



Taking responsibility for people and planet

Our view on the EU Sustainable Corporate Governance Initiative

The IKEA brand – represented here by Inter IKEA Group and Ingka Group – recognizes the long-term benefits from balancing economic growth and positive social impact with environmental protection and regeneration. This is driven by our vision *to create a better everyday life for the many people* and the [IKEA Sustainability Strategy](#). With a value chain that touches millions of lives around the world, we are committed to respecting and supporting human rights and the environment throughout the value chain, in line with the UN Guiding Principles of Business and Human Rights (UNGPs) and the Organisation for Economic Co-operation and Development’s (OECD) Guidelines for Multinational Enterprises and its Due Diligence Guidance for Responsible Business Conduct. We believe due diligence can make a significant difference for people and planet by helping businesses embed sustainability into their governance and decision making. In this context, we support well-designed, harmonized legislation across the EU on human rights and environmental due diligence, as described in the [Nordic Business Network Statement](#). We suggest the following recommendations in the development of any such framework.

Needs and objectives

Since the adoption of the UNGPs in 2011, many businesses have taken steps to put in place processes for protecting human rights, a move largely driven by voluntary initiatives (*see our approach, pages 4-5*). To support these efforts, we see value in legislative initiatives that set forth meaningful, mandatory requirements and guidance to respect human rights and the environment across the value chain. For IKEA, we believe an effective piece of EU due diligence legislation should:

- Cover both human rights and environmental impact, across sectors and for all businesses,
- Promote a harmonised approach and aligned criteria across borders, based on existing international guidelines; and,
- Rely on corporate-level responsibility that aligns with other legal requirements and secures long-term accountability.

In turn, this will help bring a positive impact to people and planet, level the playing field, increase legal certainty and accelerate existing efforts. Similarly, we see governments can play a role, as well, by setting high standards for due diligence through their own channels, such as through public procurement practices, trade agreements and enforcement mechanisms.

Framework

To meet these objectives, we encourage the EU to consider the following:

Existing frameworks: To be effective and efficient, any mandatory due diligence framework for human rights and the environment should be based on already robust

internationally recognised principles. In particular, it is essential for definitions (such as due diligence, meaningful stakeholder engagement, saliency, grievance mechanisms) and guidance to align with the UNGPs and existing international environmental schemes.

Alignment: Due to the complexity of business operations and supply chains, it is essential that requirements and enforcement across jurisdictions are harmonized, where possible. This is why it is also important to ensure legislation covers both human rights and environmental issues (such as climate change mitigation and adaptation, water scarcity, biodiversity), to ensure due diligence requirements are not fragmented across various pieces of legislation (i.e., EU Timber Regulation, Conflict Minerals legislation, Non-financial Reporting Directive, Deforestation, etc).

Inclusiveness: Since impact on people and planet can occur both up and downstream, regardless of size, sector or ownership structure, it is important for human rights and environmental due diligence process requirements to cover the entire value chain, including Small and Medium-sized Enterprises (SMEs). An inclusive scope will help promote a level playing field and ensure all actors are responsible and accountable while supporting sustainable investment. At the same time, requirements should be proportionate to the size and the nature of the business, notably with regards to SMEs, and should be mindful of the ability to impose obligations on suppliers located in other jurisdictions, which could prevent the consistent enforcement of due diligence obligations across countries.



Third-country companies: The same thresholds and requirements should apply to both EU-based and non-EU-based companies operating in the EU to secure a level playing field. This should also be integrated into trade agreements and EU public procurement policies.

Pragmatism: To secure a reasonable and effective scope, due diligence requirements should be based on existing guidance. For example, with respect to human rights, the UNGPs call for companies to assess, identify and manage their human rights impacts through a due diligence process and prioritise their most salient human rights impacts, with corresponding actions to mitigate those risks.

The same is true for stakeholder engagement. We agree that companies should be accountable for balancing the interests of all stakeholders. This engagement should be appropriate to each company's size and nature and context of operations. Stakeholder consultation processes should rely on existing frameworks where relevant (e.g., social dialogue mechanisms). As such, it should be up to each company to define which stakeholders are relevant when performing Human Rights Due Diligence (HRDD) and Environmental Due Diligence in different areas of their business operations and to secure meaningful engagement. A flexible approach will secure a future-proof framework that is effectively enforced.

Reporting: We recognise the value of reporting to help drive progress, enable a dialogue with stakeholders, and improve accountability. We urge reasonable reporting obligations, with a focus on driving corporate action and promoting effective impact on the ground, rather than developing a "tick box" exercise and driving administrative burdens. In addition, any EU framework should avoid developing parallel reporting processes to already existing initiatives, such as the NFRD, Sustainable Taxonomy Regulation and Sustainable Finance Disclosure Regulation, and use the most effective methods for reporting.

Stakeholder engagement

An EU framework that requires companies to undertake stakeholder engagement activities could provide value. Still, it should be the responsibility of each company to decide the manner in which to undertake such engagement and when to adjust its approach based on the purpose of the engagement and the specific dynamics of the situation. Who and how we engage will and should vary. For example, stakeholder engagement

with respect to mitigating risks in our sourcing practices will differ from stakeholder engagement when changing our employment practices. Companies need flexibility to make sure engagement is meaningful and effective. Process requirements on the "how" should be based on UNGP 17.

We urge the EU to recognise what constitutes a best practice is highly dependent on the internal organisation of a company. For example, advisory bodies may be more long term or strategic in nature, while a complaint mechanism will allow human rights advocates to voice more immediate concerns. Again, the company is best positioned to determine the appropriate approach with each stakeholder.

Finally, if a stakeholder engagement mechanism is recommended it should be aligned and coordinated across national authorities, which can be accomplished, for example, with OECD contact points, processes, standards.

Responsibility at the corporate level

For the long-term success of a sustainability strategy, the responsibility should be shared across the organisation. This will ensure more people within an organisation hold the responsibilities to secure that due diligence processes are in place and are followed over the entire lifetime of the company. Similarly, such approach would secure that sustainability aspects are integrated across all business activities, from production to retail and investment. Accountability to set up adequate procedures should sit at the company level, in alignment with other legal requirements (i.e., product compliance). Boards of Directors should rely on strong accountability processes that will allow Directors to build relevant and complementary expertise within their team. Boards should be required to assess their level of expertise on a regular basis, ensuring competence through trainings and engagement with subject matter experts.

Enforcement of effective due diligence systems

To incentivize transparency and corrective action, we urge the Commission to place emphasis on enforcing the implementation and integration of an effective due diligence process rather than assessing the occurrence of human rights risks or impacts. Unfortunately, we know that we will at times encounter challenges. But if penalties fall to companies based only on identification of negative human rights or environmental impacts, there is a risk that transparency will be diminished.



Instead, authorities should look to enforce the following areas:

- A robust and functioning due diligence system that serves to identify challenges and enables a response,
- Companies taking appropriate and transparent action and provide access to remedy for stakeholders whose rights have been negatively impacted.

From an administrative perspective, it will be critical to set early enforcement consistency across the EU to avoid confusion, inefficiency, and redirection of

resources away from important prevention and mitigation measures. When enforcement becomes a matter of developing a paper trail rather than evaluating the robustness of a due-diligence system as a whole, the focus unfortunately shifts away from making positive movements on the ground. We encourage clear, pragmatic guidelines to companies, including essential requirements for enforcement mechanisms, to provide legal clarity and foster an aligned way forward for both implementation and auditing across the EU. These guidelines should also facilitate harmonized recognition of robust, well-functioning voluntary third-party certification schemes as one important tool for a company's due diligence system.

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About IKEA

IKEA offers well-designed, functional and affordable, high-quality home furnishing, produced with care for people and the environment. There are several companies with different owners, working under the IKEA Brand, all sharing the same vision: to create a better everyday life for the many people. IKEA was founded in Sweden in 1943.

About the IKEA franchise system

The IKEA retail business is operated through a franchise system with franchisees that are authorised to market and sell the IKEA product range within specified geographical territories. Inter IKEA Systems B.V. is the owner of the IKEA Concept and worldwide IKEA franchisor, who also assigns different IKEA companies to develop the product range, supply products and deliver communication solutions. Today, 12 different groups of companies have the right to own and operate IKEA sales channels under franchise agreements with Inter IKEA Systems B.V.

About Ingka Group

Ingka Group (Ingka Holding B.V. and its controlled entities) is one of 12 different groups of companies that own and operate IKEA retail under franchise agreements with Inter IKEA Systems B.V. Ingka Group has three business areas: IKEA Retail, Ingka Investments and Ingka Centres. Ingka Group is a strategic partner in the IKEA franchise system, operating 378 IKEA stores in 31 countries. These IKEA stores had 706 million visits during FY20 and 3.6 billion visits to www.IKEA.com. Ingka Group operates business under the IKEA vision – 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 can afford it.



The IKEA approach to human rights and environmental due diligence across the value chain

Tackling societal challenges, such as climate change and inequality, is fundamental to the IKEA vision. We recognize that a long-term approach to meaningful stakeholder engagement and embedded processes to identify and minimize risks are imperative to the long-term success of the IKEA business. To ensure we meet our responsibility, the overarching approach by Inter IKEA Group and Ingka Group toward due diligence includes several elements:

Long term strategies: [People & Planet Positive](#), the IKEA sustainability strategy, includes fair and equal treatment of people and protection of the environment at its core. The strategy covers the entire IKEA value chain and franchise system. Our ambition is that by 2030 the IKEA business will be a leader in creating a positive social impact for everyone across the IKEA value chain, helping to create a more fair and equal society.

IWAY Code of Conduct for suppliers: Globally, the IKEA business is continuously working to ensure the safety and rights of the people working in our supply chain through close cooperation and dialogue with our suppliers, using IWAY, the IKEA way of responsibly procuring products, services, materials and components, as the foundation. IWAY is based on the eight core International Labour Organisation conventions. It also references the guidance of the Ten Principles of the UN Global Compact and states its commitment to the fundamental human rights principles as recognised in the Universal Declaration of Human Rights. Our IWAY verification process relies on both internal and external auditors to verify compliance, as well as IWAY development teams to ensure continuous improvement. The latest edition (6.0) of IWAY was launched 1 September 2020.

Top level governance:

For Inter IKEA Group: Sustainability is an integrated part of the IKEA business, and is led from a holistic perspective with an aligned overall direction. The total IKEA sustainability agenda is driven by the Strategic Sustainability Council. Key sustainability objectives are monitored and reported on in totality in the IKEA sustainability report. The managing directors of the represented IKEA franchisees and Inter IKEA group companies (or core businesses) are invited members of the Council. The CEO of Inter IKEA Group is the chair of the Strategic Sustainability Council. The Inter IKEA Group Sustainability Management team includes the sustainability managers from the Inter IKEA Group entities. The group is responsible for aligning and developing sustainability ambitions and commitments and reporting on performance.

For Ingka Group: The Sustainability Committee of the Management Board, chaired by the CFO and Deputy CEO of Ingka Group, defines and follows up on the overarching priorities, principles and frameworks for sustainability within Ingka Group. Our Chief Sustainability Officer (CSO) oversees our performance against the commitments of the Ingka Group People and Planet Positive Strategy. The CSO organises and is the deputy chairperson of the Sustainability Committee, supported by the Sustainability Management Team. The Sustainability Committee (chaired by the Ingka Group Chief Financial Officer and with members of Group Management) is responsible for setting sustainability requirements. The role of the Sustainability Committee is to establish the IWAY specifications for Ingka Group, to monitor and mitigate sustainability risks and follow-up on IWAY compliance. The Sustainability Committee is supported by the Ingka Group Global IWAY Forum which supports with alignment, guidance and continuous development of the IWAY system and framework in Ingka. On a country level, we have IWAY Country Forums.

Purchasing & Logistics Areas (PLAs): IKEA Supply AG (part of Inter IKEA Group) has eight Purchasing & Logistics Areas (PLAs) spread out around the world, responsible for developing, leading and securing an optimal support structure for all business units (suppliers) in the area. Among other responsibilities, the PLAs lead and secure risk management and compliance to laws and standards and verify quality and sustainability compliance on site at suppliers.

IConduct: IConduct is the IKEA franchisee code of conduct. It includes franchise requirements for the IKEA offer, health, safety, security, business ethics, information handling and economic, environmental and social development. IConduct applies to all IKEA franchisees. IKEA franchisees are responsible for ensuring that the requirements described in IConduct are implemented and communicated to all of their co-workers.



External partnerships: A key part of our work is engaging with others to realize our ambitions. We continue to work with partnerships and relationships with NGOs and other organisations or institutions – such as the International Organization for Migration (IOM), the Institute for Human Rights and Business (IHRB), Save the Children and UNICEF - all who can, with their expertise and vast knowledge of the subject matter, support us in identifying areas where we might be vulnerable to unethical treatment of people working directly or indirectly with our business. In addition, we are a founding member of the Leadership Group for Responsible Recruitment, and we support the Employer Pays Principle.

We are on a journey, and most things remain to be done. We are committed to working together in a collaborative way, be transparent, strengthen our due diligence systems as we learn more and always moving forward.