Research Project:
Corporate Analysis of Sustainability Risks and Opportunities of IKEA and SHELL

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Abstract

This report intends on presenting a comparative analysis of the sustainability risks and opportunities in two prominent companies: Shell, who is a global leader in the energy sector, and IKEA, who is a renowned retailer in home furnishings. Shell focuses on oil and gas but is progressively transitioning towards renewable energy sources, making it a significant player in the ongoing energy transition. In contrast, IKEA is recognized for its innovative sustainable practices and commitment to providing affordable, environmentally friendly products. This analysis looks into challenges, solutions, and commonalities between the two companies.

ESG analysis: IKEA

The reasons that served as the main factor in choosing IKEA for the comparison in this study were their long-term presence on the market as a large retailer, with growing profits and their commitment to the principles of sustainable development and environmental responsibility. Despite the vast number of opportunities, actions, and investments that have an impact on the development and achievement of ambitious goals in many areas, such as carbon dioxide emissions, energy and water consumption, many risks and challenges can be pointed out. In the last 5 years, there have been conflicts and questions about IKEA's activities and commitment and active actions in the field of ecology and the social sector. IKEA focuses on a huge number of actions in relation to most SDGs, but the existing risks still pose challenges to IKEA's sustainability strategy. While studying both IKEA's reports and materials, as well as news articles on lawsuits, scandals, and red flag areas in which IKEA has been involved, it is to be noted how these differences relate to sustainability achievements, which also help in identifying possible risks emanating from such statements.

As expected, the two main sectors included, on the one hand, environmental issues, in particular, conflicts with illegal timber extraction, as well as poor consumer actions leading to an increase in waste generation. On the other hand, there has been an identification in a much higher number of mentions in the media from the social sector in areas related to discrimination and human rights violations originating from different countries. The most worrying element after researching these conflicts was IKEA's reaction and the resulting risk in terms of transparency, policies, and regulations, as well as the need to take responsibility; this sort of evidence cannot be gotten rid of in the case of age discrimination and denial of illegal timber extraction.

ESG analysis: Shell

Shell, as a major player in the oil and gas industry, predominantly faces significant sustainability challenges due to the nature of the petroleum industry. Environmental risks are paramount, with the company's operations contributing substantially to greenhouse gas emissions, a primary driver of climate change. The extraction and production of fossil fuels release large amounts of carbon dioxide in the atmosphere as we all are aware of in today’s world. The potential for oil spills and other operational accidents poses significant environmental risks, potentially causing severe damage to marine ecosystems, coastal communities, and wildlife.

Beyond environmental concerns, social risks are also significant. Shell's operations can lead to community displacement in extraction areas, impacting local livelihoods and social structures. The company also faces increasing social pressure and scrutiny regarding its role in contributing to climate change and its potential impact on future generations. Public perception and social unrest are all symptoms related to fossil fuel dependency which have grave consequences to Shell's social license to operate. Governance risks are intertwined within the E and S as the company must learn to navigate a complex and evolving regulatory landscape. Complying with increasingly stringent environmental regulations, Shell addresses the growing demands of investors and stakeholders for a more sustainable business model. This includes transitioning towards a lower-carbon energy future, mitigating climate risks, and enhancing transparency and accountability in its operations.

However, Shell recognizes the need for a transition to a lower-carbon energy future. The company is actively pursuing sustainability opportunities by investing in renewable energy sources such as wind and solar power, developing technologies for carbon capture and storage. These initiatives definitely demonstrate a commitment to a more sustainable future, although the pace and scale of the transition remain as crucial considerations for the company's long-term success.

Comparative Study

Both companies recognize the importance of sustainability as a critical factor for long-term success and have integrated sustainability considerations into their core business strategies. They are driven to invest in innovation to improve their sustainability performance. IKEA is developing new materials, exploring circular economy models, and improving product design. Shell is investing in renewable energy sources, carbon capture technologies, and other low-carbon solutions. Investment in renewables is a big highlight for the two companies, as IKEA utilizes renewable energy to power its operations, while Shell is diversifying its energy portfolio by investing in wind, solar, and other renewable energy technologies. It can also be noted, both try to engage with stakeholders, including customers, suppliers, and communities, to understand and address their sustainability concerns, sometimes with less results, but the effort can be recognized. Through their reporting of sustainability, the aim is to utilize data and metrics to track their sustainability performance in order to continuously identify areas for improvement, this also majorly adds to the fact that they place accountability and transparency at the forefront. The social impact is recognized as IKEA focuses on fair labor practices within its supply chains, while Shell is working to address the social and economic impacts of its operations on local communities.

On the other hand, the differences in their core industry can bring about two completely different roads. It is evident both companies have some similarities in the challenges they face, be it the issues of transparency and criticism from the public, as the nature of their industries defines the scope and controversies of their sustainability efforts. While it is true to an extent how much both companies try to prioritize circular economy principles, Shell still has a long way to go as it faces the challenge of the pace of transition away from the carbon intensive business model. In the social sector, IKEA's challenges include labor practices, discrimination cases, and highlighting fair supply chain management. Shell's social risks, on the other hand, are more significant in terms of community displacement in oil extraction areas and public scrutiny over its role in climate change.

IKEA’s primary environmental risks come from resource sourcing and waste generation, in contrast to Shell which pertains to mining for oil hence direct GHG emissions. Finally, IKEA operates within a regulatory framework that, while evolving, is generally more conducive to sustainable business practices. Shell operates in a highly regulated industry facing increasing pressure to address climate change, navigate complex regulations, and adapt to the evolving energy landscape.

Improvement Areas

Among the possible areas for improvement, reviewing some policies and taking a more responsible approach to emerging conflicts, as well as providing transparent reporting and information in the areas of wood supplies, cotton, information on water consumption during production, and waste management, is the way to go. Thus, this point of view highlights not only the importance of noting IKEA's long-term presence in the market and its commitment to the principles of sustainable development but also the problems, especially in the field of illegal wood extraction, household waste generation by consumers with a high percentage of whom prefer to replace broken furniture without using IKEA's recycling or reuse services for various factors. Also, inconveniences or conflicts in social factors and IKEA's reaction to these events seriously threaten the company's stated goals and reputation, highlighting the need for better regulations and responsible responses. Transparency, especially concerning supply chains, is essential, as is a timely and honest response to conflicts that have arisen.

It is time for Shell to set ambitious goals with regards to renewables, because of their impact it almost needs to be aggressive, to significantly accelerate the phase-out of fossil fuels. This can be done in two of the following ways. Firstly, by investing in and deploying CCUS technologies at scale with a grander exploration in the Hydrogen industry as well. Secondly, through the development of a resilient grid infrastructure to support the integration of renewable energy sources and facilitate this transition to a low-carbon energy system as a whole. As for the social aspect, supporting local economic development initiatives, by giving job training programs and community infrastructure projects, in areas that are impacted by Shell's operations. And finally as for reporting, it is getting more and more dire to now publish detailed Scope 3 emissions data, including emissions from the use of its products, to improve accountability, especially in such a growingly risky industry.

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