

Conversations

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for tomorrow

Discussion with
Pia Heidenmark Cook,
Chief Sustainability Officer,
Ingka Group

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Ingka Group



IKEA PUTTING PLANET AND PEOPLE AT THE HEART OF CULTURE AND OPERATIONS



® Pia Heidenmark Cook is the Chief Sustainability Officer at Ingka Group, the largest IKEA franchisee and an organization that accounts for more than 90% of IKEA's

turnover. She leads the sustainability agenda across the IKEA group business, managing a multi-disciplinary team of sustainability professionals across innovation, policy and strategy, impact assessment, risk, and the compliance and verification teams that operate close to business units and markets.

The Capgemini Research Institute spoke with Pia Heidenmark Cook to understand more about embedding sustainability objectives across countries and functions and how the right governance framework can support sustainability initiatives.

SUSTAINABILITY AT IKEA

What are the key drivers for IKEA's commitment to sustainability and the investments it makes in this area?

— We have a people and planet-positive strategy for sustainability, launched in 2012 and updated in 2018. Our first environmental policy came out in 1991. So, we've been practicing sustainability for a while. Initially, our environmental policy was primarily focused on optimization – being thrifty with energy, water, and other resources. Since 2000, our sustainability objective has been about merging business development and sustainability and viewing business opportunities through a sustainability lens by understanding the planet or societal constraints.

A lot comes back to the cultural values of who we are and what we do. I think every company faces a crisis situation once in a while, where something you do goes wrong in your supply chain or operations. In these sorts of situations, we really try to get to the root of what happened, why it happened, what our role is in the situation, and how we can support solutions that make a difference in the future. Such root cause analysis led to "IWAY," IKEA's supplier code of conduct.

We also believe in taking a long-term view. We are not a listed company or a foundation-owned company. This enables us to take a long-term view and look at longer horizons, such as longer payback horizons for the right investments. For instance, we believe that the future should be low-carbon or carbon-free. As a result, we have invested over two billion euros in the last 10 years into wind and solar energy.



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What are the key focus areas of IKEA's sustainability strategy?

— Our people and planet-positive strategy rests on three pillars. One is inspiring and enabling one billion people to lead healthy and sustainable lives.

Our second focus area is being climate positive and promoting a circular economy. We are signatories of the Paris Climate Agreement and we are committed to limiting global temperature rise to 1.5 degrees Celsius by adopting emission targets. We believe that circularity is a key enabler of becoming climate positive. This is because it helps reduce our environmental footprint – emissions and use of resources – in the products we sell, in our raw materials, and in other parts of our supply chain. Our stores and shopping centers actually constitute only 4% of our environmental footprint – most of it is actually embedded in our supply chain.

The third and last part is unique and very inclusive, where we aim for fair treatment of our workforce. We are also looking at extending support to local communities. For instance, during the COVID-19 crisis, IKEA has focused on community emergency response services, such as donating our products to homeless centers, hospitals, and refugee centers.

How does IKEA drive its circular economy approach?

— Our circular economy initiative is focused on four major areas. First, and by 2030, we aim to have only renewable and recycled materials in IKEA's home furnishing products. Around 60% of IKEA's product range is currently made of renewable materials and about 10% is made of recycled materials. We have set targets and direction for different raw-material categories – recycled, renewable, and reused materials on a roadmap to 2030.

The second goal is to offer products that meet the nine "circular design" criteria, ranging from durability to how the product can be reassembled or disassembled and sold again.

IWAY: IKEA's code of conduct for suppliers

IWAY, which is short for the "IKEA way of responsibly procuring products, services, materials, and components" is the organization's supplier code of conduct and sets social and environmental requirements for all suppliers and service providers.

IWAY is broadly divided into two parts: "IWAY Must" and "IWAY Standard." IWAY Must lists requirements that all suppliers and service providers must comply with before working with IKEA. These include no child labor, no forced or bonded labor, payment of minimal legal wages, and accident insurance for all workers. "IWAY Standard" includes "IWAY Must" requirements as well as general requirements that suppliers are expected to comply with within a period of 12 months of partnering with IKEA, such as environmental responsibility, workers' health and safety, and waste management.

IKEA mandates that suppliers communicate the IWAY code of conduct to their employees and their subcontractors. Suppliers' compliance with IWAY is maintained through training and support, standard reporting procedures, and a program of regular audits conducted by IKEA and third-party auditors⁽¹⁾ that are instigated without prior warning to maintain an element of surprise.

¹ IKEA, "Sustainability, Building a better business with IWAY."

We are currently reviewing our different product categories according to this framework to identify the categories that meet the criteria, categories that need to be repurposed, and categories that don't fit in the future scenario.

The third area is engaging with consumers in entirely new ways. We are trialing leasing as an option, mainly in a B2B scenario since it's a more mature market. The aim is to see how we can maintain ownership of a product throughout its lifecycle by taking back a product after the lease period, refurbishing it, and leasing it again. So, we are trying to extend the lifetime



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of our products for as long as possible. We are also looking at buyback options for consumers, where they can return their products for a voucher.

Finally, we are also assessing different parts of our value chain. The aim is to understand the capabilities

we need to add and the changes we need to make to drive circularity, especially in product development and in-store. We are still in very early days, though we do have a high recycling rate, since we have been practicing recycling for the last 10 to 15 years.

Are your consumers more vocal and enthusiastic about your sustainability initiatives? How does IKEA address consumer expectations?

— We see a severe anxiety among consumers about climate change. They understand that climate change is a reality; it's happening, and it's caused by human activity. This is more so among young people. However, people are not fully clear on what action they should take; what action is climate friendly or what activity is not. Consumers are keen to understand whether their actions can make a difference. They feel there is either a real or perceived cost to sustainability that is reflected in the high prices they see.

The solution is often that, as a company, you need to step in and showcase your solutions clearly to consumers. At IKEA, we do not have a "green" corner with a green or sustainable range of products that come with a price increase. Instead, we have a holistic approach. We had set an objective to have all our wood-based products – sofas, beds, and tables – produced

either from FSC-certified wood (Forest Steward Council) or from recycled wood by 2020. Likewise, since 2015 we've only used sustainable cotton; all our cotton-based textiles are made exclusively from sustainable cotton. We decided in 2015 to replace incandescent light bulbs with LEDs – this was way ahead of legislation. Our latest initiative is to stop single use plastic use in our product range and in the restaurants. So, overall, it's not about a specific product range – it's about adopting an holistic approach.

What challenges did you face with your sustainability initiatives?

— The challenges are predominantly around change management – proposing new ways of doing things rather than doing it the old way. They are about showing the business case, proving why it makes sense, and influencing and



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inspiring people to understand why the new solution makes a difference. This is because, in many instances, people may not accept that their actions are really going to make a difference. Take energy or energy equipment investments, for example. The cost of LEDs, wind, or solar has reduced

by 80% in the last ten years, but still a lot of people view it as an expensive proposition. So while your initial investment when using a new technology is high, eventually you will reduce your operational costs, and when you both own and operate your business, it is the right thing to do. So, for me, it's fundamentally about change management.

Could you give us an overview of how sustainability is managed within IKEA?

— At IKEA we have committees for key topics. There are committees for areas such as people & culture and risk and we also have a sustainability committee. Our CEO is the chairman of the sustainability committee and I work closely with our CEO and deputy CEO, who is also our CFO. We have members from the sustainability committee represented in different country and function-specific management teams.

I have a global team cutting across multiple disciplines. So, I have an innovation

and development team where we have circular economy as a big project. This team also looks at urban farming, clean energy initiatives, and new digital solutions. I also have an analytics team that measures the true impact of activities we undertake. There is a retail team that works closely with the retail business. There is also a climate specialist, a sustainable transport specialist,

and a human rights specialist supporting different functions.

We don't have a separate CSR function. For us, CSR is about sustainability, and sustainability is about economic, social, and environmental responsibility. On the social responsibility part, everything we do is a

collaboration between people and culture, risk and compliance, and with me, for sustainability. Though it's a shared responsibility, everything we do on the human-rights side and in local communities resides with sustainability.

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At IKEA, it's business opportunities that drive our sustainability initiatives, rather than a reactive act for compliance with rules and regulations.”

What concrete steps would you recommend for organizations looking to embed sustainability into their business operations?

— It depends a lot on your geographical location and where you are in terms of sustainability maturity. I would say that the starting point is to understand your business from the sustainability point of view – understanding the critical raw materials and functions where sustainability impact can be created. For instance, when you're looking at where sustainability initiatives can make a difference in the case of IKEA, it's more about wood from a raw materials perspective and the supply chain function from an operations perspective. In other words, identify the opportunities and then connect them back to your organization's culture and values.

Second, understand what drives your people. At IKEA, it's business opportunities that drive our sustainability initiatives, rather than a reactive act for compliance with rules and regulations. So, find the business opportunities in sustainability. For example, though there are a lot of challenges to be addressed on the environmental front, understand where you can make a difference – is it air pollution or water or the food supply chain? Accordingly, partner with NGOs and other companies, since partnerships are fundamental in achieving effective solutions. •



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Chief Sustainability Officer, Ingka Group

“Finally, on the social front, think about inclusive growth. How can you make sure that no one is left behind and build a workforce through reskilling and competencies that are equipped for the future?”

To summarize, start with understanding the sector you are operating in, identify the critical sustainability impacts for that sector, and then connect that with the cultural values of your organization to drive things forward.”

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