Achieving sustainability at multi-industry businesses through supply chain performance measurements

A proposal for IKEA´s new tool for sustainable performance measurements and development.

A popular science summary by **Adam Turesson**

Deforestation, flooding, and other extreme phenomena are getting more and more common as the effects of climate change get more evident. It has raised awareness of the importance of sustainability practices, especially at large businesses with vast supply chains that cross borders and industries. As a result, sustainability practices have had a surge during the last decades. They have also transformed from a necessary good to a competitive advantage for businesses across the globe. Initially, many businesses started by looking at the practices within their companies. They made leaps of progress within their companies but were soon to realize that it was not enough.

Several scandals, brought to light during the last decade, showed flawed sustainability practices in the supply chains of large businesses. One example is the Rana Plaza incident, where bad working conditions lead to the deaths of over 1100 people. The scandals made it clear that the businesses need to extend their sustainability perspectives to go well beyond the boundaries of their factories. They need to integrate sustainability into their entire supply chain, which means more complex operations and stakeholders. This extended perspective has tremendous potential since the Carbon Disclosure Project has found that businesses' supply chains have, on average, 11.4 times as high an impact as their operations.

Businesses focus on sustainability in their supply chains have given birth to the new field of Sustainable Supply Chain Management (SSCM). It is the strategic integration and coordination of an organization's business processes to improve the long-term sustainability performance of the business and its supply chains (Rogers and Carter, 2008). Frameworks act as a system of rules, ideas, or beliefs and are used to achieve the goals of SSCM. The framework then enables businesses to develop their performance measurements tools that help them understand what, where and how things occur in their supply chain. They provide

businesses with information valuable information on their progress and the effectiveness of their SSCM strategy.

The aim of the thesis was twofold: to provide a holistic overview of the field of performance measurements in SSCM and propose a framework for the new performance measurement tool for measuring and developing suppliers' sustainability at IKEA, the global home furniture retailers. The thesis gathered information from a literature review and two interview studies, one with sustainability professionals at large businesses and one with users of IKEA´s current performance measurement tool. This summary first presents two general conclusions and then three suggestions for the new performance measurement tool of IKEA. However, all paragraphs are considered valuable for large multi-industry businesses.

Five key characteristics of performance measurements in SSCM.

The thesis found five key characteristics: First, using the triple bottom line (TBL) to ensure that the performance measurements cover all three sustainability pillars: environmental, economic, and social sustainability. Second, a holistic supply chain approach inspires focal businesses to extend their sustainability scope across the boundaries of their own business. Third, continuous sustainability progress provides businesses with competitive advantages. Fourth, high effectiveness in choosing performance measurements that ensure achievement of the objectives and commitments of the business. Fifth, an efficiency that ensures that social, economic, and environmental resources are used to their full potential without being wasted.

Important features when large businesses design their performance measurements.

A TBL approach should be integrated into the tool, its design, structure, and questions. Another significant feature is the ability to benchmark suppliers with each other. It enables them to get a better understanding of the quality of their sustainability actions. It is also beneficial to design the measurements so that the various industries, departments, or product categories are asked relevant questions and not a general solution for everyone. Lastly, global businesses that operate on several continents need to be aware of cultural and regional differences that might affect their suppliers' results.

Creating universal tool-based goals for IKEA´s new tool.

A great first step when designing performance measurements is to define their goal; it makes their purpose clearer and enlarges their potential impact. This claim was supported by two sustainability professionals that mentioned a united target as the most impactful action on their part to achieve a sustainable supply chain. IKEA currently has no general SSI goal, but they have several large goals for all business in areas as climate or IWAY. However, each of their category areas (CA`s) have their own tool-based goals. Each of the seven CA´s at IKEA gathers articles that share similar materials, production techniques, and/or industry). The thesis included two suggestions to implement this proposal. First, directly connecting the goals to the suppliers' scores in the new tool. E.g., *That all IKEA suppliers will*

achieve a score of 60% by 2030. Second, IKEA´s sustainability strategies and the United Nation Sustainable Development Goals can be used as a base to formulate more specific goals for the new tool. For example: "*That all materials in IKEA´s supply chain shall be either renewable or recycled by* 2030".

Shaping IKEA´s new tool similar to the systems of successful data collection businesses.

One of the interviewees contributed with the idea that performance measurements should imitate the systems of successful data collection businesses, where individuals willingly share their data to get access to their platforms or other benefits. In contrast, the current performance measurement tool at IKEA primarily measures the suppliers' sustainability performance and development and decides their status as IKEA suppliers. Suppliers are provided with some information on their progress through meetings but to a limited extent. The new tool should provide the suppliers with several benefits after they have provided their responses to the questions. This change will likely increase suppliers' motivations to use the tool. This change also solves three drivers of performance measurements in businesses: improving stakeholder relations, monitoring performance, and organizational involvement.

Adopting the proposed tool structure in IKEA´s new tool.

The structure has large impacts on the functionality of a performance measurement tool, the features are based on it. The thesis includes two proposals that shape this structure: First, ensuring integration of the three sustainability dimensions. A clear majority of the researchers in academia agree that the three sustainability dimensions (social, environmental, and economic sustainability) are important for businesses to achieve sustainability. The current performance measurement tool at IKEA focuses primarily on environmental sustainability. The TBL can be integrated by choosing three output metrics, one for each dimension, and by formulating a condition that ensures a TBL division. E.g., "That all questions should each dimension have at least 30% of the questions belonging to them".

Second, enable more specific supplier questions. Interviews with IKEA employees and sustainability professionals at other businesses made it clear that a tool that specializes its data collection to specific industries, product categories, or supplier clusters, would be better at providing a correct evaluation of suppliers' sustainability performance. The current tool at IKEA is the same for all suppliers; it contains only a few specific questions. This is problematic since there are naturally large differences between the operations of different suppliers. It is, therefore, suggested that the structure is altered so that it enables more specific questions. It is proposed that the new tool will consist of eight main parts, one "General" part and seven "CA-specific" parts, one for each CA. An individual supplier will only fill in two parts, the "General" one and then the one created for the CA that they belong to. The "General" contains sustainability questions on topics that most suppliers have in common. The "CA-specific" parts will focus on sustainability questions relevant to the different CA´s (see figure 1).

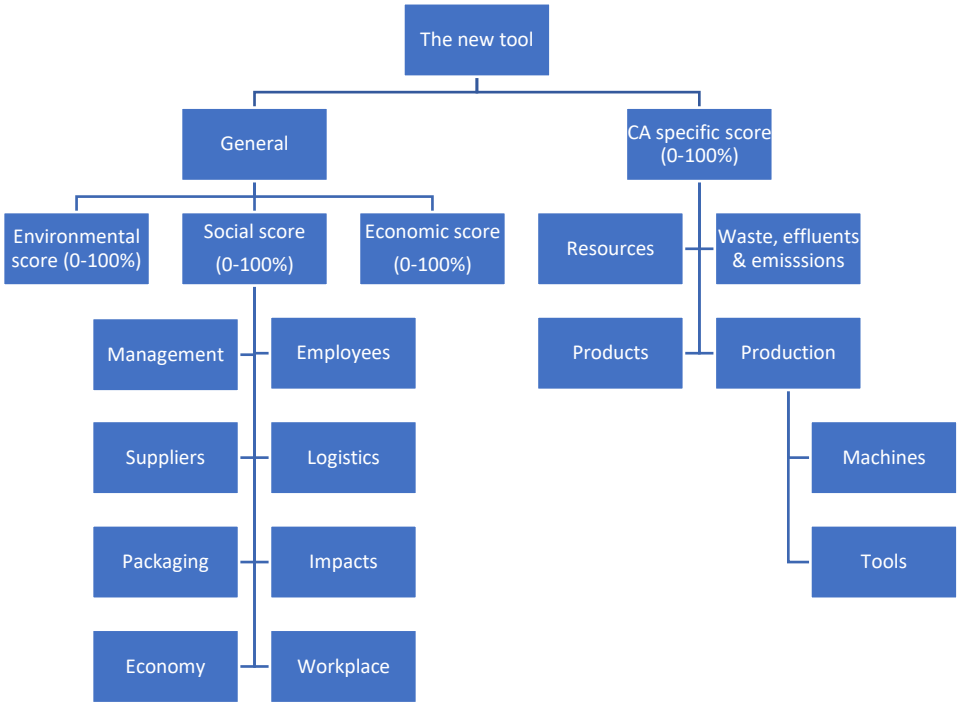

Figure 1 – Illustration of the proposed structure of IKEA´s new development tool.

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