

Foundation Ownership at IKEA^{1 2}

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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 225.000 employees and annual revenues exceeding EUR 41 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.

The case study finds that that foundation ownership has played a key role in the growth and competitiveness of the IKEA business. Foundation ownership has ensured their longevity and independence, preserved the integrity of the IKEA concept and secured the strong business values espoused by the founder, Ingvar Kamprad. More recently, foundation ownership has facilitated the strong focus on sustainability adopted by the IKEA businesses.

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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 (see figure 1).

1. Inter IKEA Holding B.V. (owned by the Interogo Foundation) is the owner of Inter IKEA Systems B.V. (franchisor for all IKEA stores). Inter IKEA Holding B.V. also acquired IKEA's product development, procurement, and manufacturing in 2016. The Interogo Foundation also has a strong investment and financing subsidiary (Interogo Holding AG), which serves as a financial base for the foundation and as a reserve for rainy days that Ingvar Kamprad sometimes referred to as the "piggy bank".
2. INGKA Holding B.V. (owned by the Stichting INGKA Foundation) owns and operates 392 of the more than 500 IKEA locations (including traditional stores, small stores, pick-up points and test events), and has franchisee rights in 32 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 four markets in Southeast Asia and Mexico, 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), real estate (Ikano Bostad) and data analytics (Ikano Insight). The Kamprad family is also active with minority board membership in the Stichting INGKA Foundation (1 of 5 members), and it has a minority advisory role in the Interogo Foundation (1 of 7 members).
4. Finally, a number of stores are operated by ten franchisees outside the INGKA and Ikano Groups including the Dairy Farm Group (14 stores in Asia) and the House Market Group (eight stores in Southeastern Europe). The newest franchisee, the Chilean retailer Falabella, was expected to open the first IKEA store in South America in Chile by the end of 2020; however, the opening has been postponed until 2022 due to the COVID-19 pandemic. These ten franchisees have franchise rights in 25 markets.

Together, the different IKEA businesses employ around 225.000 people. In addition, there are many more people employed by the almost 1.600 outside suppliers, 1.000 of which are home furnishing suppliers. In figure 1, we have included a description of the IKEA franchise business model and the roles of the different businesses.

Figure 1. The IKEA franchise system

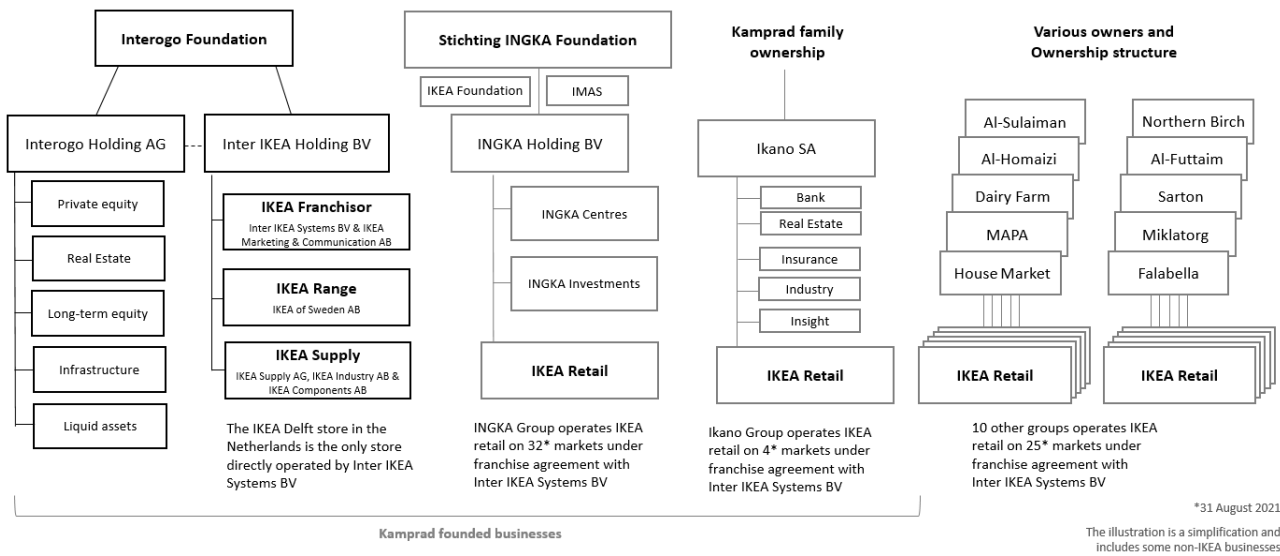


Source: Inter IKEA Group Financial summary FY21

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 franchisees 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 experience. Franchisees must adhere to this concept and its standards including a low-price profile. The franchisees 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

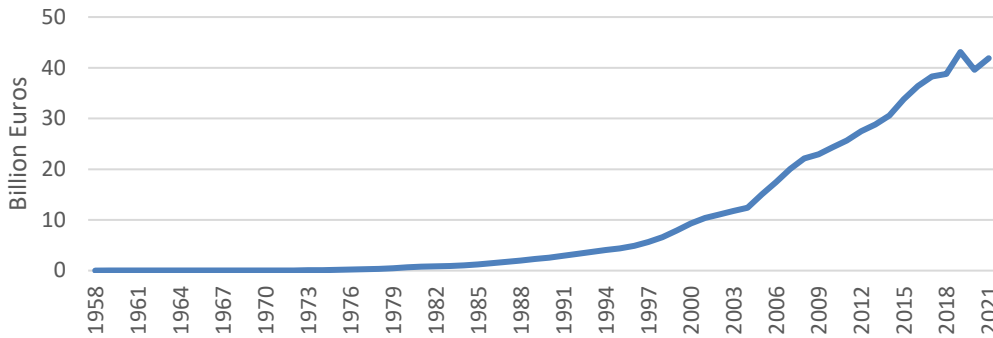


Source: Interogo Communications

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 500 locations worldwide (including traditional stores, small stores, pick-up points and test events). The graph below (figure 3) shows the combined sales of the IKEA retail business and e-commerce over time.

Growth rates were high – above 20% – up to 1983, but declined to around 10% in 2010 and have been around 7% in recent years. Due to the covid-19 pandemic IKEA sales growth declined in 2020, which is to be expected. This measured (relatively slow) 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.

Figure 3: Total IKEA sales in a historic perspective



Source: Annual reports

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 was kept within 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). The franchise format provides checks and balances on the individual organizational entities. 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 29 markets are operated by non-INGKA (incl. IKANO) franchisees versus 32 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 are discovered and corrected. This was very clear in Ingvar Kamprad’s early conception of Inter IKEA as a prefect or guardian of the IKEA concept, a role that 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 business (Interogo Holding AG) play a role as a financial buffer (“piggy bank”) to ensure robustness, if the IKEA concept were to face serious challenges at some time in the future.

Risk considerations here would include amongst others 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. Currency regulations in Sweden was another important factor. The Swedish Krona was pegged to a basket of international currencies until 1992, but the pegged regime was later discarded due to high inflation (Berg and Grottheim 1997). 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.⁵

The Interogo Foundation and Stichting INGKA Foundation were intended to provide an optimal base for IKEA businesses, while the Ikano Group provides a separate financial base for the founder's descendants. Neither the Interogo Foundation nor the Stichting INGKA Foundation have any beneficiary owners and no donations are allowed to family members.

The Interogo foundation

The Interogo Foundation was founded as an enterprise foundation (*"Unternehmensstiftung"*) in Liechtenstein in 1989, seven years after the Stichting INGKA Foundation was founded in the Netherlands. Liechtenstein was chosen primarily because its foundation law allowed foundations to be established with the sole purpose to maintain and secure the survival of a company. Secondly, Liechtenstein has been politically stable for centuries. It should therefore also provide an insurance against political risk because foundations in two countries rather than one provide some insurance against political risk (e.g. expropriation). And lastly, there were also some tax considerations.

The Interogo Foundation is regulated by a foundation charter⁶ whose key provisions are described in the following.

The Interogo Foundation's purpose is *"to acquire and to secure the continuity of the holding company"* (originally Inter IKEA Group) and *"to exercise a pertinent influence on the management of the holding companies"*. By business ownership and governance, the Interogo Foundation is intended to aim *"to realize, to further develop, and to safeguard the unique business concept pursued by the holding companies"* (i.e., the IKEA business concept) as well as to make 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 economical way.
- To further develop the unique IKEA concept and to keep it undivided in *"one hand"*.
- To ensure flexible implementation of the IKEA concept in harmony with the ideas and goals articulated by

⁵ For a summary of current tax discussions see Appendix 2.

⁶ Charter of the Interogo Foundation (Statuten der Interogo Foundation).

Ingvar Kamprad in the “Testament of a Furniture Dealer”⁷.

- Support for the franchising of the IKEA concept in case of financial distress.

The Interogo Foundation is governed by the *Stiftungsrat* (Foundation Council). In addition, a *Beirat* (Advisory/Supervisory Council) is installed. The *Beirat* (currently composed of 7 members) appoints, dismisses and advises the *Stiftungsrat* (currently 3 members).

The Kamprad family is entitled to minority representation on the Beirat but does not appoint Beirat members. Successors of outgoing non-Kamprad-family members of the Beirat are appointed through nominations from the outgoing members followed by a vote among the members of the Beirat.

The endowment of assets to the Interogo Foundation is irrevocable (§ 17) meaning that neither Ingvar Kamprad nor his descendants can ever take it back. Moreover, the Interogo Foundation is excluded from directly or indirectly benefitting the Kamprad family⁸. The Kamprad family cannot constitute a majority of members in the Beirat, nor can they be members of the Stiftungsrat. No outside party has any legal claim on the endowment to the Interogo Foundation or its profits.

The Stiftungsrat (Foundation Council) of the Interogo Foundation is charged with full decision-making power as well as representation of the Interogo Foundation vis-à-vis third parties. It may elect a president to chair meetings, but decisions are made by majority vote. In case of a deadlock, the vote of the chair is decisive. The Beirat has an advisory role.

However, Stiftungsrat members can be dismissed by the Beirat or by the Liechtenstein foundation authority (the “*Registeramt*”) on request of concerned parties.

The Stiftungsrat 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 Stiftungsrat 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. Only a court judge can affect changes to the purpose if the purpose has become unobtainable, illegal or irrational.

The Stiftungsrat may migrate or convert the Foundation into an establishment or a trust enterprise with its own legal personality structured as a self-owned entity without liquidation. The Foundation's purpose in terms of the enterprise and subsidiary charitable objects, its limitation concerning the exercise of dispositive powers as well as the organizational set up in the context of the Foundation, however, cannot be changed.

⁷ See the section on Values below.

⁸ I.e., Ingvar Kamprad, his descendants and their spouses and life companions are irrevocably excluded from any kind of donation or distribution from the Interogo Foundation. They cannot receive payments “without recompense”. However, they can receive normal Beirat fees or salaries should any of them become employed, and business transactions can take place at conditions as with other parties.

The Interogo Businesses

The Interogo Foundation owns two fully-owned subsidiaries, which are the Foundation's main assets:

- a) Inter IKEA Holding B.V. and
- b) Interogo Holding AG.

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. Range development, supply and production activities were insourced in 2016. As of 2021, the company has total assets of EUR 21,4 bill and equity of EUR 10,1 bill (47 pct. of assets). Net income amount to EUR 1,4, bill or 14 pct. of equity (Inter IKEA Holding B.V. Annual Report FY21).

The company is organized in three core businesses: Franchise, Range and Supply. IKEA franchise includes Inter IKEA Systems B.V., which is the franchisor for the more than 500 IKEA locations (2021 numbers) and IKEA Marketing & Communications AB. Range includes IKEA of Sweden AB, which responsibility is mainly developing and designing the overall IKEA product range. Lastly, Supply includes IKEA Supply AG, IKEA Industry AB, IKEA Components AB and other related segments. Inter IKEA Systems B.V. assigns IKEA Supply AG to source, sell and distribute products to the franchises, while IKEA Industry AB produces home furnishing products. IKEA Components AB develops, sources, packs and supplies minor parts such as screws used to assembly IKEA furniture. IKEA Industry AB currently produces approximately 11 pct. of the total IKEA range.

Interogo Holding AG (based in Switzerland) undertakes long-term investments to ensure a stable financial base for the IKEA businesses. It has a diversified portfolio and holds investments in many sectors.

Liquid assets: Equity and fixed income security investments are managed by Inter Fund Management SA (based in Luxembourg).

Private equity: IH International Advisors LTD (based in London and New York) provides advisory services for Inter fund Management SA. Nalka Invest AB (based in Sweden) invest in small- and medium-sized companies directly.

Real estate: Vastint (registered in the Netherlands) develops and manages properties and commercial real estate.

Long-term equity: IH Long-term Equity Advisors AB (based in Sweden) provides advisory services for long-term equity holdings.

Infrastructure: IH Infrastructure Advisors AG (based in Switzerland) provides advisory services for investments in infrastructure companies. Inter Fund Management SA manages the investments.

The infrastructure strategy was established in 2020 with first investments expected to be completed. Private equity and real estate amount to EUR 4,1 bill and EUR 4,5 bill, respectively. Liquid assets amount to approximately EUR 9,1 bill of which the Interogo Foundation holds approximately EUR 7,1 bill (ultimo 2020). Long-term equity amounts to EUR 360 mill as of Dec 31 2020.

Until 2018, the Interogo Foundation had a fully-owned subsidiary, Interogo Treasury AG, with operations in Liechtenstein. In 2018, Interogo Treasury AG was merged by way of an up-stream merger into the Interogo Foundation. Today, Interogo Holding AG borrows from Interogo Foundation (before from Interogo Treasury AG) and provides treasury services, including lending and borrowing, for its subsidiaries and the Inter IKEA Group.

Corporate Governance

Corporate governance in the Interogo Foundation is directed at two main objectives: independence and long-termism. Both of them 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 that would conflict with low prices, good design or other IKEA values as further described below. 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 particularly suited to promote both independence and long-termism. It avoids the well-known problems of family ownership succession including sibling rivalry and dilution of ownership. 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 *“to acquire and to secure the continuity”* of the IKEA Concept and the continued pursuit of the IKEA vision. Research on foundation ownership indicates that foundation owned companies tend to survive longer, invest more long-term, have lower leverage and more stable management (Thomsen et al. 2018).

Both independence and long-termism confer competitive advantages. The *“competitive edge”* (övertag) strategy pursued 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 economics 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 (e.g., McDonald’s). 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 Council members are represented on both the Inter IKEA Holding B.V. supervisory board and the Interogo Holding AG board.

The Beirat of the Interogo Foundation currently meets twice a year with the members of the Foundation Council of the Interogo Foundation (Stiftungsrat). This meeting is chaired by the president of the Foundation Council. Going forward, the meeting frequency between the Beirat and the Foundation Council is expected to increase.

Important decisions including extraordinary transactions in the subsidiary companies or capital allocation policies must be ratified by the Foundation Council.

The Foundation Council 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 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 must rely more on formal information like annual reports.

The family of the founder has a special role to play in the IKEA governance. It is entitled to and is expected to be represented in the Beirat of the Interogo Foundation and the supervisory board of the Stichting INKGA Foundation, but always in minority. The family’s most important (self-defined) governance role is to be the guarding of the IKEA values. Currently, Mathias Kamprad is a member of the Beirat of the Interogo Foundation. Jonas Kamprad is a member of the Stichting INGKA Foundation board.

IKEA Values

Foundation ownership is well 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 that *“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 must 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. So far, its direct donations have gone primarily to the Berta Kamprad Foundation, which supports cancer research. For this purpose, over the last years, Interogo Foundation has donated EUR 5 million annually.

In addition, companies owned by the Interogo 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 EUR 100 million in 2011 was followed by EUR 29 million annually 2012-2016 (a total of EUR 145 million). The Kamprad Family Foundation is an independent charitable foundation.⁹ According to Swedish media,¹⁰ 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.

⁹ See www.familjenkampradsstiftelse.se.

¹⁰ Source: Dagens Nyheter (<https://www.dn.se/ekonomi/global-utveckling/hit-gar-ingvar-kamprads-arv/>)

Inter IKEA Group has also initiated a project within social entrepreneurship, a collaboration with entrepreneurs who seek to use business to solve social challenges rather than strive for profits. Multiple programs have been engaged in developing countries in Africa and South America, seeking amongst other to reduce poverty and empowering women. The partnerships have additionally contributed to creating more than 20.000 jobs.

In sum, historical donations of some EUR 31 million a year are less than 0.1 pct. of total combined assets (in Interogo Holding AG and Inter IKEA Holding B.V.) of approximately EUR 45 billion, which underlines that the Interogo Foundation is primarily an enterprise foundation.

In addition, the IKEA Foundation¹¹ – a charitable foundation financed by funds from Stichting INGKA Foundation – has donated more than USD 1 billion for charitable causes since its inception and its goal is to increase donations to EUR 200 million annually in the future.

The “Transaction”

On 31 August 2016, Inter IKEA Holding B.V. acquired the range, supply and production activities, which had formerly been outsourced to INGKA Holding B.V. The board of Inter IKEA Holding B.V. 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 as well as the board of Inter IKEA Holding B.V. and the investment companies. The accounting value of the business acquired – an amount, which Inter IKEA Holding B.V. had to pay for the acquired units after tough negotiations – was about EUR 5,2 billion and involved the transfer of about 25.800 employees. IKEA Range & Supply was separated into IKEA Range and IKEA Supply in 2020, with IKEA Industry being integrated into IKEA Supply. With the integration, IKEA Supply employs more than 20.000 co-workers and IKEA Supply and IKEA Range employs roughly 23.500 co-workers combined.

The main reasons for the “Transaction” 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 all channels need to be served.¹² Transition to online sales was challenged in 2020 following the COVID-19 pandemic, which forced temporary lockdowns. Increased online sales compensated for some of the lost revenue from locked stores. After the re-opening, online sales remained at its high level.

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. The Group worked with IKEA franchisee IKEA Retail China to open the first virtual store IKEA store on Tsmall, in collaboration with Alibaba Group Holding Ltd in March 2020. Given the changing retail environment and challenges of global

¹¹ See www.ikeafoundation.org

¹² Ironically, IKEA started as a mail order business, so e-commerce is in some sense a return to its origin.

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 such as the new virtual store.

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 motivated by a need to further 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 B.V. and INGKA Holding B.V.). The two groups' respective management boards managed the negotiation process.

Sustainability

Foundation ownership has played an important role in fostering a strong emphasis on sustainability in the IKEA businesses. The founder Ingvar Kamprad was an early supporter of a more inclusive capitalism recalling his principles that "waste is a mortal sin" and that the overall goal is to promote the livelihood of "the many". In a 2005 speech to young entrepreneurs, he proclaimed that *"The time of savage capitalism is over.... The future needs to be built on a market economy where social responsibility plays an important role. Raw, uncaring capitalism does not survive in the long run. Your contribution to building a caring capitalism will be needed."* (Kamprad 2005).

Making more of less has always been an essential part of the IKEA culture and way of working. The IKEA model for product design and development, called Democratic Design, includes sustainability as one of five principles. The IKEA values were formally updated by Peter, Jonas and Mathias Kamprad (2016) to include sustainability defined as caring for people and planet.

An IKEA sustainability strategy was published in 2012 by INGKA Group, the largest franchisee and at that time operating range development and supply under assignment from the IKEA franchisor. Inspired by the INGKA strategy, the IKEA franchisor launched a sustainability directive for all the IKEA businesses in 2013. An updated IKEA sustainability strategy was launched in 2018, covering the IKEA franchise system and value chain with new ambitions leading to 2030. The sustainability strategy uses the UN's sustainable development goals as a guide and identifies three focus areas to become planet and people positive by 2030:

- **Healthy and sustainable living** meaning for example to prolong the life of products and materials, enable people to generate renewable energy and be energy and water efficient as well as offering food range that makes sustainable, healthier eating attractive.
- **Becoming a circular and climate positive business** meaning for example to reduce greenhouse gas in absolute values while growing the IKEA business, including materials, food ingredients, transportation, production, and use of IKEA products and product end-of-life.
- **Fairness and equality** meaning to promote inclusion, gender equality, diversity, human rights and decent work across the IKEA value chain.

The IKEA sustainability report informs annually on progress (or lack of progress) in the three core areas and each multiple sub-goals. IKEA's carbon footprint from retail sales has decreased since 2016, with a shift towards a declining trend in 2019 while maintaining overall business growth, bearing in mind that 2020 was an extraordinary year.

Foundation ownership enables the IKEA businesses to make plans and commitments with a long time horizon. This also contributes to a strong stance on sustainability. In some ways, they have become climate activists because they have realized that they cannot succeed in isolation and seek to engage the wider community in their endeavor. This image is reflected in actions such as introducing plant-based balls as an alternative to the iconic IKEA meatball, making spare parts more accessible to reduce waste, affordable air purifiers for small spaces and multi-million euro investments in renewable energy sources as production input. In total, one may say that IKEA try to lead by example, focusing on sustainable solutions in the entire value chain and are making climate friendly solutions available for the many.

However, as is customary in this highly decentralized organization, the sustainability focus appears to have come about bottom up rather than top down. In 2011, Inter IKEA conducted an extensive mapping of sustainability strategies and initiatives that included the wider IKEA businesses¹³. The report, which was presented to the board of the Inter IKEA Group in 2012, found a surprising range of activities and initiatives in the different divisions and businesses. The board concluded that the Sustainability and CSR challenges for the different businesses were quite different and that the best strategy therefore was to continue with a decentralized approach under a common set of sustainability and CSR principles adopted by the board. Ingvar Kamprad was supportive. This approach was subsequently implemented through the normal governance structure, boards and reporting in the different businesses.

Covid-19 response

The pandemic undoubtedly had an influence on IKEA as a whole. In the response to the first lockdown in the spring of 2020, 350 stores closed down and more than 2 million order lines were cancelled in just two days¹⁴. In a time of unpredictable negative shocks in multiple aspects of the economy adding high levels of uncertainty, the Group's focus was initially to support the supply chain by aiding material and financial support. Demand quickly recovered in particular on the online sales platform, although the fluctuations in demand on top of worldwide lockdowns caused major logistical issues. IKEA has operated through multiple channels for many years, all though e-commerce was not scaled for purely online sales, causing challenges

¹³ Source for this paragraph: Anders Bylund, Interogo Holding AG

¹⁴ For comparison, a normal order book would be around 5 million lines per day.

in meeting the demand.

Challenging times clearly displays the financial strength of any company. The Group's financial reserve has been built for years to ensure independence and longevity. Given its financial strength, the Group did not make use of any pandemic-related assistance offered by the government. Some Inter IKEA and INGKA companies received public support, but it was paid back in full. Additionally, increased demand through online channels, cost prudence through continuation of only critical activities in response to lockdowns and favorable raw material prices resulted in a net profit increase in FY20 compared to FY19. The 2021 figures show a continuing demand growth, both through e-commerce and traditional IKEA stores. While the complete aftermath of the pandemic remains unresolved, the Group's solid financial position aided by recovering demand appears favorable.

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 Council ideally be composed in the future? What competences are needed? How active should the Foundation Council be? Are 2-4 meetings a year sufficient? 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 Council 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 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 Foundation Council meetings and more frequent information updates. Over the past decade, the Interogo 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 Council. However, it seems clear that prior experience in the IKEA businesses remains important for effective governance given their many unique characteristics. Moreover, in keeping with the IKEA tradition for decentralization, the Interogo Foundation is unlikely to become more proactive in corporate governance or other matters.

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

The ownership role is exercised partly by having members of the Beirat or the Foundation Council sit on the boards of the operating companies, which ensures a smooth flow of information and consultation (cf. appendix 1).

Another option is informal meetings – for example, presentations by corporate CEOs at Foundation Council 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 Council 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 an internal governance structure which ensures sales incentives as well as checks and balances on the individual businesses. The separate financing branch provides a financial buffer in crisis situations that safeguards financial independence.

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.

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 also call for togetherness, simplicity and mutual respect at the individual level.

From a research viewpoint, foundation ownership at IKEA displays many of the generic characteristics of foundation-owned companies (Thomsen 2017), 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 enterprise 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 November 2021

	Interogo Foundation Advisory Council (Beirat)	Interogo Foundation Council (Stiftungsrat)	Inter IKEA Holding Supervisory Board	Inter IKEA Holding Management Board	Interogo Holding Board
Birger Lund	X				
Christer Johnsson	X				
John Tegnér	X				
Magnus Mandersson	X				
Mathias Kamprad	X		X		
Mats Agmén	X				
Urs Wickihalder	X				X
Aline Santos			X		
Anders Dahlvig			X		
Daniel Damjanovic		X			
Fredrik Persson					X
Hans Gydell		X			X
Jean-Louis Ouellette					X
Johannes Burger		X			
John Olie			X		
Jon Abrahamsson Ring				X	
Lennart Sten					X
Martin van Dam				X	
Søren Hansen			X		X
Véronique Laury			X		

Sources: Inter IKEA Holding B.V. Annual Report FY21, Interogo Foundation webpage¹⁵, Interogo Holding AG webpage¹⁶

¹⁵ <https://www.interogofoundation.com/foundation-governance/foundation-governance/>

¹⁶ <https://www.interogoholding.com/governance/board-of-directors/>

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 Netherlands’ tax treatment of the Inter IKEA Group. The Commission will assess whether the annual license fee paid to Inter IKEA 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 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 Systems 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 April 2018, 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.”

As from December 2021 Interogo Foundation files the Country-by-Country Reporting (CbCR) for itself and its two subsidiaries Inter IKEA Holding B.V. and Interogo Holding AG. The CbCR is part of the OECD’s Base Erosion and Profit Shifting (BEPS) Action Plan 13 and provides further transparency to local tax authorities

on revenue, income, tax paid and accrued, employment, capital, retained earnings, tangible assets and activities.

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. *“Be thankful to those who are the pillars of our society! Those simple, quiet, taken-for-granted people who always are willing to lend a helping hand... They are the very embodiment of the IKEA spirit.”*

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 to 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 mediocre people who are negative, who spend their time proving that they were not wrong... It is always the positive people who win”*

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.”*