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Globally Responsible Business BMSP6001

Investigation into H&M

Executive Summary

This investigation sought to observe the extent to which H&M has integrated circular economy ideals into its ethos and operations. By identifying its current credentials as well as the challenges the company is faced with, a conclusion was reached that, despite its promising situation at present, hurdles existed which needed to be solved, In response, two potential solutions were proposed:

- The formation of knowledge-based institutions or think-tanks to sway public opinion and deliver industry-wide benefits.
- Partnership with universities or similar research institutions to enhance sustainable R&D and similarly sway public opinion.

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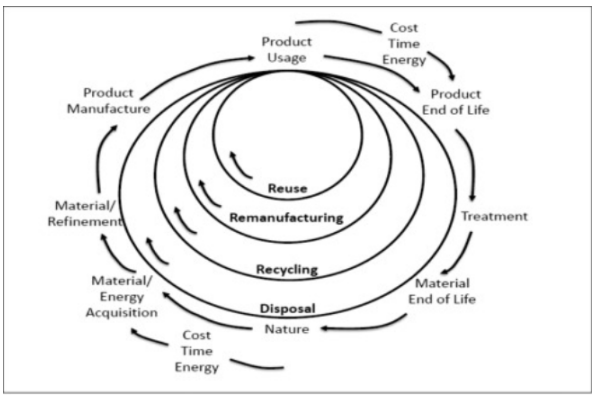
Introduction

This investigation has been produced to observe the extent to which H&M has integrated circular economy ideals within its ethos and operations; its aim is to provide H&M with solutions to help it overcome any challenges in the way. This aim is to be achieved by examining H&M's credentials with the use of relevant data and information, identifying and prioritising its challenges, and drawing on this research to propose solutions to aid H&M in this regard.

Starting this study, it is important to briefly review the academic literature underpinning the concept of the circular economy. The article by Korhonen et al. (2018) provides a good starting point. It states that the circular economy provides an alternative model to the unsustainable, linear economic model currently in use; this approach places emphasis on the reuse and repair of goods. The central idea is that, once a raw material has been extracted and refined, it is incentivised to keep this material in circulation for as long as possible. The currently-popular edition of the model is in the image below. Though it is incentivised to remain in the inner circles for as long as possible, the entire system has been designed for value and quality retention. The concept of the circular economy is itself based on an assortment of ideas: eco-efficiency, cradle-to-cradle design, biomimicry, natural capitalism and zero emissions, among others.



(Korhonen et al., 2018)

An article by Kirchherr et al. (2017) analysed 114 definitions of the circular economy to establish a common theme. An elaborate coding framework was used to categorise responses. It found an abundance of ideas surrounding the circular economy, representing a challenge for scholars in this field. Concluding the article, three points were raised:

- The concept of the circular economy is trending and much lip service is paid to it. Trending concepts tend to lose the bounds of their original meaning.
- A reviewer's opinion is that "some of the authors … seem to have no idea what [CE] is about".
- A distinction is needed between ideal and 'subverted' definitions, lest the latter begin dominating discourse, thus undermining genuine efforts.

Lewandowski (2016) conceptualised circular economy business models. The methodical process was divided into three steps, shown in the image below.

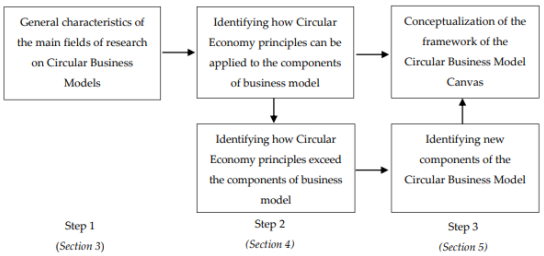


Figure 1. The Concept of Developing a Framework of Business Model for the Circular Economy.

(Lewandowski, 2016)

A number of business models were found across six classification criteria — the most prominent examples have been chosen:

- Regeneration: energy recovery, circular supplies, sustainable product locations
- Sharing: Maintenance and repair, collaborative consumption, incentivised return and reuse
- Optimising: produce on demand, waste reduction, outsourcing
- Looping: remanufacture, upcycling, circular supplies
- Virtualising: dematerialised services
- Exchanging: new technology

The idea of the sharing economy has prominence as a standard for some circular economy business models. First defined as "the activities of sharing, exchanging, and rental of resources without owning the goods" (Puschmann & Alt, 2016), it is also being explored as a way to integrate circular ideals into business' operations.

Hossain's (2020) comprehensive literature review reveals much about how the sharing economy could stand to bolster the efforts of the circular one. Using specific keywords, 219 articles were found and used in the study. The following points were listed as implications of the review:

- The concept of the sharing economy has no clear boundaries: the field is expected to continue rapid expansion.
- The key motivation for customers is financial.
- Sharing economy initiatives typically operate with minimal fixed assets, transforming many traditional fixed costs into variable costs.
- Despite many firms claiming to make contributions to a variety of causes, many ignore social objectives in the pursuit of profit.

Overall, this introduction has provided a sound groundwork for determining H&M's adherence to circular economy ideals. The groundbreaking nature of the circular economy was outlined by Korhonen et al. (2018) and expanded upon by the works of Kirchherr et al. (2017) and Lewandowski (2016); Hossain (2020) demonstrated benefits of sharing economy engagement, which may propel the circular economy into greater success.

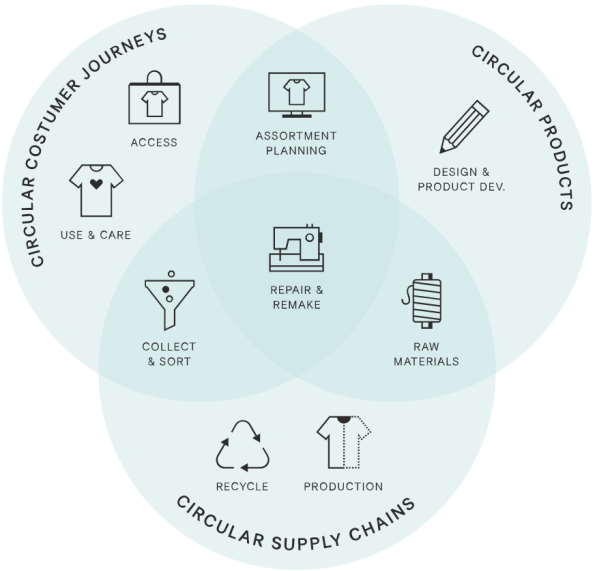
Circular economy credentials

This section aims to analyse and evaluate H&M's credentials with regard to its operations at present.

H&M is one of the world's leading purveyors of fashion. Its Our Brands report (H&M Group, 2017) detailed ownership of eight brands, each with its own design and buying department. H&M stated that its circular approach is reflected in its increased usage of recycled and sustainable materials. This applies to all brands under its ownership: H&M, COS, ARKET, Weekday, & Other Stories, H&M Home, Cheap Monday and Monki.

H&M's Circularity webpage (H&M Group, n.d.), highlights the company's work with the Ellen MacArthur Foundation (EMF); the company's strategy supports the EMF's ambition for a circular economy. Its aim is to create a circular ecosystem — based on the following image — comprising the following:

- Circular products: made to last and sustainably sourced
- Circular supply chains: supporting circular production processes
- Circular customer journeys: enhancing the ease of using circular fashion



The site also mentions H&M's partnership with other organisations and policymakers. Notable examples include the Global Fashion Agenda 2020; Fashion Pact's climate, biodiversity and ocean goals; petitioning of the Swedish and German governments for better policy on sustainability-related issues and participation in related EU consultations.

This information characterises H&M as a socially conscious company; however, its own website may include cherry-picked information to stand out to casual readers. The company's full sustainability report (H&M Group, 2021) provides a fuller picture.

The beginning lists quick-read financial statistics; notable examples include a reduction of 27.8% in usage of plastic packaging and a 22% reduction in scope 1 and 2 CO_2 emissions. Further into the report, three ambitions are listed: becoming a circular business, leading the change for industry-wide progress and conducting fair operations. Information about so-called circular customer journeys can be found within its customer focus section, comprising four cycle stages:

- First hand: produced from recycled and sustainably sourced materials.
- Second hand: extension of the product's lifespan through the (H&M majority-owned) company Sellpy.
- Second chance: garments are repaired in select H&M stores offering repair services.
- Second life: if a garment is too worn to repair, it can be taken to a collection point for recycling into new clothes

The company also highlighted its commitment to sustainability goals — these include reducing CO_2 emissions by 56% by 2030, using 30% recycled materials by 2025 and using packaging from either 100% recycled or other, sustainably sourced materials by 2030.

Although H&M's report provides a helpful source of information, sources originating from outside of the company's domain could prove useful in supplying a balanced and unbiased point of view. A case study into the sustainability of H&M's fast

fashion by Pastore et al. (2022) comes in useful in this regard.

The article was produced to examine the environmental and social impact caused by H&M's production and distribution processes; it begins with an explanation of the two logics of the fast fashion business model, 'pull logic' and 'Just In Time' logic, for optimal speed — the driver of the business model. H&M is the dominant player in the fast fashion industry, operating by outsourcing to over 900 independent suppliers. The industry is characterised by consumerism and the model is often deemed 'disposable' due to its focus on production efficiency and low prices. Moreover, the system of production often entails the usage of chemicals, pesticides and vast amounts of water.

Major or motivators of fashion holders to adopt circular fashion were identified and split into clusters:

- Environmental concerns
- Technology improvement
- Consumer awareness
- Government policies
- Business opportunities
- Price competitiveness

Conversely, major barriers to the circular model also exist, which were too split into clusters. These will be elaborated on in the next section of this investigation.

Through the use of its 'change-making program', in addition to having strong culture and values, H&M has secured a competitive advantage with regard to sustainability. With these advantages, the company has been able to make great strides in relation to the following since 2019:

- Circularity: 76%, up from 54%
- Recycled or sustainably sourced materials: 73%, up from 57%
- Climate positive: 62%, up from 58%
- Transparency: 80%, up from 58%
- Innovation: 78%, up from 57%
- Inclusion and diversity: 47%, up from 39%
- Fair jobs: 43%, up from 35%

While these statistics seem very positive, it would have been helpful to have context provided for the basis on which these goals were set and calculated. They appear positive, but it is not known whether they were made to challenge the company to do better or simply to provide good-looking statistics.

In continuation of the article, H&M is the first retailer to make use of the materials circulose and vegea — the former being patented by a H&M-financed company. These materials are made from cellulose extracted from fabrics and the waste from wine production, respectively.

Furthermore, the company's corporate sustainability department is divided into four groups: Social, Environmental, Production and Relational. The collective goal of these departments is to aid the company in becoming wholly circular.

The concluding paragraph of this article finished by stating that consumers no longer simply demand a sustainable end-product, but now are increasingly demanding an entirely sustainable system of production; it is thus imperative for companies to 'circularise' their entire business models to gain competitive advantage.

It can be concluded from this section that H&M is actively attempting to fit into the circular economy — and with demonstrable success. Both H&M's own sources and an exterior case study source were used in order to provide balance between perspectives. Despite the statistics shown in the case study being vague (for example, so-called 'circularity' representing 76%), this section paints H&M's efforts towards circularity in a positive light. However, as shown with the barriers to circularity, H&M cannot yet claim to have wholly embraced circularity.

Challenges

This section of the investigation will analyse and evaluate the challenges that H&M faces in its attempt to become fully circular. The barriers to circularity from the previous section will be expanded upon; in addition, any negative news articles about H&M's sustainability practices will be analysed to understand whether lessons can be learnt from its mistakes.

Beginning this section with the barriers to the creation of the circular model, written by Pastore et al. (2022), these are as follows:

- Technological and resource barriers: it becomes increasingly necessary to focus on R&D to produce increasingly state-of-the-art clothing.
- Economic barriers: some 'sustainable' products are sold at a high price and perceived as a luxury; the sustainability does not offset the expense.
- Knowledge barriers: consumers tend to trust sustainability information from scientists or groups as opposed to businesses.
- Social barriers: low social awareness and public acceptance of circular fashion.
- Government barriers: a lack of supporting laws or the existence of red tape creates hurdles.
- Management barriers: a lack of support from top management or lack of cooperative management.

Some of these points are corroborated in an article by Moon et al. (2014). Its research showed four major barriers: a lack of knowledge, difficulties in finding supply sources, high costs of production and poor style designs.

In response to these barriers, three solutions were proposed:

- Multifaceted education or training programs, offered to the general public to aid them in better obtaining 'green information' and making informed decisions.
- Marketing or advertising strategies for integration of fashion information with sustainability knowledge to build positive attitudes toward brands.
- Knowledge-based institutions for specific fashion communities for promoting sustainability by propagating information and supporting the industry.

News articles have revealed that H&M has been embroiled in scandal as recently as 2022. One of the most recent was about greenwashing; Charged Retail (Cameron, 2022), FashionUnited (Adegeest, 2022a; Adegeest, 2022b) and TFL (TFL, 2022) reported on how the company's Conscious Choice line of products, marketed as more sustainable, are in fact no more sustainable than the main line of products, despite having a higher price point. Impakter (Ponte, 2023) and others reported on the company's misleading scorecards, labelled 'misleading' and 'outright deceptive'. Impakter added that, despite its claims to sustainability, H&M received only a C on the Impakter Sustainability Index. In defence of H&M, Impakter's Index report noted that the company had drawn for itself a clear path toward greater sustainability. It also quickly reacted to its scorecard scandal by taking down the offending items.

Scandals such as these have the potential to seriously impact H&M's reputation — especially so when a misstep, such as its scorecard misreadings, ends up with a high-profile court case.

Next, these challenges faced by H&M are to be prioritised; two categories, term and impact, will be applied.

LONGER TERM	Social challenges
	Knowledge challenges
	Economic challenges
	Technological challenges
	Reputational challenges
SHORTER TERM	Government challenges
	Management challenges

This order of priority has been chosen to reflect the slowness of societal conditions to change; because social barriers, knowledge barriers and economic barriers are based on society-wide phenomena, these are naturally the slowest to give way. Conversely, clearing barriers within management can be done with persistent training and careful recruitment for the best quality employees. Reputational damage can take a long time to heal and can represent a medium- to long-term problem.

GREATER IMPACT	Social challenges
	Reputational challenges
	Management challenges
	Economic challenges
	Technological challenges
LOWER IMPACT	Knowledge challenges
	Government challenges

This order of priority again reflects the importance of social barriers. To become wholly circular, a sizable amount of society needs to be convinced of the practicality of circular fashion. These efforts are severely hindered by reputational damage — hence why these two have the greatest impact. In contrast, many Western governments are leading drives for greater sustainability, so pushback from these entities is not to be expected.

With a catalogue of priorities in place, solutions may begin to be explored. A good place to start may be the three proposed by Moon et al. (2015).

After consideration of the challenges at hand, the most immediately applicable of the three proposed solutions would be knowledge-based institutions. This would combat the distrust consumers have in sustainability information from businesses, in addition to helping the industry overcome social barriers to change. This solution would stand to do a great deal in aiding long-term uptake of circular fashion across society.

A new solution H&M could consider is partnership with universities and other leading research institutions, not only for the benefit of synergised operations but also to quell public distrust in sustainability information disseminated by firms.

Concluding this section, H&M's path to circularity will not be easy. To overcome the issue of rigid social barriers and an unreceptive population, two solutions were presented: formation of knowledge-based institutions and partnership with universities or other research institutions.

Conclusion

Concluding this investigation, it has been shown that H&M is in a very promising position — yet, equally so, a challenging one — with regard to its sustainability and circularity. Briefly revisiting the idea of the circular economy, it provides a sustainable alternative to the traditional linear economic model currently in use and is an amalgamation of an array of contemporary ideas — cradle-to-cradle design, natural capitalism and zero emissions, to name only three (Korhonen et al., 2018).

While the credentials section of this investigation showed H&M has the resolve to further its sustainability and become a circular business, the challenges section countered this by revealing the recent scandals of greenwashing that H&M has been embroiled in to say that it could perhaps be going about this in a better manner. In response to the challenges facing H&M on its way to becoming circular, two solutions were proposed. From these proposed changes, all stakeholders would benefit: not only would partner entities enjoy increased business, but R&D synergies would also create cost savings on sustainable clothing which could be passed down to customers.

Ultimately, with the implementation of these solutions, H&M will be able to continue enjoying its dominance over the fast fashion market. Furthermore, it can set a precedent for the entire industry to follow as it continues to make strides towards circular operations.

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