

Analysis of the Causes of H&M Depression

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Abstract. H&M is a company that manufacture clothes globally. However, in 2017-2020 years, H&M experienced difficulties globally. It adjusted its strategy in 2019 to cope with the situation and successfully recovered in global business, but the sustainability strategy it adopted failed to save its Chinese market and the group was forced out of Chinese in 2021. This research uses multiple approaches to analyse the strategy adopted by H&M and the successful outcome of it in the global market and the failure in the Chinese market. A PEST analysis is utilized to analyse the H&M group's development path. H&M's financial report from 2017 to 2023 is also analysed. This study also implements ESG analyses on the sustainability strategy adopted by H&M, aiming to solve its problems. The study found while the strategy lifted the global sales and profits from the difficulties during pandemic, it also complicated its relationship with the Chinese government during "Xinjiang cotton" event and was forced out of

1 Introduction

According to H&M Group's official website (2024), in the 2010s, H&M became a famous brand in the Chinese market. Whether on the website or in stores, H&M was consistently active in the eyes of Chinese people. As a foreign fashion brand with affordable prices and cozy store designs, many Chinese people were willing to go into H&M stores and buy clothes there. However, H&M stores in Chinese markets have almost disappeared in the past few years. Instead, Chinese people started to turn to alternative brands like Uniqlo and Zara [1]. The current situation aroused interest in digging through the surface to see the reason behind H&M's quitting the Chinese market and how H&M is now in a global vision.

Hennes&Mauritz AB(H&M) is a cloth-retail company that was founded in Sweden. The scale of H&M is relatively large worldwide. As a known brand in the industry, H&M focuses on both offline and online selling. Until May 31, 2024, it already had 3,832 stores in 77 stores and 60 online markets across Africa, Asia, Europe, the Middle East, North and South America, and Oceania [2,3]. The major business of H&M is fast-fashion clothing for women, men, and children [4]. The company was founded in 1947 by Erling Persson and grew from a small clothes store to a multi-national industry with sustainable branding in clothing, cosmetics, designer collaboration, and online stores [5].

In 2007, H&M opened its first store in Shanghai, marking its entrance to China market. Ever since, H&M has continued to expand in China. There were 299 stores in China by the end of 2015, and by 2020, 516 stores had opened in the Chinese market. By May 2020, sales

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in China reached 5.2% of the group's total sales, ranking 4th in global sales. H&M's strategy layout in China is unique compared to other countries. In China, the stores of H&M were located not only in metropolis cities but also in some small cities. However, H&M ranked 15 in 2020 the Chinese market, taking merely 0.3% of the market share [6].

The main focus of this research is to organize the history and current situation of H&M company to gain insights into what a business should do to gain success and what to avoid. The current study investigates the reason for H&M's strategical failure in China.

2 Literature Review

In the global range, H&M was recovering well from the impact of COVID-19[7] in terms of sales and profit, yet it was still at a relatively lower EPS value than before the pandemic [7,8]. Also, the H&M Group still faced some problems. Especially in the China sector, under the additional impact of events like Xinjiang cotton, H&M was forced to quit the market in China [9,10]. H&M solved the problems using an integrated approach, focusing on improving sustainability and human rights in its value chain, innovating to better satisfy customers, and adjusting the layout of stores in the global market [11].

Since 2021, H&M has added sustainability to the title of its annual report, showcasing the company's focus on sustainability and environmental protection. The sustainability practice has an impact in various areas, including climate, water and oceans, biodiversity and land, resource and use, and social impact [12]. H&M has also achieved outstanding results in its sustainability practice. For instance, by 2023, they have reduced 29% the electricity intensity in offline stores compared to 2016, far ahead of the original plan, which requires achieving 25% seven years later [7].

The company's existence in China originally came through offline stores. The cities in which H&M stores are located are divided into four segments- 1st, 2nd, 3rd, and 4th tier cities. H&M focused more on the busiest streets in the 1st tier cities, relatively ignoring the lower-tier cities [9].

H&M continued to conduct a low-pricing strategy globally. In China, the pricing is between luxury and low cost. In the Chinese market, H&M targets middle-class professionals with growing market potential. Customers with higher incomes are specifically the service objects to H&M in China. H&M competitors like Zara and Uniqlo then imitated this pricing strategy [9].

There are basics, current fashion, and high fashion in the H&M apparel. Depending on the customers' needs, the mixing portion is developed in the local market according to size, location, and last season's sales. Since the foundation of H&M's strategy was the economics of scale and big batches of production, 4/5 of the goods in stores were identical globally. Nevertheless, there are still adjustments based on the local market. After assessment, H&M did not adjust the size precisely for Chinese people but applied the H&M typical interior as the foundation for Chinese apparel size. H&M still made several specific adjustments based on the customs of Chinese culture. For instance, they chose not to provide green hats in the Chinese market since cheating is implied in Chinese traditional opinion [9].

H&M used three sales channels—the internet, catalogues, and stores—to operate. In China, offline and online shops were accessible, yet catalogues were not used. Although the general structure of products in China and the global market was the same, there were several differences. Discounts and promotions were marked on China's websites. H&M also cooperated with social networks like Douban and Sina Weibo to connect with local customers further [9].

However, after the Xinjiang cotton event and the impact of COVID-19, H&M gradually quit the Chinese market. (Living wage, Xinjiang cotton, COVID-19. In October 2021, the EU and the European Union banned imports from Xinjiang, China. H&M was further

struggling in its China market, one of its essential markets, in December 2021 under the influence of forced labour on people in Xinjiang Province in China. However, it had to come up with a final solution: quitting the Chinese market and showing its resolute attitude in opposing any action of forced labour existing in its supply chain [6,13].

H&M also faced a massive challenge under the impact of COVID-19. It had no choice but to close some of its offline shops in several of the biggest markets, leading to a drop in net sales. In 2021, H&M additionally planned to close 250 stores globally [14]. In the first quarter of 2021, H&M claimed a \$122 million loss. This action further burdened the Chinese market [15].

The deficiencies in the resources currently exist includes the lack of specific effect the company’s strategy have upon its financial statement and company running. The significance of this research is to gain an insight into the current situation of H&M company and analyse the impact the H&M strategies have upon its development.

3 Methodology

3.1 Political, Economic, Socio-Cultural, and Technological (PEST)

Political, Economic, Socio-Cultural, and Technological (PEST) is a structure that can provide a broad perspective on the industry environment in which a target company stays, containing including political factors, economic factors, social factors, and technological factors [16]. The PEST model fits in with the environment in which H&M stays and can provide a scientific framework for analysing the information known about H&M in the markets of China and other countries globally [17].

3.2 Environmental, Social, and Governance (ESG)

In order to analyse the company’s strategies during the recovery stage, Environmental, Social, and Governance (ESG) method, which consists of Environmental(E), Social(S), and Governance(G), is utilized. It is a method in determination a company's performance in environment protecting, social impact, and the degree of its governance [18].

4 Results

Table 1. H&M Group financial data from 2017 to 2023

	2023	2022	2021	2020	2019	2018	2017
Earnings per share (\$)	0.36	0.22	0.76	0.10	0.85	0.86	1.15
EPS Change from previous year,%	60.55	-70.74	629.14	-87.67	-1.7	-25.24	-11.49
Net sales. SEK m	236,035	223,553	198,967	187,031	232,755	210,400	200,004
Operating profit, SEK m	14,537	7,169	15,255	3,099	17,346	15,493	20,569

According to Table 1, from 2017 to 2020, the company faced a general deterioration phase. While from 2020 to 2023, a recovery trend is showing from the data. See the following for more details.

5 Discussion

5.1 Failure in H&M strategy (2017-2020)

5.1.1 Qualitative analysis of the market strategy in this time period

In 2017, they made a false decision of enlarging the scale of offline stores, which intensified the excess stocking situation. Also, H&M neglected the importance of changing their sourcing to a closer place to their market whereas many companies transformed their supply chain to sourced closer, which shorten the transportation time to a large degree. In the competitive fast-fashion industry, H&M could not beat other companies using the original Asia sourcing site. For instance, after a new design was produced, companies that source in European local area can transport their products sooner to the European market in the local area to capture the local market quickly. Whereas, H&M had to spend longer time in transporting its commodities from Asia to Europe, having the possibility of losing the great chance of catching the market opportunities. Due to the smaller market share than expected, there were excess stocking left. The sudden warming in the beginning of 2018 further aggravated the burden of goods that could not be sold out [19].

From technological factors in PEST analysis, in 2017, even though H&M was working on reducing the publishing of new products, the SKUs kept increasing, and the sellout rate was continually decreasing due to customers' lost interest in falling behind H&M in the fast-fashion industry [20].

From economic factors in PEST analysis, in 2018, despite climate change, H&M's failure in sales was partly due to H&M's lagging in adjusting its clothing types. This outcome is partly because of H&M's old, slow supply chain of H&M and the wrong decision to decrease the product types. Besides, H&M lost its once cheap and fashionable traits in the market, originating from the false pricing H&M now puts on its products. In comparison to Forever 21 and Uniqlo, two competitors in its market, who target their clothes at 0-50 dollars, H&M's pricing is relatively higher--more of its products range from 50-100 dollars than the other two, which drove away its customers, those who want relatively cheap and fashionable clothes. In 2019, the company may have taken effective cost-control measures to improve sales efficiency. At the same time, the company may also be trying to improve the quality of its products and brand image to attract more consumers [20].

In 2019, H&M's EPS is relatively steady, yet with a bit of decrease. Nonetheless, net sales and operating profit increased. This indicates that the company may have taken some effective cost control measures to improve sales efficiency. At the same time, the company may also be trying to improve the quality of its products and brand image to attract more consumers [8].

H&M as well faced the customer attitude changing problem. Whereas H&M turned out to be in the list of major polluters in fashion industry. H&M was considered accelerating global warming in consideration of the dyes that are toxic and low-cost and the fabrics in their process of production [21].

In 2020, the company faced the huge impact brought by COVID-19 pandemic. According to BBC report, H&M claimed to close 250 stores due to the pandemic [22]. The company also faced the problem of forced labour in relevance to Xinjiang cotton as mentioned above [6].

5.1.2 Quantitative Analysis of the market strategy in this time period

The performance deterioration phase is from 2017 to 2020. From the analysis of H&M's EPS history, the share value has a general trend of dropping, decreasing from \$1.15 to 0.36. The stock price decreased gradually from 2017 to 2019, and it faced a drastic drop, reaching to the lowest price, \$0.1 per stock in 2020 [8].

Operating profit also has a general trajectory of declination. Been through fluctuations, operation profit experienced from the highest point, 20,569 SEK m in 2017 to the lowest one, 30,99 SEK. Net sales also experienced a general trend of declination from 2017 to 2020, despite of the fluctuations. From 2017 to 2020, the net sales dropped from 200,004 SEK,m to the lowest point, 187,031 SEK,m [18].

From 2017 to 2018, H&M was actively engaging in solving the declination problem. However, at first, instead of solving the root of the problem, they only focus on the surface. H&M tried to convert the bad situation by massive selling after the 4th quarter in 2017, but was then hindered by the sudden climate change at the beginning of 2018. Facing the excess stocking situation, H&M was forced to discount a lot to clean up the massive stocking. The negative consequence was that in long term, consumers might relate H&M with discount goods, which would foster their habit of buying only cheap, discounted clothes in H&M and think low upon H&M. This would exacerbate the negative impact of the discounting cycle, leading to further loss in H&M company. This had an impact in both its share value and operating profit, declining from \$1.15 in 2017 to \$0.86 in 2018. Whereas the net sales increased in this period, from 200,004 SEK,m to 210,400 SEK,m. One way to consider is the massive selling strategy H&M conducted brought it more net sales in short term. Another aspect to consider is the following strategy adjustment H&M conducted facing the situation. In 2018, H&M adjusted their plan facing the situation. They put their focus on both offline and online selling, with a plan to close 170 stores while opening 390 new stores in countries with potential [8].

From 2018 to 2019, while net sales and operating profit increased to a certain degree, share value dropped a bit from \$0.86 to \$0.85. In 2019 alone, H&M churned out a staggering 3 billion garments, making it one of the foremost polluters in the fashion industry. The use of cheap and toxic textile dyes, coupled with the fabrics themselves, is contributing to the global warming crisis [23]. The damage of sustainability image might have some negative impact on its share value, while the later active solutions offset to a certain degree, resulting in relatively little changing of the EPS and the positive trend in the net sales and operating profit.

2020 is a year of devastating drop in various data, each reaching their lowest points. EPS reached \$0.1 per stock, operating profit failed to 30,99 SEK, m.the net sales dropped to the lowest point, 187,031 SEK,m [8].

COVID-19 is one of the major causes. Due to the pandemic, H&M shut stores in several biggest markets. Another factor is the quitting of H&M from China market, its fourth biggest market globally. The reason implied is the allegation of forced labour in Xinjiang region in cotton production as mentioned above [6,18].

Considering social impact, the Xinjiang cotton event greatly influenced H&M's decision-making. BCI is a non-profit organization established in 2006 to make cotton production more sustainable globally. H&M's membership in BCI prohibited the assurance and licensing activities in Xinjiang due to the sayings of forced labour in Xinjiang in March 2020. Facing this situation, a lot of H&M's competitors chose to quit BCI membership to save the giant Chinese market. H&M, however, sustained its continuous claim of forbidding any forced labour in its production chain. This event, coped with the global trade war and sanctions on tariffs and imported goods from the US, EU, and UK, was viewed as an aggression against the Chinese market [6].

5.2 Recovery stage (2021-2023) Formatting the text

5.2.1 Qualitative Analysis of the H&M strategy in this period

With the environmental perspective of ESG analysis, H&M has continually been working on environmental practices. The preparation of eco-material is one of the focuses of H&M company. As an essential ingredient of H&M garment production, cotton was invested by H&M to be produced more sustainably. H&M also cooperated with the Better Cotton Initiative (BCI) to ensure real organic cotton production. H&M aimed to use more sustainable sources to create all of its cotton, aiming to be achieved by 2020. By 2030, H&M aims to achieve the goal of 100% of the materials used at the company originating from sustainable or recycled materials. [20] Besides, H&M eliminated water pollution in the textile production chain by working with the World-Wide Fund for Nature (WWF) in water saving. H&M also actively used recycled material in its production, saving both water and energy and eliminating CO₂ release. The company also encourages its customers to participate in the garment collection program, categorized into three sections: re-wear, reuse, and recycle [23].

H&M also created an omni-model, which aims to elevate customers' experience by integrating digital and physical channels. The company also carried out circular and climate positive fashion, and consolidated online selling to boost customer experience. By the end of 2021 financial year, H&M had 4801 stores in 75 markets. Openings were majorly in growth markets, while the closed stores were primarily in established markets. Despite of the physical store adjustments, H&M also made progress in online stores, especially in the background of pandemic. By 2021, H&M had already involved in 54 online markets [15].

Regarding the low education level of human rights and the environment in manufacturing places with low labour costs, H&M promoted how vital performance in environmental protection and fair conditions for working are. As a significant manufactory country of H&M, Bangladesh has taken actions by the company to enhance safety during work. For instance, H&M offered suppliers and workers training [23].

In H&M, transportation emits over half of the CO₂ in the whole process, based on the estimation in the annual sustainability reports. An intelligent transportation system was built to eliminate carbon emissions. Specifically, in regards of train transportation as a cleaner resource, more transporting missions were completed by rail, and transportation by ocean and air decreased by 40% [23].

H&M also carried out a more sustainable packing process. Based on crucial principles in Elien MacArthur Foundation (EMF), H&M built its strategy. According to the Annual and Sustainability Report for 2023, the reduction of plastic packaging from the baseline in 2018 reached 55 percent. Besides, the company's packaging achieved a proportion of sustainable and recycled materials of 79% [20].

H&M marked how vital it is to collaborate with the government. H&M engages with the government and cooperates with ILO to implement the Decent Work Agenda and promote workers' rights [9].

Regarding the social perspective in ESG analysis, H&M marked how vital it is to collaborate with the government. H&M engages with the government and cooperates with ILO to implement the Decent Work Agenda and promote workers' rights [24].

The social awareness of H&M is majorly highlighted in its attention to fair wages when considering the fairness of jobs. H&M's Sustainability Report mentions that brands should offer suggestions and their opinions to the government, which has the legal right to set the structure of necessity instead of setting precise wages for the brands themselves. In H&M's perspective, the government should protect the rights of the workers by administering them, while corporations can then work to guarantee their rights in practice [24].

Social security is also a way to show a corporation's social impact. Acknowledging the lack of workers' protection in some of the countries due to the deficiencies of the local areas, H&M assisted those workers [24]. According to H&M Group Annual and Sustainability Report 2023, they tracked down their value chain to evaluate possibilities of risk against human rights. In order to have as much positive influence on society as possible, they use the evaluation result to create and develop a new People Impact Tool and navigate the UN Guiding Principles [20,24].

In accordance with governance aspects in ESG analysis, a holistic measure is taken in H&M to guarantee workers' rights and due diligence for the environment. H&M states in its annual report that the group makes assessments according to the need internally and externally. The company tries to target and alleviate the workers' suffering, with the consciousness of offering equal respect for everybody. H&M has corporate governance and risk management processes that integrate environmental due diligence and human rights [20].

More steps needed in due diligence and deeper conduction are contained in The H&M Group Responsible Business Conduct Policy, associating with the value chain, operations in the company, and H&M's communities. Child labour or forced labour is forbidden in H&M. The company also pays attention to groups that violate workers' human rights. There is a system of reviewing approach in H&M for identifying and solving problems about human rights in its value chain, including three processes such as identification, international prioritization, and monitoring and reporting [20].

Identification indicates the risks associated with the material can be cornered out by contacting policymakers, global organizations, organizations that protect human rights, etc. Prioritisation claims that the production-associating risks with higher impact and possibility can have priority processing. Data associated with the risk from the outside support the assessment of the risks internationally. Monitoring and Reporting states that with the risks identified in categories showing the foundation for a plan of severity and alleviation, the foundation of the internal risk reporting foundation and system for reviewing and following up is shaped. In this way, the risks in the H&M group can be reported by the Corporate Governance function. Then, the company reports the internal control and risk status to the Audit Committee [20].

H&M offered more payment options to the customers. Members can pay instantly or later on H&M app either online or offline, and they can receive digital receipts. The company also offered visual search service: customers are recommended by image recognition on potential clothes buying offering and suggestions according to the pictures that customers have been attracted to or taken. Delivery is also faster due to their innovation--next day deliveries, express delivery, other climate smart last mile deliveries. Above all, the actions that H&M actively took in 2020 brought significant outcome on the company's brand image [15].

In 2022, H&M still put an effort on enhancing customers' experience. Despite the former existing ones, H&M added new innovations. For instance, they carried out self-service checkouts, which responded to the challenge due to the pandemic. With the self-service checkouts, people can avoid face-to-face contacts, which lowers down the possibility of virus contamination and upgrades the security of its customers. Besides, they carried out "buy online, pick-up in store" service to upgrade customers' experience. They also integrated customer demand-driven production, continuing long-term investment; adjusting supply chain in customers' demand, and maintaining close relationship with suppliers. To obtain a sustainable company image, H&M put a lot of effort. [21].

5.2.2 Quantitative analysis of the H&M strategy in this period

From 2021 to 2022 there was a recovery in EPS, 15,255 SEK m, which yet didn't last long. In 2022, it again dropped drastically to 7,169, almost the half of the operating profit in 2021.

Yet in 2023, the company's operating profit succeeded in rising up to 14,537 SEK,m, nearly twice as much as the one in 2022 [18].

Net sales also experienced a general trend of increasing yet experienced a fluctuation in around 2020. The years since 2021 showcase a solid recovery trend, reaching 236,035 SEK,m in 2023, the highest point in the period. In general, the trend of changes in net sales was milder [18]. From 2021 to 2022, share value from \$0.76 to \$0.22, and operating profit dropped from \$15,255 to 7,169 while the net sales increased from 198,967 to 223,553. The pandemic might still have a particular impact on it. However, the accusation of greenwashing H&M attracted the attention of people with sustainable consciousness. In July 2022, in New York federal court, a lawsuit against H&M accused it of engaging in greenwashing and exploiting its expanding market of conscientious consumers. H&M was condemned for transparency, neglecting the negative signs in Higg Index scores [24]. This event harmed the brand image. However, the increase in net sales may be associated with the strategies H&M has taken. In 2022, H&M added innovations to its service. They implemented Radio Frequency Identification, RFID, to provide all the available information about the item via a digital tag. The company also carried out self-service checkouts, eliminating the chance of direct contact during the pandemic. Other new implementations include "Buy online, pick-up in store," Instagram promotion, style story sharing in H&M apps, customer demand-driven production, etc. Besides, H&M implemented its green actions with a circular packing strategy, aiming for a 25% decrease in plastic packaging compared to the levels 2018 [12].

Those strategies in 2022 mentioned above contribute partly to the recovery of the company from 2022 to 2023. There is also the impact brought by strategies conducted in 2023. For instance, with more public attention to sustainability, H&M aimed for circularity through actions like sourcing recycled and sustainable materials. Also, according to H&M's annual report, the company has systematic measures for sustainability and has built on transparency and communication with customers. H&M also tries to clear fossil fuels like coal out of its supply chain by collaborating with suppliers and replacing them with sustainable materials [21].

However, despite the general recovery of the H&M company globally, With the use of PEST analysis, more specifically, the political factors, H&M in China section has failed, associating with the forced labour event in Xinjiang cotton as mentioned above. H&M continuously insisted on human rights and wanted to prevent all risks of hurting human rights, including forced labour. The attitude of H&M Group then faced severe reactions from the Chinese government, claiming that "Spreading rumours to boycotting Xinjiang cotton while wanting to make money in China? Wishful thinking!" [10]. The influence of celebrities online aroused the trend of boycotting H&M in China. Pressed by the renovation from big online selling platforms like Tmall and other apps like Baidu Maps, H&M had no choice but to quit the Chinese market [6].

5.3 Critiques on H&M strategy

From the above analysis, the company had a progressive recovery in a global range. H&M has focused on protecting environment, protecting workers' right, and customers' experience [21]. This provided the company with a good brand image and boosted people's buying on its products. Whereas in China section, H&M company failed. The Xinjiang forced labour had put H&M into a struggle on which side to stand by. Whereas, with the insist on protecting workers' rights, the company chose to maintain its membership in BCI, which prohibited its activities in Xinjiang. H&M thus faced the boycotting from Chinese market [6].

Sustainability strategies carried out by H&M has some advantages, containing providing a responsible brand image globally and boosted people's buying on its products. While there are still some disadvantages in the sustainability strategies. For instance, in H&M's

sustainability goals, one is called biodiversity land, claiming that by 2025 the company will utilize wood and wood-based material in all of its products and packaging [21]. But in short term, this would increase the cost of its product and eliminate the profit it can earn in consideration of a relatively higher price of wood in comparing to plastic material.

6 Conclusion

6.1 Conclusion

H&M used to be a popular brand in the Chinese market. However, in recent years, it has almost disappeared, replaced by its competitors like Zara and Uniqlo. The real situation of H&M is revealed in the conducted research. Its problem-solving strategy and the deficiencies in its strategies are thoroughly analyzed. First, an overview of the general strategies H&M is applied to its global market. Then, the strategies used in the Chinese market are looked into and contrasted with those used in another region to determine why the strategies applied in the Chinese market did not save it. PEST analysis which includes four factors: political, economic, social, and technological is utilized to analyse the H&M group's development path. Then, data reflecting H&M's financial situation from 2017 to 2023 are analysed and contrasted. Also, the response to the questions raised initially was answered and discussed. In general, H&M experienced a downward trend in its share value and operating profit, yet net sales in 2023 exceeded the data before the pandemic. The pandemic arose around 2020 and served as a major reason for the lowest point in 2020, among other reasons. ESG analyses how H&M solves its problems, showcasing an integrated model in the company's solutions. However, reports of forced labour in Xinjiang cotton production and the deficiencies in sustainability strategies are reasons why H&M could not apply the same strategies in China to save the market. Then, a close look at PEST and data analysis are conducted to conclude the company's situation further.

6.2 Limitations and future directions for improvement

There are several limitations to this study. The data analysed by this study is second-hand data collected from the H&M official website, which could be biased despite the external audition. The study does not explore a solid solution to resolve H&M's situation in the Chinese market and does not offer much insight into the comparison between different brands in China. To resolve the problems, the H&M Group could have more transparency in exploring sustainability, and it could raise the social impact of its brand to attract its customers to make the right decision in promoting environmental protection and maintaining sustainability while consuming. H&M could also adopt more flexible strategies in different sales regions to cope with the culture and the customers' taste in fashion.

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