investigation can bring clarity and confirm that. We will cooperate and respond to any questions the Dutch authorities or the European Commission might have."*

When the Opening Decision document was published in March, Inter IKEA Systems commented by saying that "*We have taken note of the EC Opening Decision document regarding potential state aid in the Netherlands. The document is based on incorrect factual assumptions and we do not agree to the preliminary views taken by the European Commission. We are looking forward to the opportunity to help correct incorrect factual assumptions underlying the opening decision.*

The Opening Decision document focuses on transfer pricing topics, e.g. the valuation of IP rights, including the IKEA brand. We believe the transfer prices have been correct and reflect economic realities, and therefore we have paid the correct amount in taxes. It is good if the investigation can bring clarity and confirm that."

Appendix 3. IKEA Values.

Kamprad, Ingvar (1976): "The Testament of a Furniture Dealer" (Excerpts)

"We have decided once and for all to side with the many. What is good for our customers is also, in the long run, good for us. This is an objective that carries obligations."

"We know that we can be a beneficial influence on practically all markets. We know that in the future we will be able to make a valuable contribution to the process of democratization outside our own homeland too. We know that larger production runs give us new advantages on our home ground, as well as more markets to spread our risks over. That is why it is our duty to expand. The means we use for achieving our goals are characterized by our unprejudiced approach, by "doing it a different way" if you will, and by our aim to be simple and straightforward in ourselves and in our relations with others. Lifestyle is a strong word, but I do not hesitate to use it. Part of creating a better everyday life for the many people also consists of breaking free from status and convention – becoming freer as human beings. We aim to make our name synonymous with that concept too – for our own benefit and for the inspiration of others. We must, however, always bear in mind that freedom implies responsibility, meaning that we must demand much of ourselves."

1. The product range – our identity.

"We shall 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…"

"The objective must be to encompass the total home …every part of the home whether indoors or outdoors… The range must always be limited to avoid any adverse effect on the overall price picture. The main effort must always be concentrated on the essential products in each product area…"

"The main emphasis must always be on our basic range – on the part that is "typically IKEA". Our basic range must have its own profile. It must reflect our basic way of thinking by being as simple and straightforward as we are ourselves. It must be an easier, more natural and unconstrained way of life. It must express form, and be colourful and cheerful, with a youthful accent that appeals to the young at heart of all ages."

"*Low price with a meaning.* *The many people usually have limited financial resources. It is the many people whom we aim to serve. The first rule is to maintain an extremely low level of prices. But they must be low prices with a meaning. We must not compromise either functionality or technical quality. No effort must be spared to ensure our prices are perceived to be low. There shall always be a substantial price difference compared to our competitors, and we shall always have the best value-for-money offers for every function."*

2. The IKEA spirit involves enthusiasm and togetherness (community) among the employees, who are able to see the bigger picture and help others without neglecting their own area of responsibility.

3. Profit gives us resources. Ikea's patient foundation ownership does not mean that profits are irrelevant. On the contrary, they are even more necessary for a company that wants to maintain its independence since it has to rely predominantly on self-financing. *"Profit is a wonderful word! Let us be self-reliant in the matter of building up financial resources..."*

4. Reaching good results with small means. *Wasting resources is a mortal sin at IKEA…. Expensive solutions to any kind of problem are usually the work of mediocrity-*

5. Simplicity is a virtue*…"Complicated rules paralyze! ... exaggerated planning is the most common cause of corporate death. …"*

6. Doing it a different way reflects a willingness to ask questions, challenge the status quo and seek new solutions. *"Our protest against convention is a deliberate expression of our constant search for development and improvement".*

7. Concentration is *"focusing our resources. …We can never do everything, everywhere, all at the same time".* This means for example that *"our range cannot be allowed to overflow".* The company has to focus on the important issues at hand while "making do" in other important areas. For example, focusing on marketing in new markets, while paying less attention to other important areas like security systems.

8. Taking responsibility. The company is and should be driven by individuals who take responsibility as opposed bureaucrats. Taking responsibility involves making mistakes sometimes, so making – and correcting - mistakes should actually be encouraged. In contrast, *"The fear of making mistakes is the root of bureaucracy and the enemy of development"*. "It is always the positive people who win" "*It is always the mediocre people who are negative, who spend their time proving that they were not wrong."*

9. A glorious future! IKEA employees should maintain that ***"****Most things still remain to be done."* This applies even to the point that "*The word impossible has been deleted from our dictionary and must remain so". "Let us continue to be a group of positive fanatics who stubbornly and persistently refuse to accept the impossible, the negative. What we want to do, we can do and will do together."*

More recently, the IKEA values have been revisited by Peter, Jonas and Mathias Kamprad (2016) and are summarized below.

Togetherness "*is at the heart of the IKEA culture. Everyone is important, everyone is heard and everyone contributes. We involve, care for, acknowledge and trust one another in a spirit of humbleness, honesty and mutual respect. We are strong when we trust each other, pull in the same direction and have fun working together. "*

Sustainability - **Caring for people and planet** – involves sustainably sourced products, saving water and energy, preserving food and minimizing waste as well as improving the work environment for IKEA co-workers.

Cost-consciousness is necessary to serve the many. "*Our entire business model is built on the idea of low prices generating large volumes…This together with low costs creates a healthy long-term profit. Profit that gives us resources to invest in reaching even more people with our offer".* It is also a rational, economic approach to decision making: *"Everything we do must have a clear price tag before we can make a decision".*

Simplicity at the individual level means *"a straightforward and down-to-earth way of being ... we respect each other regardless of position, gender or background… We are informal, we avoid status symbols like fancy titles, we greet each other by first name, we wear the same uniform and we travel and meet in cost-*

conscious ways. At the company level, *“Simplicity is also about how we approach our daily task where bureaucracy is our biggest enemy. In our world, simplicity means efficiency and doing what comes naturally. We say “no” to complicated solutions. .. It can be complicated for the few, but it has to be clear and simple for the many.*

A strong will to ***renew and improve.*** *“The word impossible doesn’t exist in the IKEA language. It is finding solutions to the impossible challenges that has made us successful.”*

Different with a meaning. ***“****IKEA is not like other companies, and we don’t want to be”. Thinking differently is the essence of our “Övertag” philosophy, (“Övertag meaning “competitive edge”).*

Give and take responsibility. “*We make a point of giving people a lot of responsibility early on in their IKEA journey.” It is ultimately about trusting each other.” “Making decisions sometimes leads to mistakes. And that’s OK!”*

Lead by example because *“No method is more effective than the good example.” “To lead by example is to act and stand up for IKEA values at all times. It is a mission for each and every one of us, regardless of our position.”*