

## Journey towards sustainability in fitness fashion: the Adidas way

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### The concept of 'fitness fashion' : A glimpse

Oxford dictionary defines fitness as the condition of being physically fit and health (<https://en.oxforddictionaries.com/definition/fitness>). And fashion is considered to be a form of imitation and seen as process of social equalization (Simmel, 1957). In the earlier days, fitness was considered the domain of sports persons or at least that fitness freaks. The birth of fitness fashion took place through the concept of sportswear or activewear. Any type of clothing or footwear which is worn during performing physical exercises or sports is called sportswear or activewear. For example, tracksuits became popular among common people because it was being worn by tennis stars during Wimbledon matches, where it was used mostly in gymnasiums or one sees trainers being worn by models for all the major fashion brands (Bruun & Langkjær, 2016). In recent times, we find fitness is becoming a way of life for many people across ages, professions, gender or country. Due to this many people are adopting the concept of fitness fashion which is a twin combination of health lifestyles and activities leading to increasing interest and use of sports apparel. Some of the prominent players in this industry are Nike, Adidas, Puma, Under Armour, Skechers, Columbia Sportswear, Asics, and, so on. In the present juncture, this industry is confronted with three problems or challenges, namely: remaining contemporary, maintaining sustainability, and maintaining an unique identity and reputation in the age of digitization (Balota, 2018, <https://www2.deloitte.com/ch/en/pages/consumer-industrial-products/articles/ultimate-challenge-fashion-industry-digital-age.html>).

A survey by BoF-McKinsey State has shown that a crucial challenge for this industry presently and in near future would be to achieve greater sustainability and transparency (Amed et al, 2019). Today's consumers being eco-conscious are concerned with companies concern with



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environmental issues and their level of commitment in minimizing their impact on it, while trying to produce their various brands and products. For example, big companies in this sector such as, Patagonia are seen donating an additional \$10 million last year, demonstrating that there are brands that are working to minimize the environmental impact of their products to increase their booty of eco-friendly consumers. (<https://www.k3software.com/post/2019/01/14/sustainability-in-the-fashion-industry-a-challenge-for-2019>).

In the light of the above, the present case makes an attempt to investigate the sustainability issues and challenges, presently encountered by the fashion industry, in general, and, elaborate specific policies and practices, which may be effective to deal with such issues, taking an example of Adidas, as the leading player in the in the industry.

### **The worth of Fitness fashion industry**

The current trend is to combine fashion with sportswear in the market. Making sportswear comfortable as well as trendy is the order of the day an people like to buy and wear a variety of sportswear like T-shirts, hoodies, shorts, tracksuits, tennis shirts, polo shirts, shoes and others, which are worn while playing sports and doing other physical activities ( <https://www.marketwatch.com/press-release/sportswear-market-2018-global-analysis-opportunities-and-forecast-to-2023-2018-05-24>).

According to surveyed data, in 2018, the global sports apparel market was estimated to generate around 174 billion U.S. dollars in revenue (<https://www.statista.com/statistics/254489/total-revenue-of-the-global-sports-apparel-market/>). A research report generated by Azoth Analytics titled "Global Sportswear Market showed that By Type (Apparel, Footwear), By Sub-Type - Apparel (Top wear, Bottom wear, Accessories, Others), Footwear (Athletic, Non-Athletic) - By Region, By Country (2018 Edition): Forecast to 2023", the global market is projected to experience a healthy growth represented by a CAGR of 5.80% during 2018-2023 (<https://markets.businessinsider.com/news/stocks/global-sportswear-market-2018-edition-world-market-review-and-forecast-to-2023-1028275196>). A study report by Global Industry Analysts, Inc., showed that the global market for Sports and Fitness Clothing is estimated to touch US\$231.7 billion by 2024 (<https://markets.businessinsider.com/news/stocks/the-growth-of-sales-in-sportswear-1002249734>).

Based on geographic considerations while , North America was one of the largest revenue-generating regions in global sports apparel market in 2014, Asia-Pacific is projected to be the leading revenue-generating region by 2020, due to increasing disposable income and improving living standards in countries such as, China and India. One of the reasons for slowing the growth

of global sports apparel market is the existence of low quality and counterfeit products. Big companies like Adidas, Fila, Columbia Sportswear Company and many others are major players in this field and are adopting various strategies like product launches, partnerships and acquisitions to increase their market share and their customer base to sustain themselves in the global sports apparel market (<https://www.alliedmarketresearch.com/sports-apparel-market>).

An estimate by IHRSA (International Health, Racquet & Sportsclub Association), shows that the \$30 billion health and fitness industry in the U.S. has been growing by at least 3 - 4% annually for the last ten years and the trend seem to continue with 20% of American adults currently having a fitness club membership with this number likely to double in the next 10-15 years (Midgley, 2018).

Some of the factors which are significantly affecting the fitness fashion industry are as follows (<https://www.alliedmarketresearch.com/sports-apparel-market>):

**Increasing disposable income:** among various section of the people in various countries can spur the growth of this industry.

**Fitness conscious consumers:** tending to become healthy engage in various sports and workout activities leading to increase in demand of fashionable sportswear and clothing.

**Existence of Counterfeit products:** many consumers who cannot afford the high quality and high-priced products are served by the local suppliers who design the same design with affordably priced products, thus affecting the sale of branded products by bigger companies.

**Trendy & fashionable sports apparel:** New products such as help in increasing the popularity of a brand and improve its customer base. An example of this is a product, such as, Polotech Smartshirt by Ralph Lauren, that helps in monitoring a person's heart rate, breathing depth, stress level and calories consumed. People of all ages including those in the middle age are now becoming more health-conscious and fashion-conscious, leading to growth of this industry.

**Increased women participation in fitness and sports:** with more women joining the bandwagon fitness trend, the preference among them is to wear sports apparel in their daily wear, which is leading to the growth of the sports apparel market. Many companies launch products in vibrant colors, while offering enhanced comfort, thereby increasing their popularity among women.

### **The sustainability challenges in fitness fashion**

There is a rising generation of consumers who are very eco-conscious about what they buy

and from whom they buy and how such products are made. In other words, they would like to buy goods of companies which are conscious about the environmental impact they create while creating such products and take corrective measures to reduce this impact. Socially conscious consumers are seeking brands that don't hide where their products come from or who made them. Therefore, retailers like Everlane have built their brand around social transparency, and Adidas and H&M have been given the credit for making names and addresses of their manufacturers, subcontractors, and fabric/yarn suppliers known to the public. Generation Z. are interested their brands do more than just advertising. It has to do something with their brand adding value to their individual identity. Irrespective of their style, these individuals are more likely to bend towards the trends of sustainable clothing and apparel than the mass-produced - "everyone has one" - fast fashion (<https://www.k3software.com/post/2019/01/14/sustainability-in-the-fashion-industry-a-challenge-for-2019>).

### **Environmental Issues**

There are some specific issues related to sustainability and environmental impact which are faced by the companies in this sector. They may be listed as follows:

Effect on ocean ecosystems: this industry generates huge amounts of post-consumer wastes leading to other problems like increase in damaging plastic microfibres from polyester fabrics and artificial suede making inroads into the ocean ecosystems. They ultimately get into the food chain of aquatic life and finally, leads to plastic getting into the food chain as we consume as food. and gets into our food again, cotton used as raw materials in this industry is associated with heavy depletion of ground water resources.

According to estimates by Ellen MacArthur Foundation if this industry continues to grow at its present rate, by 2025 the textile industry would be responsible for a quarter of the world's total allowable carbon emissions, given a consideration that global warming would have to be held below 2 degrees centigrade.

Materials used by fashion industry, currently posits three interrelated problems, namely, resource scarcity, a lack of recyclability and expectations of rising cost of some virgin materials. Companies like Patagonia and Banana Republic are using costlier alternative eco-friendly materials like Lyocell (made from wood pulp with low environmental impact) in their product lines, in view of the issue of maintaining sustainability into their corporate policies and actions. Again, due to limited use of recycling technology, this industry is having 75% loss of value from materials it uses in the first production cycle. Ellem MacArthur Foundation has shown that industry-wide move by

adopting circular economy principles could add €160 billion in value by 2030. In the present times, only 18% of clothing in EU is currently reused or recycled. However, changes are noticeable with companies like Zara and Marks & Spencer embarking on introducing collection points for old clothes in their stores, which should increase the rate of recycling. Efforts are being made to turn waste fabrics into raw useful materials decreasing the need to use virgin fabrics. Companies such as Rent the Runway are making efforts to create e-commerce business models where expensive dresses bought and worn once are turned into something that can be worn again by a number of customers. Companies like MUDjeans are leasing their products for a one-year term, with free unlimited repair services, after which they can be changed for a new pair and returned for recycling or upcycling (<https://www.carbontrust.com/news/2018/03/sustainability-trends-future-of-fashion-industry/>).

Fashion industry is considered to be the second largest polluter of the environment today after the oil industry. Some of the issues which require attention in this regard are discussed below (<https://www.sustainyourstyle.org/old-environmental-impacts>; <https://www.commonobjective.co/learn/sustainability-issues?a=19>):

**Environmental issues:** due to untreated wastewater being directly dumped into rivers by textile industries, there is pollution in the water with lead, mercury and arsenic creeping into the water. This affects not only the aquatic life but also the health of the people living on the river banks with exposure to all these pollutants. The contamination also affects the seas and oceans and spreads across the globe. Fertilizers used in cotton production are another major pollutant.

**Fashion and water consumption:** Huge amounts of water are used by the fashion industry for the production process (especially dyeing and finishing process), growing cotton (again water-intensive crop - 20,000 litres of water required for producing 1 kg of cotton) putting pressure on this valuable resource leading to fatal ecological consequences. An example in reference is desertification of the Aral Sea, where cotton production has entirely drained the water.

**Fashion and Microfibres in the ocean:** Each time a polyester or nylon (synthetic) garment is washed it releases around 1,900 individual microbes in the water ultimately flowing into the oceans. While these are ingested by small aquatic organisms, they are in turn eaten by small fish which are then eaten by bigger fish leading to plastic creeping into our food chain.

**Fashion and waste accumulation:** with clothing becoming disposable, statistics point out that every year around the globe, on average 13 kilograms of fashion waste is accumulated per person on earth (<https://www.commonobjective.co/article/the-issues-waste>). Synthetic fibre which

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constitutes 72% of our clothing today, which are non-biodegradable. Data also show that an average every year, 13 kg of fashion waste gets heaped up per person on earth (<https://www.commonobjective.co/article/the-issues-chemicals>).

**Fashion and chemicals:** some 8000 different varieties of chemicals are used in garments and fashion industry along with heavy use of fertilizers in cotton growing, a raw material widely used in this industry. This is leading to not only death among cotton growers, but also polluting the ground water, ocean water and resulting in soil degradation.

**Fashion and greenhouse gas emissions:** since production of synthetic fibres consumes more energy than natural fibres and uses more fossil fuel, it produces lot of gases which have greenhouse effects. For example, coal which is used for powering this industry in India, China and Bangladesh are the worst contributors of carbon emissions.

**Fashion and soil degradation:** soil degradation is a major problem with fashion industry since it plays a vital role in many ways: overgrazing of pastures through cashmere goats and sheep rearing for their wool; degradation of the soil due to heavy use of chemicals to grow cotton; deforestation caused by wood-based fibres like, rayon. Soil degradation results in lack of absorption of CO<sub>2</sub> and poses a threat to global food security and increase in global warming.

**Fashion and rainforest deforestation:** cutting down of forest trees and replantation of trees to make wood-based fabrics like rayon, viscose and modal is threatening the ecosystems and indigenous communities. For example, in Indonesia large scale deforestation has taken place of the rain forests in the recent past.

### **Employment issues:**

Various issues related to employment are posing challenges for the people working in these industries. Some of them are as follows:

**Living wage:** this industry provides employment for a large majority of people, globally. In Asia alone more than 15 million people are employed in this industry. This being an industry where there is lot of demand for goods, there is pressure on the production cycles leading to labor being employed at cheap rates (falling short of living wages) and for long hours. This inevitably forces the workers in this industry to work for long hours to meet their two ends meet with additional hazards to health, when they are not even able to take adequate rest, take time off and take leave when ill (<https://cleanclothes.org/livingwage>).

Long working hours: due to the above, they have to work for long hours to earn more than the recommended 48 hours a week. Some studies point out that in Bangladesh workers work upto 60 hours per week and depend heavily on overtime. Similarly studies on four factories of SACOM and others point out that in China workers work for overtime between 80 to 150 hours per month, and that too with overtime being paid at basic rates and not enhanced rates. As study by Fair wear Foundation showed that there was excessive overtime between 2012 and 2015 in Bangladesh, 97% of the 36 garment factories surveyed showed that working 2 extra hours per day and 60 hours per week were not an uncommon phenomenon (<https://www.commonobjective.co/article/the-issues-working-hours>).

Regular employment: fashion industry due to various issues like related to sourcing of raw materials, distribution, and manufacturing to retail and other associated problems like, purchasing practices of fashion brands, demand for lower prices, shorter lead times, range seasonality and last-minute changes to orders push suppliers and manufacturers to adopt business strategies aimed at flexing the labor force. The tactics used vary from employing labor with casual work, piece-rate work, sub-contracting and home-based working all aimed at managing production in a complex supply chain. This leads to job insecurity and extreme exploitation of labor force who struggle to survive in volatile working conditions .

Flexible labor: On the other hand low wages forces them to be in perpetual debt cycle due to lack of access to credit or financial services forcing them to take loans at high rates of interest from private money lenders to meet their subsistence and other family or social needs resulting in lack of savings an inability to face contingency situations, further leading them to a cycle of deep debt and other forms of exploitation .

Contract labor: It constitutes a large pool of the labor force in the fashion industry and they are often sourced from countries, such as, India, Pakistan, Bangladesh and Turkey.

Casual and temporary work and zero-hours contracts are very predominant in the retail and distribution end of the supply chain. There is also lot of exploitation of young people in apprenticeships, where no training is provided to them with very little prospects of development or of a future contract in the fashion sector.

(<https://www.commonobjective.co/article/the-issues-regular-employment>).

**Some data regarding this sector shows the following trends:**

- In India, homeworkers represent 21% to 24% of all textile and garment workers

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- Between 80% and 85% of women in the footwear industry work on a casual or piece-rate basis
- In Turkey, it was found by auditors that there are cases of workers who are shown as daily contracts, but they work in those factories on a regular basis.

(<https://www.commonobjective.co/article/the-issues-regular-employment>)

Death, industry and health in fashion industry: this industry is plagued with factory accidents and continues to be a major cause of illness and even death among workers. Proper tracking and research both by outside agencies are required to capture the incidents in this industry. Available data suggests that some 27 million workers in the fashion industry in the supply chains suffer due to work-related ailments which works out to equivalent to an injury rate of 5.6 per 100 workers (<https://www.commonobjective.co/article/death-injury-and-health-in-the-fashion-industry>).

### **Social issues:**

Slavery in modern era: estimates show that 16 million people are compelled to work as forced labor in private sector, such as agriculture, mining, manufacturing which includes the fashion industry (<https://www.commonobjective.co/article/the-issues-modern-slavery>). The 2018 Apparel and Footwear Benchmark by KnowTheChain has shown that when considered in terms of seven indicators like recruitment policies, traceability, purchasing practices and mechanisms in place for workers to voice their grievances, it is seen that among 43 largest global companies in the industry surveyed, less than a third scored over 50 out of 100 points on these indicators (<https://www.thenational.ae/lifestyle/fashion/modern-day-slavery-still-exists-in-the-fashion-industry-report-reveals-1.804605>).

Forced and bonded labor: data according to estimates by The Global Slavery Index shows that 45.8 million people are subjected to modern slavery and bonded / forced labor, many of which are in the supply chains in the fashion industry in their clothing brands and retail chains. In China, India, Thailand, Indonesia, Vietnam, Bangladesh and Pakistan which are cotton producing countries 58% of people are engaged as slave labor according to the above index. Migrant labor and local people are the main victims of such exploitation with false promises of lump-sum payments, comfortable accommodation or professional development is made in lieu of years of hard labour with no regular pay all forming a part of this system of modern slavery or forced labor (<https://www.commonobjective.co/article/fashion-s-key-social-issues>).



Discrimination: discrimination seems to be rampant and takes many forms in the fashion industry. For example, Women constitute 80% of the labor force in garment factories, yet they continue to be face discrimination by way of payment of lower average wages, workplace harassment, lack of appropriate facilities for women and failure to protect the rights of pregnant women, or those seeking flexible working on return to work and their under representation in management positions at senior levels in factories and other similar establishments.

**Some other instances of discrimination are evident in the data given below:**

- " According to a study by ILO in 2016, women were found to her less pay then their male counterparts in 8 out of 9 Asia-Pacific countries, such as, India and Pakistan in garment, textiles and footwear industries.
- " A 2016 investigation into modern slavery in southern Indian spinning mills showed that those at the lower end of the caste pyramid (the Dalits) were the most exploited and forced into modern slavery.
- " Women were paid less than men in the garment, textile and footwear industries in eight out of nine Asia-Pacific countries, particularly in India and Pakistan, according to a 2016 ILO study.
- " Despite progress in employment of disabled people in Bangladesh's garment, leather and footwear industry, a recent study showed that only one in four factories had a specific policy for including workers with disabilities (<https://www.commonobjective.co/article/the-issues-discrimination>).

Human trafficking: while most people conceive human trafficking to be associated with sex trade, more than 50% of victims are sold and channelled into forced labor. Wherever the markets and factories are unregulated (in developing countries and some part of Europe), the practice seems to be preponderant. The fashion industry is one where such practices are most common with large numbers of workers fall victim to this trade (<https://www.forbes.com/sites/rebeccasuhrawardi/2019/01/16/the-big-issues-facing-fashion-in-2019/#6c276acb23a9>).

Child labor: Studies by the organization called Stop Child Labor, it has been found that a large of number of children who are willing to work for long hours and dangerous conditions for very low wages are in huge demand in the fashion industry. Even brands like Adidas, H&M and Nike have been found to follow such practices where children are made to work in unsafe conditions.

Though in recent times, the global firms are becoming aware about their reputation of their brands are negatively impacted by such practices, they have admitted that the supply chains being complex (because of preponderance of various firms, Sub-contracting arrangements and manufacturers) are difficult to be controlled. Helena Helmersson, H&M 's Head of Sustainability has admitted to this fact and opined that "it is impossible to be in full control... as these supply chains are complex" (<https://phys.org/news/2017-06-tackling-child-labour-fashion-industry.html>)

### **A brief sketch about Adidas**

Adidas AG which is one of the largest and significant global player in sportswear and accessories is a German multinational company established in 1949. It not only designs but also manufactures shoes, apparels and accessories, since its inception. The brand has a large offerings for various segments of people and professions ranging from apparel and footwear for every types of sport, every kind of fashion in numerous styling (<https://www.Adidas-group.com/en/group/history/>). The company got its name from its founder Mr. Adolph "Adi" Dassler and consists of three companies, namely, TaylorMade, and Runtastic. It also has shares of the German football club Bayern Munich. Adidas' logo which has three stripes, is used on the company's apparel and footwear designs as a marketing tool. Adidas in 2019 has emerged as the third largest apparel brand in the world after Nike and zara with an estimated brand value of 16.67 billion U.S. dollars. It employed more than 27,000 employees globally, and recorded a worldwide net sales of 21.92 billion euros in 2018, with North American region contributing 21% and the company has manufactured 409 million pairs of shoes and 457 million units of sports apparel in the same year (O'Connell, 2019).

### **Products**

Adidas offers a wide range of fitness fashion products. In the sportswear space, it sells a wide range of men's and women's clothing. It manufactures and sells football kits, hard rubber toe box shoes, named 'Superstar' and 'Pro Model' shoes; cricket footwear, cricket bat (famous personalized bat named 'Adidas MasterBlaster Elite', for Indian batting legend, Sachin Tendulkar). Apart from these, Adidas also manufactures golf clothing, footwear, and accessories; eyewear; gymnastics leotards, pants and shorts; lacrosse equipment, gloves, protective gear and boots; Skateboarding shoes; running shoes, Tennis shoes, equipments, apparels. In the lifestyle space, it designs and makes slide-style sandals, mobile accessories, watches, eyewear, bags, baseball caps, and socks. Adidas also manufactures a branded range of male and female deodorants,

perfumes, aftershave and lotions (<https://en.wikipedia.org/wiki/Adidas#Products>).

### **Company history at a glance**

It all started in 1920 with Adolph (Adi) Dassler, aged 20, a cobbler's son invented the spike shoes for track and field and in the year 1924, Rudolf, the older brother joined the business and thus was born the Dassler Brothers Shoe Factory (Gebrüder Dassler Schuhfabrik) [Smit, 2009]. Their products became popular and established by the year 1928 (<https://www.rediff.com/sports/2005/nov/08adi.htm>). The brothers split up in 1947 due to a breakdown in relationship (Esterl 2008) with Rudolf forming a new company called Ruda, later renamed as Puma. Adolf in 1949 August 18, formally registered his company and named it as Adidas AG (Flippo 2019). After the summer Olympics 1952, Adidas acquired the 3 stripe signature logo from the Finnish athletic footwear brand Karhu Sports in lieu of two bottles of whiskey and the equivalent of 1600 euros (Chadwick & Arthur, 2007, Weather, 2017).

The company began its association with the Fédération Internationale de Football Association (FIFA) in 1970 and after that it has started supplying the official match ball for all FIFA World Cup™ matches. Among the Adidas line of legendary balls feature the Telstar (1970), Tango (1982), the Azteca (1986), the Questra (1994), and the like (<https://www.fifa.com/about-fifa/marketing/sponsorship/partners/Adidas.html>). Between 1972-78, the company extended its reach to more and more sports over the years (<https://www.Adidas-group.com/en/group/history/>).

After the death of Horst Dassler (in 1987), the son of Adolf Dassler, the company was bought by French industrialist Bernard Tapie in 1989 for €1.6 billion (now €243.9 million), with borrowed money (LA times, 1990). Due to his inability to pay off the loan interest, Tapie asked the Crédit Lyonnais bank to sell off Adidas (<https://www.bbc.com/news/world-europe-39963766>) and sometime later converted the outstanding debt owed into equity of the enterprise.

A new era began with Robert Louis-Dreyfus, a friend of Bernard Tapie, becoming the new CEO in 1994 and in 1995 the company went public by coining a new marketing slogan "We knew then, we know now". Between 1989-1994, Adidas acquired the Salomon Group and its brands Salomon, TaylorMade, Mavic and Bonfire. After Herbert Hainer became the CEO of Adidas Salomon AG the company became more inclined towards following the innovative strategies. While continuing in its old segments, to its sport performance offering, Adidas is the first in the industry to introduce a new lifestyle segment, focusing on sports-inspired streetwear.

There was a change in leadership in 2016 with the death of Herbert Hainer and the Kasper Rorsted

became the new CEO of the company. Today, Adidas continues to be one of the leading players in the fashion and sports wear industry and continues to influence and revolutionize the sportswear industry a life style concept by merging the concepts of health and fitness with fashion (<https://www.Adidas-group.com/en/group/history/>, <https://en.wikipedia.org/wiki/Adidas>).

### **Impact areas identified for sustainability**

The following impact areas have been identified by Adidas with respect to sustainability:

- mission and values: addressing the issues that are ingrained in Adidas's mission to become the best sports company in the world with a corresponding business strategy.
- Reputational impacts/risks: taking care of such issues that are likely to impact the reputation of the company in or increase the risk factor in the short, medium or long term.
- Legal and regulatory drivers: issues that need to be tackled that may have an impact on the company as a result of existing, emerging or evolving government policies and regulations, where it operates.
- Peer-based and industry-wide norms: benchmarking the company's performance with respect to sustainability issues or standards that are developed by other companies or are addressed industry-wide .
- Stakeholder concerns and societal trends: taking care of various issues that are considered to be major importance to the company's stakeholders which includes communities, non-governmental organizations (NGOs) and the general public or reflect societal and consumer trends. The company periodically consults stakeholders on various topics to understand their views, concerns and expectations in order to serve them better.
- Opportunity for innovation: constantly looking for areas where the company can explore to create innovative solutions that are beneficial to the environment, their supply chain, customers and other stakeholders to demonstrate sectoral leadership and create competitive advantage for itself as a business entity concerned with wellbeing of society, at large and concerned stakeholders, in particular.

(<https://www.Adidas-group.com/en/sustainability/managing-sustainability/materiality-analysis/#/warum-wir-tun-was-wir-tun-bestimmung-und-gewichtung-von-wirkungsbereichen/>)

### **Roadmap for sustainable future**

Adidas's Sustainability Roadmap has been carefully instituted by identifying certain strategic priorities that are to be addressed in terms of the issues and challenges of the spaces where the company operates, which includes the places where products are created, designed, manufactured and shipped; sold (own retail, wholesale and e-commerce); and, and played (from the indoor court to the outdoor pitch all over the world). For doing so, the company has narrowed down the priorities into two aspects: Product priorities, and, people priorities (<https://www.Adidas-group.com/en/sustainability/managing-sustainability/general-approach/#/>):

#### **Product priorities 2020**

Water - is one of the most important resources and is a life-giver. It is an important resource also for the fashion and garment industry. The company has, therefore, developed an approach to tackle the issue of rising crisis due to water shortages the world over, and wishes to achieve the water stewardship by addressing the issues of water efficiency, quality and accessibility of this resource. The company has set for itself a target of saving 20% water at strategic suppliers' level, 35% water savings at apparel material suppliers' level, and 35% water savings per employee at own sites (baseline 2008).

Material and processes : the company while seeking to create the best in line products for athletes is also concerned with using sustainable materials in their production process, products and stores and hence, looking at creating closed-loop solutions. The roadmap which the company has set for itself is to achieve the following by way aiming for 20% waste reduction at strategic suppliers, 50% waste diversion for owned operations to minimize landfill, 75% paper reduction per employee at own sites, replacing conventional cotton, and reducing the use of virgin plastic, by eliminating plastic bags in their stores by 2020; and by using exclusively recycled polyester in every product and on every application where it possibly can by 2024, while also extending the supply chain for Parley Ocean Plastic together with their partner Parley for the Oceans, and investing in materials, processes and innovative machinery which will help the company to upcycle materials into products and reduce waste.

Energy conversion: using energy responsibly is critical to the survival of the planet, (earth). Withis

aspect in mind, the company has committed itself to reduce their absolute energy consumption and CO2 emissions, making a transition to clean energy and making inroads into energy harvesting opportunities. The company by 202 in its roadmap wishes to achieve 0% energy savings with at their strategic suppliers, 3% absolute annual reduction in CO2 emissions, further expansion of IMS to key sites globally in their own operations, while seeking to reduce the environmental footprint of their consumer event.

### **People priorities 2020**

Empowering people - the company wishes to empower its employees so that they can exercise their rights and unlock their potential at work. In their 2020 roadmap the company has set for itself the following in this regard: empowering their supply chain workers by expanding and refining grievance systems and skill training programs. This would include initiatives like fully expanding the Workers' Grievance App to 100% of strategic suppliers. The company aims at reaching levels where 80% of strategic suppliers can achieve social compliance levels of 4C (of 5) and ensure that at least 10% reach the 5C rating. It also aims at having 80% of strategic licensees reaching 80% or above in Licensee Score Cards, 10% achieving sustainability leadership. The company wants to provide cross-functional and cross-cultural careers and experiences for their employees by helping them to gain fresh perspectives and grow professionally and personally. This includes volunteering programs together with the Adidas Fund and the Reebok BOKS program, aimed at improving soft skills such as teamwork, leadership, decision-making and communication leading to increase in the employees' commitment and motivation within the company.

Improving health - as sports plays an important role in keeping individuals healthy and happy, the company seeks to enable people globally, to participate in sports by educating them about the importance of physical and mental health, fitness and nutrition which could eventually propel people to adopt healthier and more fulfilled lifestyles. The programs are targeted towards their employees and their associates and for communities in which they are present as a business entity. The company employees at Herzogenaurach, Portland and Boston are given education and upskilling measures are taken with regard to issues such as their health and work-life balance. The company's 2020 roadmap includes a global Health Management strategy for their employees. The company wishes make use of sports as a tool for teaching values and boosting young people's academic and physical performance, while aiming to increase their overall confidence and well-being.

Inspiring action: the company regularly collaborates with a host of stakeholders to harness the

power of sports in their lives and the community. They have a good reward system for the employees who work hard to make the company be a leading player in the market. They also collaborate with creators and influencers to drive innovative collaborations and involve their customers, key partners and others to join in their journey of playing sports a lifestyle statement for health and fitness. The company regularly teams up with their athletes to serve as role models for young creators who do so by sharing their experiences and demonstrating how sports is associated with attributes like passion, determination, teamwork, helping others and being active.

### **Promoting sustainability: the Adidas way**

The company as part of its sustainability approach seeks to address a variety of issues relating to environmental, employment, and, social issues, related to the fitness fashion industry (as discussed in the earlier section) and is, therefore, deliberately implementing and revising its policies, guidelines, and practices. The company has sought to adopt four major approaches in this regard namely: Partnership approach, people approach, supply chain approach, and, environmental approach. Each of these are summarized below:

#### **Partnership approach**

The company is aware that their stakeholders are those people or organizations who affect or are affected by their operations. Companies do not operate in a vacuum and there is always a larger society and, hence, their stakeholders have a legitimate interest in the way they do business and influence them. The company's stakeholders are a diverse group and include the following (<https://www.Adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/>):

- Adidas employees
- Authorizers: government, trade associations, shareholders, Executive Board
- Business partners: unions, suppliers, service providers
- Workers in our suppliers' factories
- Opinion-formers: journalists, community members, special interest groups
- Customers: professional athletes, distributors, retailers, consumers
- Peers: other multinationals, consumer goods companies and brands

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- Forms of engagement
- The company engages with its stakeholders in a multiple way, for achieving its goals of sustainability:
- Formal stakeholder consultation meetings/ stakeholder dialogues with their industry peers, with workers, union representatives, non-governmental organizations (NGOs) and its business partners.
- Conducting meetings with socially responsible investment (SRI) analysts
- Having a well laid out system of internal reporting and induction programs for its employees
- Responding to various types of enquiries from the consumers, interest groups and the media
- Seeking collaborating with other brands for joint initiatives or creating and deliberating in business forums about issues of common interest
- Outreaching to graduates and the academic community through various measures taken in the company.

The company has constantly made collaborations with various activity groups, like NGOs, and Interest groups, such as, Apparel and Footwear International RSL Management (AFIRM) Working Group, Better Cotton Initiative (BCI), European Outdoor Group (EOG), German Partnership for Sustainable Textiles, International Chemical Secretariat (ChemSec) Business Group, Fair Factories Clearinghouse (FFC), Fair Labor Association (FLA), International Labor Organization (ILO), Better Work, Parley for the Oceans, Leather Working Group (LWG), Sustainable Apparel Coalition (SAC), Zero Discharge of Hazardous Chemicals (ZDHC), Federation of the Sporting Goods Industry (WFSGI) [<https://www.Adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/>]

### **Corporate governance**

The company knows it is a business imperative to conform and adhere to all applicable laws, directives and guidelines. In this context, therefore, the company continuously strives to improve its performance and its societal standing by regularly reviewing its progress and taking proactive action in managing the issues pertaining to sustainability. In order to achieve this objective, Adidas has instituted a formal corporate governance framework, that addresses the rights of shareholders, and the responsibilities and duties of the Executive Board, including social and environmental issues. The Supervisory Board is accountable for their collaborations and is



responsible in providing information about disclosures, obligations, and solutions for any conflicts of interest. The governing principles created in the company ensures good management and control of the business. (<https://www.Adidas-group.com/en/sustainability/compliance/governance-and-risk-management/>). The governance framework includes workplace standards, Adidas' supplier code of conduct, Labor Rights Charter, on human and labour rights, Adidas Code of Conduct, environmental Policy, and the like.

In order to pay careful attention to the above areas, Adidas has developed the Social and Environmental Affairs (SEA) team, with around 70 people - engineers, lawyers, HR managers, environmental auditors and former members of non-governmental organisations (NGOs). The team is organised into three regional teams covering Asia, the Americas and Europe, Middle East and Africa (EMEA), as well as the functions of Environmental Services and Community Affairs. The SEA team works closely with other global corporate functions, such as, Sourcing, Legal, Facility Management, Human Resources, Sales and Corporate Communication, as well as the brands' Marketing and Product Development teams (<https://www.Adidas-group.com/en/sustainability/compliance/sustainability-team/>).

### **Government outreach**

Addias as a company is deeply concerned about the issues of human rights. It is aware about the fact that such issue can have a telling impact on the reputation of the company and its reputation. Hence, it tries to engage itself with various governments in different countries to see in which it can minimise the environmental impact and violation of human rights arising from its business operations. For example, it has sent out open letters to the government in various counties like El Salvador regarding the Hermosa factory. In 2019, a letter was sent by Adidas to the Secretary of State Hillary R. Clinton about the situation in Honduras. Yet again n 2009, Adidas sent a letter to the US State Department regarding the impacts on the employment of garment and textile workers and its concern regarding the trade policy on Madagascar. In 2010, Adidas sent letter to Cambodian Government voicing its concerns on g the minimum wage negotiations, agreements and strikes. Again in 2014, an open letter was sent from Adidas to Cambodian Government, Manufacturers and Trade Unions asking for peaceful resolution of nationwide strike that was taking place and also batting for the Cambodian garment industry's annual minimum wage increase. In 2019, the company lent its continuous support for the Accord on Fire and Building Safety in Bangladesh (<https://www.Adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/#/2001/2013/government-outreach/>):

### **Civil society**

The company fosters its link with stakeholders from the civil society. For example Adidas has initiated an in depth process of engaging with Greenpeace International's "DETOX" campaign aimed at sporting goods companies and apparel brands calling for the zero discharge of all hazardous and persistent chemicals at all points in global supply chains: from the cotton fields, to the mills and dye houses that make the fabric and the garment production (<https://www.Adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/>)

Apart from this, the company in 2019, has also taken some other initiatives in this direction. The company has sought to stand for workers engaged in the garment, footwear and textile industries by canvassing for their minimum wages through the process of collective bargaining at the industry level, linked to purchasing practices by supporting ACT( Action, Collaboration , Transformation) through an agreement between global brands, retailers and trade unions.

Similarly, in 2017, the company in The Clean Clothes Campaign the company cleared its stand by responding to the an open letter posted on its website demanding that the 345 workers be given severance pay for the period in 2012. Adidas responded by clarifying its action by stating that that during that period (where there was a strike going in their outsourcing company( PT)in Indonesia) , the outsourcing company PT did not supply anything to ADIDAS, either at the time of the strike nor afterwards.

In July 2015 Adidas called for a dialogue and discussion involving participants from academia, non-governmental organisations, UN agencies, and sports bodies to discuss The Human Rights Impacts of Major Sporting Events - the Role of Sponsors. Basic aim of this was to explore the role of corporate sponsors in major sporting events with respect to upholding human rights and addressing the challenge of moving from principles to practice, with the intention of moving the bar on the issue, both internally and externally among the corporate sponsor community.

### **People approach**

Adidas believes that, people is one of the key ingredient of sustainable business. Keeping this mind, various policies and guidelines have been formed and implemented by Adidas, for maintaining the well-being of employees and protecting their rights. Significant policies are stated below.

### **Approach towards factory workers' well being**

Some of the Adidas' initiatives towards maintaining employee well-being are as follows (<https://>

[/www.Adidas-group.com/en/sustainability/people/factory-workers/](http://www.Adidas-group.com/en/sustainability/people/factory-workers/)):

Fair wage - Adidas has been pioneer in coordinating between government, manufacturers and trade unions to discuss living wage concepts, wage growth and the impact of wages on employment. Adidas ensures that the workers employed in the supply chain gets paid with fair wage. In 1998, Adidas issued its Standards of Engagement, which includes wages and benefit expectations for its suppliers. Again, in 2001, Adidas published the Employment Standards, which elaborated its expectation from the suppliers in terms of management of workers' wages and benefits and labor rights. An apt example in this regard is a two-year study, during 2003-2005, on fair wages in Indonesia, propelled by Adidas, to investigate different living wage methodologies and wage benchmarks for Indonesia. Similar type of studies have been conducted in China in 2005. In 2015, Adidas adopted the Fair Compensation Strategy, which is based on the United Nations Guiding Principles on human rights. In 2018, Adidas published its Responsible Sourcing & Purchasing Policy.

### **Approach towards the well-being of the vulnerable group**

This can be sub-divided into the following sections.

#### **Child labor -**

According to the International Labour Organization, child labor is often defined as "work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development" (<https://www.ilo.org/ipec/facts/lang--en/index.htm>). Adidas has its Workplace Standards, which state that its suppliers must not employ children less than 15 or less than the age. Adidas does not allow home working or unauthorized subcontracting, to avoid the risk of child labor. There is a tracking system, through which Adidas tracks the suppliers' production process at every stage and trace the movement of product components and materials upto the shipment to the customers. Adidas is committed to uphold the Children's Rights and Business Principles (CRBP) published by UNICEF in 2012 ([https://www.unicef.org/csr/css/Workbook\\_A4\\_LR\\_low\\_res.pdf](https://www.unicef.org/csr/css/Workbook_A4_LR_low_res.pdf)), by ensuring the protection and safety of children in all business activities and facilities; ensuring that products and services are safe; ensuring marketing and advertizing of the products respect and support children's rights.

#### **Forced labor**

ILO Convention No. 29, adopted in 1930, defined forced or compulsory labor as "all work or service which is exacted from any person under the menace of any penalty and for which the

said person has not offered himself voluntarily" ([https://www.ilo.org/wcmsp5/groups/public/@ed\\_norm/@declaration/documents/publication/wcms\\_508317.pdf](https://www.ilo.org/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_508317.pdf)). The Workplace Standards of Adidas clearly prohibit its business partners to use forced labor (in the form of prison labor, indentured labor, bonded labor or otherwise), by force, intimidation, coercion, or, as punishment for holding or expressing any political views.

### **Migrant labor**

Adidas also has a policy to safeguard the rights of migrant workers within the supply chain. This includes the development of guidelines. This helps in eradicating the system of middle men and unscrupulous employment agencies, and, ensure freedom of movement, equal treatment and proper employment contracts for migrant workers.

### **Approach towards employee wellbeing**

Major initiatives adopted by Adidas for employee welfare (<https://www.Adidas-group.com/en/sustainability/people/employees/>) are as follows:

Employee satisfaction - Adidas has the system called 'People Pulse' to assess the net promoter score (NPS) in terms of the level of employee satisfaction, since 2017. It assesses on a scale of 0-10, how likely will the employee recommend Adidas as a place to work.

Diversity and inclusion - Adidas has a policy to provide equal opportunity for employment to every single employee regardless of race, age, gender, ethnicity, religion or sexual orientation.

Travel security- Adidas has a Medical and Security Assistance Programme in place.

HIV / AIDS policy - The Adidas AG has a HIV/AIDS policy in place, in line with the guidelines from the International Labour Organization (ILO).

Balancing work and life - Adidas has developed various initiatives to help employees balance their work and lives. Few of them are as follows:

- 'FlexiTime': Employees have freedom the freedom to organize their working hours individually. If worked for overtime, days can be adjusted and taken off as 'flexidays'.
- 'myTime', part-time, parental leave: Adidas introduced a concept called 'lifetime working time account' in 2012, which allows the employees save some portion of their salary or approved overtime and convert it into paid vacation, sabbaticals, early retirement, time off for family, and so on. Adidas employees are also provided with the opportunity to work

part-time, in order to cater to individuals' specific personal needs. In addition to the above, employees, who have children, also get the facilities, such as parental leave and flexi work facilities to help them get adjusted in the new parents' role.

- 'Off-Campus Working': in 2017, Adidas also introduced an off-campus working approach, for the employees whose work are not dependent on any location or campus facilities.
- 'Via a-LIVE' - Adidas has also flexi learning policy. 'Via a-LIVE' is such a program, that helps employees to learn in a virtual environment, any time and from anywhere. In 2018, the LinkedIn Learning platform was also launched for all corporate office employees. This program provides facility to access the reading material across subjects in business, creative and technology areas.
- Performance management system - In 2018, Adidas introduced a system called 'The Score' with '#MYBEST'. This enables employees to have monthly discussions with their line managers and peers to get performance feedback.

### **Leadership groups**

Adidas has three different groups, consisting of selected leaders:

(a) The Core Leadership Group (CLG) - this group is made with 17 members from the Executive Leadership pool. This group serves as the successors for the Board members and coordinates with the Executive Board in overseeing the overall development and implementation of new strategy, mentoring and coaching the next level of leaders.

(b) The Extended Leadership Group (ELG) -108 members are there in this group. This group collaborates across functions to lead the implementation of the strategic initiatives, across various functions of the company. The ELG group members are the succession pool for the CLG group members.

(c) The Global High Potential Group (GHIPO)- this group comprises of around 50 members with an equal number of male and female members. The GHIPO group identifies the employees with high potentials, who may be considered to be promoted at a global senior management level.

A range of leadership development programs have been designed by Adidas in the above context.

Executive Development Experience: Adidas has been partnering with Harvard Business School (HBS) in developing and conducting a tailor-made learning experience for all of the senior managers (in 2018, the CLG and ELG attended such program at HBS). The rest of our senior

managers have undergone the same program in a live-virtual online learning setting.

**Manager Development Experience and Director Development Experience:** In 2018, Adidas has started the Manager Development Experience (MDE), to develop current and future leaders of the company, at the lower management level. In 2019, the Director Development Experience (DDE) is being introduced with the similar objective of development of the middle management level of employees.

### **Succession management**

To ensure the stability and certainty in their various business operations Adidas has adopted an approach named as the Adidas AG succession management approach. The company has a apprentice program which provides opportunities to students who directly come out of schools to join the company to be groomed and gain business experience. This is a two to three-year rotation program where the student joins as an apprentice and gets vocational training in retail and shoe technology, IT and many other areas. There is another program which is called the Global Trainee Program whose duration ranges between 18-24 months and provides graduates with an international background and excellent educational credentials the opportunity to start a functional career within Adidas.

### **Compensation**

The Adidas AG remuneration system is based on their performance management approach. Remuneration throughout the company comprises of fixed and variable monetary compensation, non-monetary rewards, and other intangible benefits. Some of the unique compensation components are as follows:

- Global bonus programme. This is an incentive based on both corporate performance (actual financial and non-financial results measured against company and market targets) as well as individual performance (measured in the performance management approach).
- For those employees who are posted in the company's headquarters and other locations in Germany not participating in the bonus programme, the company has a system of a profit participation programme called the "Champions Bonus".
- The Adidas AG offers a Long-Term Incentive Plan (LTP) for retaining the people holding the top leadership positions (including leaders and Executive Board members in the company

and ensure their continued commitment to the company needed for ensuring sustainable financial success for the company.

- Some of the other benefits which the company offers are the company's 401-K retirement plans in the USA and the Adidas AG pension plan for their employees in Germany.
- Similarly, The Adidas Stock Purchase Plan is offered to the employees in Germany, USA, the Netherlands (HQ), Hong Kong (HQ), Greater China and Taiwan. In this scheme, the employees are given an opportunity to purchase Adidas AG shares at exclusive conditions - including 15% discount on the share price as well as additional matching shares which can be held for a period of more than a year.

#### **Major policies and guidelines in overall people approach:**

From the beginning of the company in 1997, the company's human and labor rights programs focussed on freedom of association and collective bargaining, working hours, health and safety, fair wages, child labor, forced labor, resource consumption, water (including chemical management), access to grievance mechanisms, diversity, mega sporting events, procurement, product safety, and alongside included issues related to data protection and privacy security. Some of the important policies and standards adopted by Adidas, in this regard, are as follows : <https://www.Adidas-group.com/en/sustainability/reporting/policies-and-standards/#/>

Labor rights charter - To specify the company's responsibilities towards its global work force, the company has put in place established standards and rules which are enshrined in the company's Labor Rights Charter. This is a guideline which is based on the United Nations Universal Declaration of Human Rights to help the company for creating a framework for several corporate level policies that put shows the company's commitment in day-to day practice and operations. The policies pertain to areas such as employee recruitment, development, equal opportunities and compensation and benefits.

Code of conduct for employees (Fair play) - This Code of Conduct spells out the company's values as well as provides information, guidance and additional resources to help in ethical and compliant decision-making process which is applicable to all employees, managers, officers and Executive Board members of the company and its affiliates. This makes it obligatory for all to follow these high standards that the company has set for itself in its Code of Conduct. As of October 1, 2014, all concerned are also required to certify their compliance with the company's code and disclose any potential conflict of interest or any other possible exception to compliance with the Code.

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Code of conduct for suppliers (workplace standards) - the company also applies their rules with regard to health and safety, labor rights and environmental protection under The Workplace Standards. These rules are based on standards prescribed in the charters of International Labour Organization (ILO) conventions and follow the model code of conduct of the World Federation of Sporting Goods Industry (WFSGI). The company has revised the Workplace standards in in 2001, 2006 and 2016 after consulting the Labor Rights groups.

Policy on modern slavery and human trafficking - the company has evolved a policy regarding the issues related to human trafficking. The company strictly prohibits the use of any form of forced labor or the trafficking in persons across all of the company's operations and in their global supply chain. As per the Workplace standards the company is clear that their business partners must not use forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

Responsible sourcing and purchasing policy - the policy clearly outlines the company's policies with regard to responsible sourcing and purchasing practices. The company is committed to work with their business partners across their global and multi-layered supply chain to ensure that sourcing and purchasing decisions, and other supporting processes, do not impede or conflict with the fulfilment of the Adidas Workplace Standards.

Restricted substances policy 'A-01 requirements' - Restricted substances can cause harm to human life or environment. Hence, in 1998, the company adopted a policy and detailed Restricted Substances Policy ("A-01 Requirements") for product materials, prohibiting the use of chemicals considered as harmful or toxic. the whole idea behind this move is to ensure that suppliers should avoid using possible harmful substances ensuring that Adidas's products are environmentally safe.

Policy on health, safety, environment and energy - the company has put in place a comprehensive policy for all its business entities globally, to manage their operations in a safe, healthy, energy-efficient and environmentally responsible manner. The company regularly documents through the Health & Safety, Environmental, and Energy Management System of Adidas (HSEE) all its brands, , functions, sites and locations that are within the scope of management system.

### **Supply Chain Approach**

Adidas is a member of the Fair Labor Association (FLA). In addition to the sites of Adidas, Adidas products are manufactured in approximately 700 independent factories, in more than 50



countries, in 3 regions: Asia (China, Vietnam, Korea, Indonesia and India); America (United States, Brazil, Argentina, Canada, and El Salvador); and, EMEA (Germany, Turkey, Italy, United Kingdom, and Spain). Therefore, employees in Adidas' suppliers' factories, play a central role in our sustainability program. Keeping that in mind, Adidas has established "Workplace Standards", the supply chain code of conduct, as a guideline for workers' health and safety and environment-friendly operations (<https://www.Adidas-group.com/en/sustainability/compliance/supply-chain-approach/>).

Risk mapping in supply chain - Adidas regularly conducts the risk mapping for its supply chain at three levels. At the country level risk assessment process, countries are categorized as high or low risk and suppliers located in high-risk countries have to be audited at least once every two years. At the business entity level risk assessment process, a company's actual performance is assessed against its overall organizational strategic compliance plan. This, in turn, leads to the further performance reviews, based on which the association of Adidas with the same company is determined. Finally, at the factory level risk assessments, regular audits are conducted, based on Key Performance Indicator (KPI).

Training and empowering the suppliers - Adidas has a multi-level and cross-functional training system, developed for its global suppliers. In 2018, more than 1,200 staff and personnel through 143 training sessions. There are three types of training, in this regard. 'Fundamental training' consists of training sessions on Workplace Standards, Fair Factories Clearinghouse (FFC) data entries, new factory approval process and the Social and Environmental Affairs (SEA) operating guidelines. 'Performance training' talks about the issues on labor, health, safety and environmental practices and assessment monitoring methods. 'Sustainability training' brings awareness about the key performance indicators (KPI) and sustainable compliance planning and supplier self-assessment methods.

Worker empowerment - Adidas wishes to promote fair, safe and healthy workplace. In the approved factories, workers are informed about the procedure of lodging the complaints and the contact details of the person, whom they should approach with their grievances. Workers are also provided with local helpline numbers, that enable workers to ask questions and raise concerns directly with their employers. 'SMS Worker Hotline' in Indonesia is such an example.

Compliance Key Performance Indicator (C-KPI) - Suppliers are assessed on six fundamental elements of social compliance, such as, management commitment; the quality of management systems in place; worker-management communication; training delivered; transparent reporting;

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and, measurement of compliance activities. Suppliers are rated, based on a C-rating score between 1 and 5 (with 5 being the highest rating). By the end of 2018, 62% of strategic Tier 1 suppliers were rated 4C rating or more. Adidas aims to have at least 80% of their strategic suppliers rated at 4C or more, by 2020.

Dealing with non-compliance - Adidas has strict policy on violation of Workplace Standards. It is categorized as 'zero tolerance' and 'threshold issues'. Zero tolerance includes prison labor, serious, life-threatening health and safety conditions and repeated or systematic abuse. If verified, zero tolerance non-compliance leads to immediate termination of the relationship of Adidas with the specific supplier, in question. Threshold compliance issues include serious employment issues, serious health, safety or environmental issues and any combination of the two. In the case of any supplier failing to meet workplace standards, with the help of the Enforcement Guidelines, Adidas may terminate the contract or initiate the third-party investigations, and so on ( (<https://www.Adidas-group.com/en/sustainability/compliance/supply-chain-approach/>)).

### **Environmental approach**

Managing the environmental impacts at both Adidas' own sites and the suppliers', where the products are designed, created, manufactured, transported and sold, is important for sustainability. Keeping that in mind, Adidas has adopted the following approach: (<https://www.Adidas-group.com/en/sustainability/compliance/environmental-approach/>):

### **Water management -**

At the manufacturing sites and offices of Adidas, and at that of the supplier companies, who are part of Adidas supply chain, human right to water is taken very seriously. At Adidas' own premises: Adidas started 'Green Company' program in 2008 with the aim to achieve less water wastage. Adidas aims to reduce water usage by 35% per employee by 2020, keeping the year 2008 as baseline. An Integrated Management System (IMS) has been established by Adidas in 2016, which combines three management systems (Energy, Environment, and Health and Safety). Adidas also launched greenWATER Fund in 2017, which now supports the implementation of water projects at Adidas' sites.

In the supply chain: Adidas uses 'E-KPI', a tool designed to measure and improve environmental performance the companies in the supply chain. E-KPI uses a benchmark approach, to create transparency into suppliers' actual water consumption and reduction opportunities, which

eventually helps Adidas to identify the areas of improvement training, that may be needed by the suppliers. Primary Suppliers and sub-contractors have been given a respective target of 20% and 35% water intensity reduction, which is to be achieved by 2020, depending on various manufacturing parameters.

Chemical process - Adidas also targets 100% sustainable input chemistry 2020, by adopting the Manufacturing Restricted Substances List (MRSL) of the Zero Discharge of Hazardous Chemistry (ZDHC) group. This helps to phase out the usage of hazardous chemicals and provides the suppliers with a list of positive chemistry (the bluesign bluefinder), which are less harmful to environment. Adidas also has been instrumental in developing and implementing the ZDHC Wastewater Guidelines, an international wastewater standard, in 2016 and 2017. All the primary suppliers need to test their waste water according to the above guidelines twice a year.

Collaboration with various organizations: Adidas constantly collaborates with the organizations such as the Zero Discharge of Hazardous Chemicals group (ZDHC), the Sustainable Apparel Coalition (SAC), the International Chemical Secretariat (ChemSec) Business Group, the Better Cotton Initiative (BCI) and the Leather Working Group (LWG), in order to better managing the water wastage.

Risk management - In 2017 and 2018, Adidas has conducted a water risk assessment to check the specific risk exposure of people at the own sites and key suppliers. In order to manage the water risk management issues, Adidas has created the greenWATER Fund, which funds for the relevant training and sturdy materials, to help the suppliers learn how water risk management may be integrated in all aspects of their operational decision making. Also, the HIGG Facility Environmental Module (FEM) 3.0 has been used by Adidas, to help identify suppliers in high water risk areas.

### **Approach to climate change**

In order to create a positive impact on climate change, Adidas makes an attempt to reduce energy consumption and CO<sub>2</sub> emissions, through a number of initiatives. They are as follows:

In Adidas' own operations: Adidas established a certified Environmental Management System (EMS). Adidas' Green Company program has been initiated to improve the environmental performance at Adidas' own sites worldwide globally, including administration offices, own manufacturing sites, distribution centres and retail stores. The greenENERGY Fund has also been

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created to fund the budget for the above purpose. In addition, Adidas reports its progress in regard to carbon emissions through the Carbon Disclosure Project (CDP), since 2007.

In the supply chain: Adidas provides training to suppliers in energy efficiency to implement environmentally friendly ideas and technologies, such as, 'Low Waste', 'DryDye' and sourcing 'Sustainable Cotton'.

Apart from the apart, Adidas is a founding member of the Sustainable Apparel Coalition (SAC), with the United Nations Climate Neutral Now Initiative. Adidas also joined with European Union policymakers on mandatory carbon reporting and environmental impacts of products, and, with the Business for Innovative Climate and Energy Policy (BICEP).

Some of the significant landmarks towards sustainability steps (<https://www.Adidas-group.com/en/sustainability/products/sustainability-innovation/>):

Parley for the oceans - Adidas is a founding member of Parley for the Oceans, an environmental organization and global collaboration network, with a commitment to Parley A.I.R. (Avoid, Intercept, Redesign) strategy. Reduction in the usage of plastic and to use Parley Ocean Plastic (an eco-innovative replacement for virgin plastic) is the main objective here.

Futurecraft.loop - Adidas has come up with Futurecraft.loop, a 100% recyclable performance running shoe. This is a significant initiative towards reducing the plastic waste and promoting a circular manufacturing model with repurposed raw material (for the same type of shoe).

Sport infinity - Adidas has been engaged in a research project called 'Sport Infinity', funded by the European Union, which aims to improve the overall manufacturing process of sports goods.

Biodteel fiber - The Adidas Futurecraft Biofabric prototype shoe is built from 100% Biosteel® fiber. This fiber is a natural biodegradable fiber, developed by the German company AMSilk. The material makes the shoe 15% lighter in weight and strong.

Adidas drydye - In 2012, Adidas introduced the DryDye technology process, which uses no water, 50% fewer chemicals and 50% less energy than the conventional fabric dyeing process.

In 2013, Adidas was awarded with the OutDoor industry award for its Spring/Summer 2014 Terrex Swift DryDye teeshirt (as products of high ecological and sustainable value).

Adidas nodye - Adidas has introduced NoDye technology in 2014, which, unlike the traditional material manufacturing process, does not include dyeing. This helps in saving water, and less

consumption of chemical and energy.

Low waste - Adidas has taken low-waste initiative in footwear and sports apparel, by developing the process to manufacture the products with fewer parts, recycled materials and maximum pattern efficiency. This leads to reduction in material waste. For example, it results into 500g less waste per shoe.

Chemical footprint - Adidas has been advocating for the movement to bring improvement in factory operations to reduce the environmental decay. In this context, Adidas has been an active member of the Sustainable Apparel Coalition (SAC), the Roadmap toward Zero Discharge of Hazardous Chemicals (ZDHC), the AFIRM Working Group on Restricted Substances, the Chemicals Management Working Group of the Outdoor Industry Association (OIA) and in the Global Social Compliance Program (GSCP).

(<https://www.Adidas-group.com/en/sustainability/products/end-of-life/>)

Green company program - Green Company program, launched in 2008, targeted at the continuous improvement in the environmental impacts of Adidas' work operations. Some of initiatives under this program involve expansion of the integrated management system (IMS), which integrates ISO 14001 (Environment), OHSAS 18001 (Health and Safety) and ISO 50001 (Energy). In addition, Green Funds is a unique fund, which act as a source of capital for energy efficiency and green energy projects across all Adidas locations. It has proved to lead to carbon reduction, with almost 80 projects already supported by this financial source ([https://www.Adidas-group.com/media/filer\\_public/3b/ca/3bcad96e-670d-4be1-8175-51c80330215b/2018\\_Adidas\\_green\\_company\\_report.pdf](https://www.Adidas-group.com/media/filer_public/3b/ca/3bcad96e-670d-4be1-8175-51c80330215b/2018_Adidas_green_company_report.pdf)).

### **Awards and recognition for Adidas**

The initiatives, discussed in the earlier sections, resulted into Adidas' reputation for its concern about sustainability in fitness fashion.

Some of the significant award and recognition, received by Adidas, are as follows (<https://www.Adidas-group.com/en/sustainability/managing-sustainability/awards-recognition/>):

- Dow Jones Sustainability Indices - In 2018, Adidas has been listed as industry leader among the 2500 companies, listed in the Dow Jones Global Total Stock Market Index, on the sustainability performance. Adidas has been listed 19 times, in a row.

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- **FTSE4Good Index Series:** In 2018, Adidas featured in the FTSE4Good Index, which have been created by the global index provider FTSE Russell and is designed to measure the performance of companies on the parameters such as Environmental, Social and Governance (ESG) practices.
- **MSCI Global Sustainability, ESG and SRI Indices:** Throughout 2018, Adidas maintained its position in the MSCI World ESG Leaders Index, MSCI Global Sustainability Indices and the MSCI Global SRI Indices.
- **STOXX Global ESG Leaders Indices:** This index family also measure companies on environmental, social and governance performance. Throughout 2018, Adidas AG was once again included in this index.
- **Global 100 Index:** In 2018, Corporate Knights, a Toronto-based media and investment advisory company, has listed Adidas in its initiative called 'Global 100 Most Sustainable Corporations in the World', during the World Economic Forum in Davos, Switzerland
- **Green Supply Chain Corporate Information Transparency Index:** Adidas retained its position among the top ten companies in the leather and textiles industry in the annual Green Supply Chain Corporate Information Transparency Index (CITI), which helps in assessing brands' environmental management of their supply chains in China.
- **Fair Labor Association Accreditation:** since 1999, Adidas has been active on the Fair Labor Association (FLA), a non-profit multi-stakeholder coalition of private corporations, non-governmental organizations and universities. The company received accreditation for its social supply chain program by the FLA, many times.
- **Know the Chain Benchmark:** In 2018, the KnowTheChain has ranked Adidas ranked first out of 44 apparel and footwear companies.
- **Stop Slavery Award:** In 2017, Adidas won the second Thomson Reuters Foundation Stop Slavery Award in London, as a recognition towards excellence in identifying, investigating and rooting out forced labor from their supply chains.

### **Conclusion**

As mentioned by EDER-HANSEN et al (2017), the fashion industry, needs to carefully balance the parameters, such as, profitability for the organizations, employee welfare, environment friendliness, and compliance and governance, to achieve long term sustainability. It is evident

that fashion industry has started taken the issue of sustainability seriously in recent years. For example, (Lehmann et al, 2018) , in their study "Pulse Score of the fashion industry", have revealed that, between 2017 and 2018, the Pulse Score of the fashion industry improved from 32 to 38 (out of 100). Overall 75% of fashion companies have improved between 2017 and 2018. This confirms that the organizations in the said industry has started paying more attention in developing and implementing policies, keeping sustainability in mind.

However, it is also to be noted that, only global brands and regulatory framework may not be successful enough to bring the desired change in the mind-set towards long term sustainability. For the same, we need well-composed, system-wide actions that involve a broad gamut of various stakeholders. That requires visionary leadership, which needs to prioritize the business goal, invest in research and development for bringing out innovative environment-friendly products, collaborate with the civil bodies and NGOs, industry associations, and so on. Adidas has been proved as a pioneer in the industry and as acted as a role model in innovative initiatives in this context, which may inspire the other companies. (EDER-HANSEN et al, 2017).

### **Questions for class discussion**

This case can be used in the classroom in a classroom situation for generating discussions on sustainability issues, in general, and in the context of fitness fashion, in specific. Some of the questions, which may be used for class discussion, are as follows:

- Discuss the necessity of long-term sustainability, for an industry, such as, fitness fashion.
- Critically analyse the Adidas' strategy in terms of partnering with various stakeholder, such as governments, NGOs, Trade Union, civil society.
- Critically evaluate how an iconic company, such as, Adidas, emphasises on the well-being of the employees (own and of suppliers'), as a crucial factor, for sustainable business, keeping the legal and human rights compliance in mind.

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