

Rewriting the Fashion Equation

How H&M is reshaping inputs, scale, and sustainability

Executive Summary

H&M Group, the world's second-largest fashion retailer by revenue operates ~4,253 stores across 75+ markets and generated SEK 234 billion (~USD 22.8 bn) in net sales in FY 2024. The company's core business model is structurally at odds with sustainability goals, creating a set of ESG challenges unique in both scale and complexity.

This case study examines four company-specific ESG challenges H&M faced: an opaque, coal-reliant multi-tier supply chain; a greenwashing credibility crisis triggered by its own "Conscious" labelling; fragmented Scope 3 emissions visibility across thousands of suppliers; and the tension between commercial growth and circular-fashion economics. It documents how H&M deployed structural, financial, and data-driven solutions from direct Power Purchase Agreement (DPPA) advocacy in Vietnam and Bangladesh to the Green Fashion Initiative's supplier decarbonisation programme and measures the quantified outcomes against its science-based targets.

Key FY 2024 results: 41% reduction in Scope 1 & 2 emissions (vs. 2019 baseline); 24% Scope 3 reduction; 96% renewable electricity; 89% recycled/sustainably sourced materials; and coal boilers in the supply chain down from 118 (2022) to 27, on track to zero by 2026. Operating profit grew 19% YoY to SEK 17.3 bn, demonstrating that

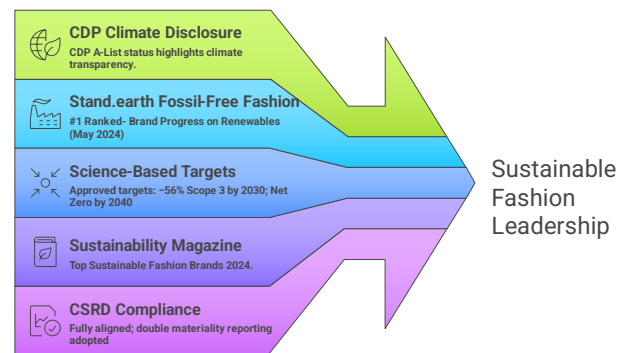
sustainability investment and profitability can move together.

Company Overview

Founded in Västerås, Sweden in 1947 by Erling Persson, H & M (Hennes & Mauritz AB) is listed on Nasdaq Stockholm (HMOB) and is controlled by the Persson family. The group encompasses nine consumer brands, serving customers across all price tiers. The company employs approximately 155,000 people globally and works with over 700 tier-1 suppliers, primarily in Asia.

The financial snapshot of H&M reflects its strong global presence and steady performance. The company reported net sales of SEK 234 billion (approximately USD 22.8 billion), with an operating profit of SEK 17.3 billion, marking a 19% year-on-year increase. H&M operates 4,253 stores across more than 75 markets worldwide and employs around 155,000 people globally. Its supply chain includes over 700 Tier 1 direct garment manufacturers, highlighting its extensive sourcing network.

ESG Leadership & External Ratings



Challenges

The four challenges below are not generic fast-fashion problems but they are structurally specific to H&M's operating model, supply geography, and brand positioning.

Coal-Boiler Lock-In Across a 3-Tier Asian Supply Chain	Greenwashing Litigation Risk from the 'Conscious' Label
<p>H&M's supply chain in Bangladesh, Vietnam, China, India, and Turkey relied on on-site coal boilers as the primary energy source for steam and heat at garment, fabric, and yarn facilities. Unlike Scope 1 emissions these Tier 1–3 thermal assets were owned and operated by independent suppliers who had no economic incentive to replace functioning capital equipment. In 2022, 118 factories reported active coal boilers; H&M had zero contractual authority to mandate capital upgrades without risking supply disruption</p>	<p>H&M launched its 'Conscious' sub-collection in 2012 as a sustainability differentiator. By 2021–2022, Norwegian and other regulators flagged that H&M's Higg Material Sustainability Index (Higg MSI)-based environmental scorecards on product tags were methodologically flawed and potentially misleading. The Higg MSI was subsequently suspended by the Sustainable Apparel Coalition pending third-party review. This created direct regulatory exposure under Norway's Marketing Act and the incoming EU Green Claims Directive, and triggered a broader credibility crisis.</p>
Invisible Scope 3 Emissions: No Data, No Lever	Circular Fashion Revenue vs. Fast-Fashion Volume: An Internal Contradiction
<p>Over 95% of H&M's GHG footprint sits in Scope 3. Prior to 2021, H&M had no systematic mechanism to collect supplier-level energy consumption or emissions data beyond Tier 1. Without data, it could neither set credible science-based targets for supply chain decarbonisation nor identify which specific processes were the highest-priority abatement levers. The problem was compounded by the multi-country, multi-language operational context.</p>	<p>H&M's circular fashion strategy depends on slowing consumption and extending product life. This directly conflicts with the commercial logic of fast fashion. Internal KPIs rewarded volume growth; sustainability managers advocating for circular models faced headwinds from commercial teams optimising for quarterly sell-through rates. The structural misalignment meant that resale and repair remained marginal pilot programmes rather than scaled revenue streams.</p>

Objectives & Targets Set

H&M's formal ESG targets are Science-Based and independently verified by SBTi, underpinned by annual CDP disclosure and reported under CSRD/ESRS from FY 2024.

Target Area	Commitment
Scope 1 & 2 GHG	–56% absolute reduction by 2030 (2019 baseline)
Scope 3 GHG	–56% absolute reduction by 2030 (2019 baseline) - SBTi approved
Net Zero	Net-zero across full value chain by 2040
Renewable Electricity (Own Ops)	100% renewable electricity by 2030
Supply Chain Renewable Electricity	100% renewable electricity across Tier 1–3 by 2030
Coal Phase-Out	Zero on-site coal boilers in Tier 1–3 supply chain by end of 2026
Materials	100% recycled or sustainably sourced materials by 2030; ≥50% recycled
Recycled Materials (Near-term)	30% recycled content by 2025 (achieved a year early in 2024)
Freshwater (Supply Chain)	10% reduction per product in Tier 1–2 factories vs. 2022 baseline by 2025
Plastic Packaging	25% reduction vs. 2018 baseline by 2025 (54% achieved - far exceeded)

Strategy, Approach & Implementation

Each of the four challenges above received a distinct, structured response. What follows maps challenge to implementation mechanism explaining not just what H&M did, but how it was executed.

01 - Green Fashion Initiative & DPPA Advocacy

To eliminate coal without triggering supply disruption, H&M built the Green Fashion Initiative (GFI). H&M's team of in-house energy experts visited factories to identify specific efficiency opportunities: waste heat recovery, solar rooftop potential, and fuel switching. For suppliers unable to finance capital transitions, H&M partnered with the International Finance Corporation (IFC) and the Future Supplier Initiative to provide concessional loan-based financing. Since 2021, GFI has worked with 200+ supplier factories; 78 new facilities enrolled in 2024 alone.

In parallel, H&M pursued regulatory advocacy to unlock access to renewables. In Vietnam, the company engaged government stakeholders on Direct Power Purchase Agreement (DPPA) legislation. In Bangladesh, it co-signed an MoU with IFC and a local company to launch the first CPPA pilot after the CPPA legal framework was approved in 2025. In Turkey, a strategic supplier signed the industry's first CPPA in 2024. This government-engagement model is unique in the fashion sector.

02 - Transparent Claims & the Higg MSI Pivot

Following the Higg MSI controversy, H&M withdrew environmental product scorecards from its labelling and committed to aligning future claims with the EU Green Claims Directive's substantiation requirements. Internally, this triggered a governance change: sustainability communications were moved under legal review, and product-level claims now require third-party

verification before publication. H&M proactively submitted all environmental claim methodology to CDP for disclosure and aligned its 2024 report with CSRD/ESRS double materiality standards, creating an external verification structure that addresses the credibility gap without abandoning ambitious targets.

03 - Scope 3 Data Infrastructure

To make Scope 3 emissions manageable, H&M built a supplier data collection system requiring Tier 1 and Tier 2 manufacturers to report monthly energy and emissions data through the ZDHC Gateway platform and dedicated sustainability portals. From 2024, H&M extended scope to include Tier 3 suppliers (spinning mills), capturing the previously invisible upstream. The company invested SEK 1.7 bn (~USD 165 mn) in FY 2024 in decarbonisation activities, with a significant proportion funding the data infrastructure, supplier training, and the GFI on-the-ground auditing teams needed to translate raw data into actionable roadmaps.

04 - Governance Realignment for Circular Revenue

To resolve the commercial/sustainability misalignment, H&M restructured incentives at board and management level. On the commercial side, H&M invested in Sellpy (its resale platform), expanded pre-owned offerings to 26 markets and 38 stores by end of 2024, and launched a curated 'pre-loved' designer collaboration archive. Circular revenue doubled from 0.3% to 0.6% of turnover between 2022 and 2024. To institutionalise circular design, H&M now requires design teams to apply circularity criteria (recyclability, mono-material construction, durability) at concept stage, codified in its internal Product Design for Circularity standards.

Results & Impact

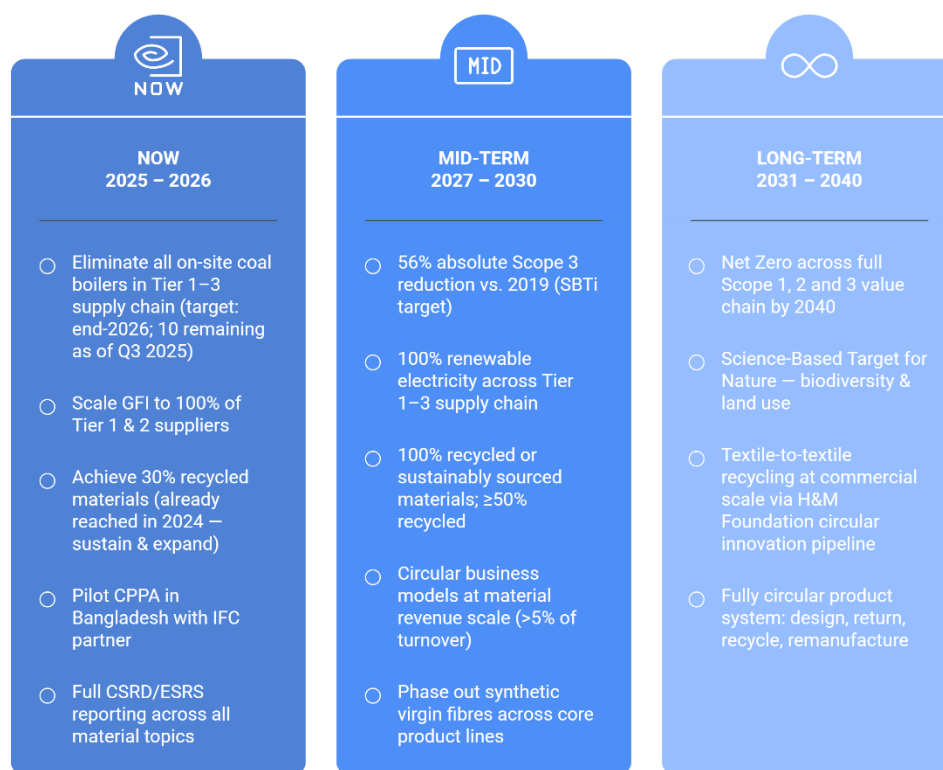
Environmental Performance

Metric	Progress	Target
Scope 1 & 2 GHG Reduction	41%	56% by 2030
Scope 3 GHG Reduction	24%	56% by 2030
Renewable Electricity	96%	100%
Coal Boilers Remaining	27	0 by 2026
Sustainable Materials	89%	100%
Plastic Packaging Reduction	54%	50% by 2025
Freshwater Reduction	9.5%	N/A
Recycled Polyester Share	94%	100%

Business Performance

Business Dimension	Outcome
Operating Profit	SEK 17.3 bn in 2024 (+19% YoY from SEK 14.5 bn) - cost efficiencies from supply chain decarbonisation contributed
Circular Revenue	Resale/circular models doubled to 0.6% of turnover (vs. 0.3% in 2022) - still nascent but directionally positive
Regulatory Readiness	Full CSRD/ESRS alignment from FY 2024; Green Claims Directive-ready; reduced litigation exposure post-Higg pivot
External Recognition	CDP A-List; Stand.earth #1 Fashion Brand on Renewable Energy Transition; SBTi-verified targets
Supplier Relationships	200+ factories in GFI programme; financing access de-risked key Asian supplier partnerships
Greenwashing Risk	Withdrawn unsupported claims; third-party verification standard adopted across sustainability communications

Future Roadmap (2026 and Beyond)



Conclusion

H&M's ESG journey is instructive precisely because it is imperfect. The company operates at the intersection of two irreconcilable imperatives; selling more and consuming less and its ESG record reflects both the genuine progress and the structural limits of that tension. What makes H&M's approach analytically distinctive is the mechanism design behind each challenge: rather than setting targets and hoping suppliers comply, H&M built financing instruments, data infrastructure, and regulatory advocacy strategies tailored to the specific market failures blocking decarbonisation in Asian supply chains. The Green Fashion Initiative is the clearest example. This model is exportable and instructive for any capital-goods-intensive supply chain where the brand holds no contractual authority over supplier capex.

The greenwashing pivot demonstrates an important lesson in ESG communications: credibility is a long-run asset that cannot be short-cut by unverified labelling. H&M's regulatory-readiness investment ahead of the EU Green Claims Directive positions it defensively relative to peers still using contested environmental scoring methodologies.

The unresolved tension remains circularity: at 0.6% of revenue, resale is symbolically important but commercially marginal. Structural progress will require either a step-change in H&M's volume strategy or a scaling of circular revenue streams to the point where they materially offset new-garment sales, a challenge no fast-fashion retailer has yet solved at scale.

References

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- [H&M Group Press Release: Annual & Sustainability Report 2024](#)

- [Stand.earth — Clean Energy Close-Up: H&M Group Scorecard](#)
- [Stand.earth — H&M Fossil-Free Fashion Scorecard](#)