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# GLOBALISATION OF IKEA

Management and Business Context

MGMT20144

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## Executive Summary

This report is an effort toward analysing the state of the globalisation of the IKEA Company and defines the term of globalization and its impact on IKEA company. The report also outlines the benefit and advantages of Globalisation including free trade, frees movement of labour, increased economies of scale, greater competition, and also increased investment opportunities which motivate IKEA to expand its operations in more and more countries. Further sections deal with the challenges and issue of globalization and note 4 different dilemmas which are associated with the current state of IKEA and have impacts on the performance of this company. At the end, the report by mentioning some possible course of action based on literature views and justifications attempts to provide a set of valuable recommendation to address the camp up issues and improve the proficiency and productivity of this company in different part of the world.

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## **1. Introduction**

### **1.1 Background**

IKEA Australia is a group of companies that deals with designing and selling of ready to assemble furniture materials, home accessories and other appliances. As from 2008, the company is regarded as the world's largest furniture retailer with operations in more than 48 countries including Sweden, Australia, China and the United Kingdom. The company main focuses on delivering products with lower prices and also which are friendly to the environment. The vision of the company guides all its operations from designing and producing the designs to how it treats its customers (Svetličič, 1996).

### **1.2 Aims**

The goal of the group is to act in the long-term interests of the many people by focusing on protecting the environment as much as it focuses on making profits.

### **1.3 Scope**

The report evaluates the statistics about the organization using its annual report, journal, and books. Also, the on-line resources, focusing on three key factors: benefits of globalization on IKEA, issues of globalization on the organization and gives a recommendation on each challenge.

## **2. Discussion and Analysis**

### **2.1 Globalisation**

Globalisation refers to the process by which the international exchanging of goods, services, knowledge, technology and capital becomes increasingly interconnected between countries and regions around the earth. For example, a corporation in China can be able to sell or buy products from the United States through globalisation. The main advantage of globalisation is that it helps countries increase economic growth and contributes to generating a comprehensive range of goods and services. The concept of globalisation has become a leading factor in the business world during recent years where companies have shifted from doing business in a single country to operating in some different countries. The globalisation phenomenon affects many aspects of business including economic growth, the life of business, and social environment in some ways (Jones, 2002). Every corporation around the world even

the ones which do not operate globally have been transformed by globalisation in one way or the other. Globalisation affects how businesses conduct their operations through many ways such as increasing competition, changes in information transfer and rapid changes which typically occur in the field of technology (Singh, 2011). For a company to challenge the changes which come along with the concept of globalisation, they need first to understand the advantages and disadvantages of globalisation and how they can use the idea for the benefit of the company operations (Evertsson, 2016).

## 2.2 Globalisation and Its Effects on IKEA

IKEA Company is a global corporation which operates in more than 48 countries around the world having more than 400 stores. The company has branches in North America, Australia, Europe and Asia and thus making the company easy to be affected by the effects of globalisation (Rusten, & Bryson, 2010). So far, the company has handled the challenges which come with globalisation well through many initiatives such as developing cheap products, operating on-line, having an excellent supply chain management and also installing the least IT infrastructure in to make the operations of the company smooth and efficient (Kartomi, 2003). The company's globalisation strategies have so far been focused in Europe and Asia as the company opens more stores in China and Japan among other countries. The success of the company in many countries can be attributed to the ability of the enterprise to adapt to different business environments which are essential to its operations. The management of the company is also decentralised which means that each branch in the various countries make decisions depending on the challenges and opportunities they face in those particular countries. A global company having a centralised system of management would be a disadvantage since it would mean that each decision being made takes a longer time since it has to go to the top management before being implemented. Human resource management is another aspect which helps the company to take on the challenges associated with globalisation since each employee is carefully selected to ensure that they fit into the requirements which the company wants (Meredith, & Dyster, 2000). The company appreciates the important role which is played by the human resources and always works to implement strategies for employee retention. Another advantage of the company to deal with globalisation issues is the sustainability pledge where the company focuses on making products which do not destroy the environment. IKEA Australia focuses on helping people have

a better life including the community, customers and also the employees of the company (Huggins, & Izushi, 2011).

## **2.3 Benefits of Globalisation to the Company**

### **2.3.1 Free Trade**

The major advantage with globalisation is that it promotes free trade where companies operating in different countries have the ability to exchange goods without any restrictions freely. Free trade helps economies to grow since countries can concentrate on making the products which they are good at and import the ones they have no capability to make. Specialisation enables a country to produce goods at a lower cost since it only makes the things it has the full capacity to make (Kłosowski, 2012). Specialisation helps a company as it can lower the prices of goods to consumers as the products which it makes use local raw materials thus reducing the operational costs. For instance, IKEA Australia can concentrate on making furniture materials not only for the domestic market but international ones as well. The case would have been different in the absence of globalisation since it would be required to diversify in other goods to meet the production and market requirements. Free trade is helping many people in developed; developing and underdeveloped countries come together as most of the trading is even done via the internet. Most of the sales from IKEA are conducted through its online portal and also payment is done online making the concept of globalisation a positive thing for the company (Huseynov, & Klammer, 2012).

Free trade also helps a company by making it possible to produce a range of goods to provide to the customers. For instance, IKEA Company now has the capability of providing a range of products and materials which are in demand in the furniture market. Globalisation helps the company by making it possible to sell its products to a larger pool of consumers. Globalisation also helps global companies through giving them a bigger export market for the goods they produce locally. The essence of manufacturing goods is to enable the business to sell them, a process which is impossible without the important markets to sell the products into (Giunta, 2016).

### **2.3.2 Free Movement of Labour**

Globalisation makes it possible for labour to move freely and that is a significant advantage to the company. IKEA Company operates in more than 40 countries and thus sometimes needs to move its staff around. Through globalisation, the company can get the best talent from the world which can help in the process of expansion and market consolidation. The process also helps reduce the issue of labour migration as the company creates jobs in any country that it sets branches in (Garvey, 2011).

### **2.3.3 Increased Economies of Scale**

By embracing the concept of globalisation, the company will also be able to get economies of scale through lowering of average costs as well as lowering the prices of the goods to consumers as well. Economies of scale are realised through specialised production where the company concentrates on making only the products and services that it is good at. The process of operating in many countries also gives the company an advantage of having new markets and also expanding its market base (Brown, 2011).

### **2.3.4 Greater Competition**

Many companies around the world are used to operating without competition, and thus they mostly function as monopolies. It means that such enterprises can exploit consumer through offering poorly designed products or charging them more since they know there is no other option. Through globalisation, competition is made possible as firms face greater competition from foreign companies. For instance, IKEA has helped bring competition to some countries which used to experience monopolistic culture such as China and Japan (Antonakakis, & Scharler, 2012).

### **2.3.5 Increased Investment Opportunities**

Through globalisation, the company can get new investing opportunities in countries which have untapped potential and thus help in growing its market share and asset base. The company can make short-term and long-term investments in as many countries as possible since most of the restricting tariffs on companies no longer exist in many countries. Such investments



also help in increasing the investments in the country as well as creating job opportunities for the population (Alrawi, 2008).

### **3. Issues and Recommendations**

#### **3.1 Issues**

##### **3.1.1 Increased Competition**

Free trade leads to completion and in such cases only the biggest company survives, making it hard to break into some economies. Increased competition can also drive firms out of the market as some of them make consecutive losses to the point where they just give up (Plesko, 2004). A good example of how competition can lead to a business making losses is by looking at a case scenario involving taxi companies Uber and Lyft. The two companies are fighting economically in some countries such as China and Saudi Arabia because there are no restrictions on entering into such markets. Unfair competition when not controlled can lead to collapsing of a company, and thus IKEA needs to understand this disadvantage before venturing into other areas (Alford, 1993).

##### **3.1.2 Free Movement of Labour**

The concept of globalisation has seen some countries move their operations from developed countries to underdeveloped countries due to lesser rigid economic policies and also cheap, available labour. It means that the jobless people in the developed countries have to follow the company into the new places of worker leading into labour drain. The job waste can also affect the company since it also has branches in the developed countries and thus making it a disadvantage as well (Albert, 2007).

##### **3.1.3 Operating Manufacturing and Products Standard**

Ikea has operated in many countries including developing and developed countries so different standard must be applied among those countries. If Ikea is operated in only one country so it needed only one standard for its products but it operates in many countries, therefore, different standards will be needed. For example, Ikea sells tables in western countries so Ikea needs to make sure that this table is not used more chemical to make it last longer as western people care about their health more which is different from the Asian perspective.

Moreover, since the global financial crisis in 2007, many manufacturing had been shifted from developed country to developing country. The reasons are the world average exports from developing countries grow faster than exports from developed countries and developing countries, especially in Asia, are important for the global markets when the global economics is down turned (Page, 2009). Therefore, Ikea cannot operate manufacturer in the western country then export to Asia as the cost will be high so the price of the products will be high as well, so Asian cannot afford those products with high price. Therefore, Ikea operated its manufacture in Asia regarding minimizing its cost to make sure low-income country can afford its products. Furthermore, land and labor will be effected to cost variation. In developing countries, the renting land will be lower than developed countries and local labor in low-income country will be cheaper than high-income country.

### 3.1.4 Unfair Economic Conditions

Not all countries around the world view globalisation as an active concept, most of them see it as a disadvantage and thus have moved ahead to put in place measures meant to protect the home industries and discourage foreign firms. The main problem is such measures may be called in place when the company is already operating in the country thus making it hard to continue running or leaving. For a company like IKEA, such measures can be damaging to its business operations and thus need to put in strategies to help in mitigating such effect (Abley, 2006).

## 4. Recommendations

Today there are already many MNCs operating globally in the same sector. Still there are varying level of market competition and market shares of different companies in different countries. Hence there are certain points to be kept in the mind by the IKEA before entering in a new market:

1. There needs to be done proper research and have proper understanding of economic environment in the country IKEA is planning to start the operations. Because according to Rossi (2007, p23), “Globalization research has produced an elaboration of traditional perspectives, the emergence of new ones and has generated new research strategies.
2. Markets with the stiff competition should be avoided as it may be difficult to recover the initial investments in near future. This is due to the fact that “Globalization implies a substantial increase in competition between countries or nation-states, we need to know

how they compete, how they define their national development strategies, and how this competition affects and modifies the world economic system itself.” (Pereira, 2010)

3. Local laws and regulations should be understood well as part of hiring workforce. There may be some requirements like paying bonus or minimum benefits that may not be in the favour of IKEA.

## **5. Conclusion**

For IKEA Australia, globalisation is a good thing as it moves to invest in different countries around the world with the hope of growing its market share and revenue as well. However, the company needs to understand that globalisation has both advantages and disadvantages and it can experience both aspects. The company can get new markets for its products in the countries it is moving into and thus making it possible to expand its market share. Moreover, IKEA is also able to access cheap labour in most countries it operates in since there are no set minimum wages in such countries. However, the concept of globalisation poses some disadvantages such as unknowingly exploitation of labour, tax evasion, and avoidance and helping labour migration around the world.

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