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Rethinking Green Finance: A Case Study of Ingka Group's Sustainability Strategy

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Peer Review Information	Abstract
<p><i>Submission: 13 March 2026</i></p> <p><i>Revision: 0.2 April 2026</i></p> <p><i>Acceptance: 16 April 2026</i></p>	<p>This case study focuses on Ingka Group, the holding company behind IKEA's global retail operations, as the main subject in examining how large corporations finance sustainability. The key decisions-makers in the company along with its finance and sustainability teams, allocated funds towards ESG initiatives throughout its operations world-wide. The company has not opted for external financing for its sustainability investments till the end of the year 2025. There is a strong need for continuous Investments for sustainability projects such as renewable energy investments, circular economy efforts. In this regard, the scalability and effectiveness of the Ingka Group's self-funded investments are to be studied. The case analysis period is between 2019 and 2025, during which the company significantly expanded its sustainability investments. The case also highlights the opportunities and challenges of sustainable financing as a long-term environmental goal.</p>
<p>Keywords</p> <p><i>Circular Economy, ESG Investments, Green Finance, Ingka Group, IKEA, Sustainability Strategy</i></p>	

The Green Finance Imperative

Over the recent years, global financial markets have made a big shift toward sustainability. Increased number of investors are using environmental, social, and governance (ESG) criteria to make their investment choices. Green financing is a powerful way for businesses to source fund projects that are sustainable. It works similar to any other financing methods by providing returns to the investors while also helping achieving climate goals. It is guided by internationally recognized frameworks, like the Green Bond Principles set up by the International Capital Market Association. Against this backdrop, IKEA raised funds through green finance, reflects both strategic forethought and commitment to sustainability. Since its inception, the market has grown rapidly since institutional investors prefer to invest, regulators continuously encourage it, and companies move towards sustainability. The company's green financing strategy focuses on big investments in renewable energy, the circular economy, and logistics that do not cause carbon production.

Company Profile and its Sustainability Vision

IKEA, founded in 1943 is one of the world's largest furniture retailers, operating in multiple countries with a strong focus on cost leadership and sustainability. It operates strongly with sustainability motive in retail, real-estate and investments. The company has integrated ESG into its core operations and in business model itself rather than treating it as a separate function. Around 85% of the profits are reinvested for store expansions, digital expansions and sustainability initiatives. As of 2025, the group holds an 85% equity ratio, with very low reliance on debt for its operations. The company's total revenue stood at €41.5 billion, and its net income at €1.4 billion. The company has stipulated to be climate-positive by 2030, by way of releasing fewer greenhouse gases than it makes. Investing in renewable energy, designing products that can create circular economy, and sourcing responsibly are all part of its efforts to be more sustainable. The company has cut operational emissions by 70.6% since the 2016 fiscal year. It aims to cut down by 50% by 2030

and reach net zero by 2050. The measures are in line with the Paris Agreement and the Science-Based Targets Initiative. The funding contributed to measurable environmental outcomes, including reduced carbon emissions and increased renewable energy usage. IKEA has positioned itself as a sustainability leader in the retail sector. Its global newsroom (published in 2021) states that IKEA produces more renewable energy than it consumes in the operations.

IKEA is also forging ahead its circular economy practice by expanding to second-hand furniture resale, repair and refurbishment for their products. "As-Is" sections in IKEA are dedicated areas where returned, lightly damaged, or discontinued items are resold at nominal prices instead of being scrapped. There are more than 400 stores globally, with a strong motive on reducing waste and holding out product lifecycles. The company is also eminent for its sustainable Supply Chain Practices. Around 60% of their last leg deliveries are zero-emission, which is supported by the investment in Electric delivery vehicles and Green urban logistics hubs.

Strategic Rationale for Green Finance

IKEA opted to invest in renewable energy projects, improve energy efficiency, and strengthen its sustainability credentials. Additionally, internal financing paved way for lowering its cost of capital. As of late 2024, Ingka Group, the largest IKEA retailer, has invested and committed billions of euros toward renewable energy projects. Funds are allocated to Renewable Energy measures such as Wind farms, Solar parks, Rooftop Solar Installations and Energy storage solutions.

Ingka, the Parent entity has dedicated € 7.5 billion to achieve its part of sustainability goals towards investments in renewable energy by 2030. As of 2023-2024, € 4 billion has already been invested on renewable energy projects and early-stage commitments. €1.5 billion has been specifically allotted to replacement of fossil fuel heating & cooling, Electrification and Warehouses Initiatives. Ikea group does not solely rely on green financing, it has other financing mix such as internal capital and direct assets investments. Ingka Group alignment with GBPs (Green Bond Principles) by its green financing measures ensures integrity and transparency. IKEA is engaging in a **long-term value creation model**, by emphasizing sustainability investments rather than concentrating short-term profits. IKEA is diversifying its funding sources and to potentially reduce borrowing costs. Additionally, ESG-focused investors contributed to increased demand for the green financing.

It follows Continuous reinvestment model, nearly 85% of profits are reinvested into the business and sustainability initiatives. Ingka Group has created an Investment Arm 'Ingka Investments' to take a long-term approach and strategic investments with impact. The Ingka Investments actively funds, Climate tech companies and Sustainable infrastructure. This ensures the Expansion of IKEA's green financing ecosystem.

Challenges and Risks

IKEA's green financing strategy, while profound, faces challenges including high capital intensity, regulatory risks, limited liquidity and reliance on internal funding, also complexities in measuring and validating long-term environmental impact. The first and foremost challenge the group faces is High Capital Intensity. It requires a large upfront capital commitment (billions of euros) because it invests directly on renewable energy and infrastructure. This causes strain of cash flows and limit financial flexibility compared to external financing. The second challenge to be considered is Lack of External Financing Diversification. Unlike the other major companies that use capital markets, IKEA does not rely heavily on external green financing instruments and their funding is concentrated within Ingka Group and its investment arm. This might result in reduced access to broader investor capital and higher dependence on internal funds. Limited Liquidity and Exit Options are also an important challenge faced by the company. Investment in illiquid assets such as wind farms, solar parks, infrastructure can create difficulty in quick divestment and the payback period is also expected to be longer.

Dependence on government subsidies, relying on energy pricing policies and following carbon regulations are also a major challenge for the company. When there are changes in policy across countries, the project viability and expected returns cannot be projected accurately. Energy Price Volatility should be considered as a next threat because the returns depend on electricity prices and long-term power purchase agreements (PPAs). This can lead to risks such as fluctuating energy prices which in turn cause to lesser expected returns. Execution and Operational Risks are also important threats for a company with Large-scale sustainability projects. Especially the these are more relevant in global markets where IKEA operates. Tracking of actual carbon reduction, lifecycle emissions and Scope 3 impacts are complex. Thus, the measurement and reporting are the next major challenges faced by the company, which may lead to inconsistencies in ESG reporting and also

difficulty in proving full climate impact. Thereupon, company also risks opportunity Cost of Capital by assigning large funds internally. IKEA may relinquish other profitable investments, since it must decide a trade-off between sustainability and financial returns.

Conclusion

Large-scale investments in circular economy and renewable energy, entails a strong need for green financing. IKEA's green financing explains how financial innovation can align with sustainability goals. The strong alignment of IKEA's sustainability financing and investments with recognized ESG categories spotlight a robust strategic approach to achieving its sustainability goals. The group proves Operational resilience despite inflationary pressures and global supply chain disruptions. It has also demonstrated that Sustainability is not a part of an initiative, but a vital financial approach.

Teaching Objectives

The Case Study can be useful for the UG and PG students especially those specializing in finance, sustainability, ESG and Strategy. This helps the students to understand basic concepts of green finance and learn how companies fund sustainability initiatives. The teachings methods suitable would be class participation methods, such as discussion and presentation.

1. Understand the concept of green finance in a corporate context
2. Develop critical thinking on corporate sustainability practices
3. Evaluate whether external green finance is necessary for sustainability

Discussion Questions

1. How does Ingka Group's reliance on internal financing influence the effectiveness and scalability of its sustainability initiatives?
2. Discuss the advantages and disadvantages of Internal funds for sustainability compared to external green financing mechanisms.
3. To what extent can Ingka Group's self-funded sustainability model be replicated by other corporations with different financial capacities?

Teaching Notes

Ingka Group's reliance on internal financing

The internal financing strategy amplifies the **effectiveness** of its sustainability initiatives by allowing greater control and long-term strategic alignment. The company will be able to avoid

external investor expectations, contributing persistent and flexible decision-making.

- Stronger control over investment decisions
- Resilience in funding decisions allocation
- There is no external market pressure
- Alignment with long-term ESG goals

Scalability of sustainability initiatives

The internal financing approach imposes few limitations. This might restrict the rapid growth by bringing restrictions to the sustainability initiatives depending on the availability of internal funds. Internal financial capacity is a critical factor limiting the growth of large scale projects and its expansions.

Advantages and Limitations of internal funds for sustainability

Significant **advantages** are,

- Financial autonomy leads to financial independence by reducing costs associated with external financing.
- No repayment obligations
- Lower transaction and compliance costs
- Limited market volatility risks

At the same time, **limitations** are also **unavoidable**.

- Restrict access to larger capital pools.
- Investments at a slower pace in some cases
- There is no diversification of financial risk
- Missed opportunity to engage ESG-focused investors

To what extent can Ingka Group's self-funded sustainability model be replicated by other corporations with different financial capacities?

For a large and financially stable companies, internal financing options can be suitable since they are not required to rely much on external funding. Those companies with huge profits and heavy retained earnings can opt for self-funded sustainability model. However, companies with limited profit or financial resources might find it difficult to opt the model, due to

- Limitation of insufficient internal funds
- Financial constraints in case of highly leveraged firms

Small company might also face a gap between the resources and the actual execution. Though they strategies to invest in green projects, the resources might be limited making them more dependent on the external funding

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