



The development of a sustainability strategy with a focus on environmental issues in the context of MNCs: The business case of Adidas

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ABSTRACT

Title: The development of a sustainability strategy with a focus on environmental issues in the context of MNCs: The business case of Adidas

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Climate change and poverty are the main challenges which potentially endanger the continuation of the human species. Companies, with their global supply chains have adopted a range of sustainable actions and corporate social initiatives to act against these threats. But what are the drivers of sustainable action? Is it purely the consideration of future needs, or are there economic reasons involved? The fashion industry with its outsourced operations and global spanning supply chains comes up regularly in discussions about social and environmental impact. With the example of Adidas, this business case analyzes the drivers for sustainable actions, how they developed over time and how different drivers lead to different responses and strategic options. Students will be able to understand that external regulatory pressures lead companies to use reactive and defensive actions motivated by legitimation. Over time these actions of compliance and monitoring move to a proactive approach but are still based on legitimation. A shift towards a strategic focus on competitiveness as a motivator, as is Adidas collaboration with Parley for the Ocean, integrates sustainability across the whole supply chain and could potentially have a bigger and more positive impact on all sustainability dimensions if correctly aligned with current capabilities.

Keywords: Sustainability, Corporate Social Responsibility, Fashion, Climate Change, Sustainability Strategy

RESUMO

As alterações climáticas e a pobreza são os principais desafios que potencialmente colocam em risco a sobrevivência da espécie humana. Ao longo das suas cadeias de abastecimento globais, as empresas adotaram uma série de ações sustentáveis e iniciativas sociais corporativas para agir contra essas ameaças. No entanto, quais são os impulsionadores da ação sustentável? É puramente a consideração das necessidades futuras ou existem razões económicas envolvidas? A indústria da moda, com as suas operações externalizadas e cadeias globais de fornecimento, surge regularmente nas discussões sobre impactos sociais e ambientais. Através do exemplo da Adidas, este caso de negócio analisa os fatores que levam a empresa a desenvolver comportamentos e ações sustentáveis, a evolução dos mesmos ao longo do tempo e como diferentes motivos originaram diferentes respostas e opções estratégicas. O presente trabalho tornará possível entender de que forma as pressões regulatórias externas levaram as empresas a usar ações reativas e defensivas motivadas pela legitimação. Com o passar do tempo, essas ações de conformidade e monitorização transformam-se numa abordagem proativa, mas continuam a baseadas na legitimação. A mudança para um foco estratégico na competitividade como um motivador, tal como a colaboração da Adidas com a Parley for the Ocean, integra a sustentabilidade em toda a cadeia de abastecimento e poderia ter um impacto maior e mais positivo em todas as dimensões da sustentabilidade dado um alinhamento correto com as capacidades atuais.

Palavras-chave: Sustentabilidade, Responsabilidade Social Corporativa, Moda, Alterações Climáticas, Estratégia de Sustentabilidade

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LIST OF ABBREVIATIONS

CDP – Carbon Disclosure Project

CEO – Chief Executive Officer

CMO – Chief Marketing Officer

CSR – Corporate Social Responsibility

DJSI – Dow Jones Sustainability Index

GHG – Green House Gas

GWP – Global Workplaces

IMS – Integrated Management System

MNC – Multi National Company

NGO – Non Governmental Organization

PR – Public Relation

PFC - Poly- and Per Fluorinated Substances

SB – Sustainability Brand

SEA – Social and Environmental Affairs

WCED – World Commision on Environment and Development

1. INTRODUCTION

On the 4th November 2016, 170 countries signed the Paris Agreement to “[recognize] the need for an effective and progressive response to the urgent threat of climate change on the basis of the best available scientific knowledge [...]”.¹ Not long after, the United States of America pulled out of the agreement as supposedly it “is less about the climate and more about other countries gaining a financial advantage over the United States”.² Even though the scientific consensus is aligned on climate change being caused by humans and having a potentially irreversible negative effect on the planet, the second biggest country in terms of carbon emissions pulled out of a global voluntary agreement. Without the support of the state government, Multinational Companies (MNC) still uphold the Paris Agreement and develop environmental efficiencies. Looking at the bigger picture, companies are moving towards more sustainable development, which encompasses economic, environmental and social goals. But why are companies that strive for profits engaging in sustainability actions? What is driving them? There are already cases in which sustainable practices create competitive advantages, improve risk management, foster innovation, improve financial performance, build customer loyalty and attract employees.³ Research has shown, that investors are increasingly filing proposals for environmental, social and governance issues to public companies.⁴ Taking it further, some companies like Patagonia have embedded sustainability in their core business. It is profitable while also investing heavily into social startups, donating a share of sales to social foundations and most importantly linking economic success to the environmental performance of their products.⁵ Why should companies, which do not have a core focus on environmental or sustainable performance, begin to shift towards sustainable practices? This business case is exploring how and why adidas created a sustainability strategy, what the main drivers have been and what the current and future challenges for the company are.

¹ (United Nations, 2016, p. 1)

² (Mindock, 2017)

³ (Whelan & Fink, 2016, pp. 3-7)

⁴ (Serafeim, 2016, p. 3)

⁵ (O'Rourke & Strand, 2017, pp. 104-106)

This dissertation follows a case study format and should help students to understand the different drivers and mechanics for sustainable actions in MNC. The main question to be answered is:

What are the driving factors for adidas' sustainability challenge?

In order to answer the main research question following sub-questions have to be answered:

How did adidas develop and implement its sustainability strategy?

How should they adapt to successfully address their key challenges?

In contrast to companies that create sustainability measures because of negative events (e.g. Nike) or in which sustainability and environmental practices are at the value chain's core (e.g. Patagonia) adidas created a strategy but out of internal and external pressures, making it a compelling example. In 1989 it started phasing out chlorofluorocarbons and moved to being placed among the most sustainable companies in the world.⁶⁷ Adidas is also consistently publicly reporting on its environmental performance for owned operations as well as social performance for its supply chain and can therefore also support findings with quantitative information. Lastly, adidas has changed its approach to sustainability slowly since 2015, creating environmental products in collaboration with *Parley for the Oceans* and actively promoting them. Therefore, it is a great example of explaining drivers of sustainable action over time and the organizational effects thereof.

Table 1 summarizes the company's primary and secondary sources used for the analysis. The data sources can be identified as either externally reported data by adidas through its website, annual reports, sustainability reports, Green Company reports or internal primary data obtained through interviews and internal access to data bases. The nature of the obtained data will contain qualitative as well as quantitative information.

⁶ (adidas AG, 2017a)

⁷ (Forbes Media LLC, 2016)

<i>One to one interviews with adidas employees:</i>	
Frank Henke	Sr. Vice President of Social & Environmental Affairs
Alexis Haass	Director Sustainability Global Brands
Katherine Machler	Director ISO & Green Company
Anja Klieber	Sr. Manager Investor Relations - Sustainability

<i>Adidas' public information</i>	
Annual reports	Numbers and statements
Sustainability Reports	Numbers, statements and figures
Green Company Reports	Numbers, statements and figures
Website's information	Numbers and statements

Table 1: List of analysis' sources

This case explains how adidas' sustainability strategy was created and what the determinants have been through a process theory approach. The qualitative analysis will be supported by quantitative sustainability oriented data and interviews to increase the viability of the work. A statistical analysis will not be considered because of the nature of the thesis. This is in line with findings that process and variance theories can be combined in order to analyze various kinds of source data.⁸ It enables the body of work to identify implications for other MNCs under which conditions the same approach to environmental engagement can be implemented. The thesis case develops an understanding of adidas' sustainability strategy, and will also infer general statements based on the analysis.⁹ A narrative strategy will be used for introducing the historic development of adidas. It allows telling a “detailed story based on raw data.”¹⁰

⁸ (Guinea & Webster, 2014, p. 10)

⁹ (Fidel, 1984, p. 274)

¹⁰ (Langley, 1999, p. 695)

2. CASE STUDY

2.1 The company

Adidas is a multi-billion € sports company which was founded in 1949 by Adolf Dassler in Herzogenaurach Germany.¹¹ Since its beginning with 47 employees it grew to a MNC with around 57 million employees globally and a revenue of about 21 billion € in 2017.¹² Their product portfolio covers various brands. The main brand adidas is split between adidas Sports Performance which focuses on enhancing athlete's abilities through innovative and progressive training and performance products and adidas Originals, which focuses on lifestyle products and creates a crossover of athlete apparel and streetwear. Additionally, adidas provides a more juvenile oriented product range with adidas Neo and a wide variety of relatively smaller batch product ranges through numerous long and short running collaborations. The last brand is Reebok which was acquired in 2006. It strives to be the leading brand in the field of fitness and focusses on the American markets.

2.2 History

The brothers Adolf and Rudolf Dassler founded the "Gebrüder Dassler Schuhfabrik" in 1924 in Herzogenaurach, Germany.¹³ Their goal was to provide athletes with the best possible footwear for their individual needs. After WWII they separated and founded individual firms: Adolf founded "adidas" in 1949 and his brother "Puma" a year earlier. In 1967 the first track suit was presented to the public and marked adidas' expansion into the apparel sector. After Adi Dassler's and later his son's death the Dassler family left the company and it was transformed into a corporation and went public in 1995. In 2001, Herbert Hainer took over the role of CEO and led adidas into a new century with restructuring the company into its current organizational units of performance and lifestyle orientation. Reebok was purchased in 2006 and was repositioned as a fitness brand with a focus on generic training. Adidas' current strategic framework "creating the new" was presented in 2015 focuses on streamline operations and market response, creating innovative marketing concepts in six key cities to influence consumers more efficiently and developing an "open source" mindset through which athletes, consumers and

¹¹ (adidas AG, 2018a)

¹² (adidas AG, 2018c, p. 4)

¹³ (adidas AG, 2018a)

partners can better work together on improving processes.¹⁴ After 15 years, Herbert Hainer left and Kasper Rorsted succeeded him to drive continuous growth even further.¹⁵

The market positioning of adidas originated from the structural change at the end of the 90s in which the company, after almost defaulting, changed into a marketing and design firm, rather than a traditional sports equipment manufacturer.¹⁶ Adidas positions itself as an innovative sports company at the forefront of its industry.¹⁷ The core belief: “through sport, we have the power to change lives” indicates a focus on the consumer who should get inspired and empowered through the company. This is being supported by the mission statement “to be the best sports company/brand in the world” which is suggesting a leadership and premium positioning. Adidas’ product portfolio allows for a distinction between their main brands and different target consumers. Adidas Sport, which is innovation and technology oriented, focuses on performance and should push athletes to new heights. Adidas Originals, is the lifestyle section of adidas and is focused on being a creative brand which sets trends but also celebrates the heritage of the company, through various collaborations with celebrities like Kanye West or Pharrell Williams. Lastly, Reebok is adidas’ fitness oriented sports brand, which positions itself as the to-go brand for the though fitness-goer who is overcoming every obstacle in life.¹⁸ In distinction, Nike for example, operates under one brand and operates mission statement of “Bring inspiration and innovation to every athlete in the world: If you have a body, you are an athlete”.¹⁹ It is less competitive and more inclusive of all potential customers. With adidas’ definition of best as “We sell the best sports products in the world, with the best service and experience and in a sustainable way”²⁰ the environmental dimension is also covered. Comparing Patagonia’s mission statement: “build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis”²¹ the focus on sustainable dimensions in the core business becomes clear. Consequently, adidas focuses on competitive economic performance which includes environmental issues as a smaller subsection and necessity. This case suggests that adidas, in general, is not targeting the sustainably aware consumer.

¹⁴ (adidas AG, 2018e)

¹⁵ (adidas AG, 2016a)

¹⁶ (adidas AG, 2018a)

¹⁷ (adidas AG, 2018e)

¹⁸ (adidas AG, 2018b)

¹⁹ (Nike Inc., 2018)

²⁰ (adidas AG, 2015a)

²¹ (Patagonia, 2018)

2.3 The history of ecological thinking

As a footwear and apparel producing company adidas has an environmental effect across its complete value chain, starting with the resource extraction for its products, over the production and even after the sales the continuous washing of the products by the consumer. Therefore, the possibilities of reducing that impact allow for a diverse approach. In contrast to companies that have sustainability embed in their business concepts, adidas commitment grew over time spilling over from a reactive compliance approach to active management. According to adidas' Senior Vice President of Social and Environmental Affairs (SEA), Frank Henke, sustainability actions were shaped towards specific audiences, the "triple As" – Analysts, Activists and Academics. During the World Cup in 1998, activists claimed that the footballs for the event have been produced by jail labor in China. To not fall victim to a PR disaster, this issue has been directly addressed by the then CEO Robert Luis Dreyfus. "The thing was, it took us three days to clarify that no jail labor was used. This timespan was unacceptable!" Mr. Henke explained. In the aftermath, Asian supplier factories were assessed and led to the creation of workplace standards and new systems to transparently rank suppliers. Building on this, engagement with different activist groups and NGOs has been increased dramatically. To effectively dictate suppliers what to do, the factor of legitimacy was crucial.

In 1998 the SEA was created: according to Mr. Henke, two external factors have led to the first sustainability department. First, the negative effects of globalization were criticized by NGOs because of lower labor standards and environmental pollution. This increased the public pressure dramatically and links into the second reason of stakeholder pressure, as seen during the World Cup in 1998. With the creation of the department workplace standards, that described minimum requirements for the employee environment at suppliers, were implemented. They state "business partners must comply fully with all legal requirements relevant to the conduct of their business and must adopt and follow practices which safeguard human rights [...] and the environment".²² All suppliers are assessed against them and the results are published in Social & Environmental reports since 2001. Another important department, Sustainability Brand (SB) was created in 2007 as a sustainable product program to increase products' and materials' sustainability attributes. Since 2015 SB's collaboration with Parley for the Oceans has boosted adidas consumer facing communication for sustainability topics to impact the consumer's perceptions. In 2008 adidas created the Green Company program to transparently track

²² (adidas AG, 2016b)

and report the environmental impact of adidas' own sites. The program tracks data for own facilities and focuses on operational impact categories.

Adidas' first sustainability strategy "4P" built on these initiatives and aggregated actions into four categories: People, which focuses on social impacts; Product, which accounts for the product dimension like Better Cotton or digital sampling; Planet, which focuses on materials, own operations, supply chain and environmental management; and Partnership, which focuses on stakeholder management and partner development. From this approach "Sport needs a space"²³ emerged in 2016, adidas' current sustainability strategy, and aligned with the company's overall strategy. It prioritizes six areas in a holistic way to fully reflect adidas' key challenges. The main difference to the previous approach is an increasing focus on consumers realized through the reports' visual presentation and comprehensible language. Since 2018, reflecting a successful integration, sustainability data is being reported in the annual report.

2.4 The organizational structure

The organizational structure which deals with sustainability topics is a mixture of cross functional teams and committees but can be broken down into three main functions:

Social Environmental Affairs: Supply chain

SEA is a global department tackling the legal and social challenges of adidas and its suppliers. It includes legal compliance management but also supplier development and environmental compliance. SEA is the strategic center of adidas' environmental program and developed the sustainability strategy which affects all other departments by target setting, reporting and a common scope and focus. The department is also responsible for aggregating main KPIs from different teams analyzing them against the overall targets. As previously stated, the initial creation of the department was due to a potential PR risk created by a lack of transparency in the supply chain. Therefore, the early actions can be described as reactive risk management in the field of environmental and social issues. As the team started to create more and more company-wide standards for the suppliers and own operations, additional components became important leading to the distribution of operational responsibility in responsible functions. Because of SEA's work, adidas was one of the first companies ranked in the Dow Jones Sustainability Index (DJSI) and worked with the Global Reporting Initiative because of high transparency and

²³ (adidas AG, 2016c, p. 9)

corporate reporting standards. According to Mr. Henke, Adidas therefore acts as an industry leader in creating mandatory standards for suppliers in the textile industry. This created the inherent wish to stay on top of industry assessments and lead sustainability topics.

Sustainability Brand: Product

SB is adidas' product-oriented sustainability department. It is responsible for developing and evaluating current and future materials with a focus on environmental impact. Additionally, it is the consumer oriented side of sustainability management as it actively creating products for consumers. The most famous project is the collaboration with Parley for the Oceans, through which ocean plastic is upcycled into polyester for shoes and apparel. The biggest developments in the department were caused by two main events, Ms. Alexis Haass, Director of SB explains. The first was a consolidation of adidas' internal organization of its sport performance business. Before, brand management split between Sports Performance, Originals and other more marginally involved subsections. Creating one responsible position opened allowed for consolidating sustainable practices on a materials level. This facilitated the implementation of e.g. organic leather directly across all product levels. The second and more important development was the appointment of Eric Liedtke as the CMO in 2014. Ms. Haass states, that with his appointment a change towards a clear top management commitment to sustainable material usage could be experienced. Ms. Haass explains that she started working on sustainable materials during the Olympics in 2012 but because of separated responsibilities only a niche product section could be created. Eric Liedtke, was clearly aware of the profitable business case for e.g. using recycled polyester in products. He knew, customers do care about the sustainable commitment of companies, which was proven by internal consumer research and knew it can be profitable, therefore pushing the agenda. These economic enablers coupled with personal interest and commitment for sustainability changed the importance of sustainable materials at adidas. Adidas' collaboration with Parley, is proof of this development. For Parley products ocean plastic from the Maldives is being used to create recycled polyester. The main goal hereby is to build a profitable business case around sustainable products which show the same profit margins than standard products. With this, SB addresses economic and environmental sustainability and educates the consumer about environmental issues. Since 2015, the external communication towards the consumer through the Parley cooperation is steadily increasing and targets a new sustainability interest group. In addition, Anja Klieber, responsible for investor relations – sustainability,

noted that the consumer oriented communication led to a positive feedback from “triple A’s”, reducing critical investor information requests.

Green Company: Operations/Facilities

Global Workplaces (GWP) is adidas’ internal service department. It is responsible for various functions including facility management, maintenance, employee moves, site development and construction supervision as well as services like driver services, nutritional planning for the on-site restaurants and development and implementation of modern workplace concepts. Katherine Machler, Director ISO & Green Company explains: “The Environmental Services Team is responsible for the Green Company Program and the expansion and operation of the Integrated Management System (IMS) globally”. The linkage to the environmental dimension lies in the responsibility for facilities and utilities on site. “One day, Herbert Hainer, asked if we could create some sustainability program for our own facilities, as our supply chain work was internationally acknowledged”, Mr. Henke explained. This top management incentive led to the creation of the program which aligns on SEA’s take of monitoring and tracking individual performance. The aim was to create a program to proactively manage facilities, so that compliance with legislation as well as environmental efficiency improvements could be achieved and externally communicated.

Additionally, there are various teams supporting these main functions like e.g. Investor Relations for external reporting, communications for external marketing, Concepts to Consumer for environmental friendly store design and others.

2.5 Putting it into context: strategy and initiatives

The three organizational pillars can be found in the outline of adidas’ current sustainability strategy. This first value chain overarching strategy was publicly announced in 2015. It identifies six key priorities on which the company focuses, split into two categories:²⁴

Product:

We value water: Textile treatment and dyeing requires a lot of water and is responsible for a significant share of freshwater pollution. Therefore, adidas wants to save water 20% at their

²⁴ (adidas AG, 2016c, p. 6)

strategic and 50% at their apparel material supplier as well as 35% at owned sites until 2020.²⁵ Additionally, projects for clean water access and waterless production technologies should be expanded.

We innovate materials and processes: Adidas uses nonrenewable materials like synthetic fibers and cotton which create waste during production. Additionally, the chemicals used for processing these materials can have an environmental impact. Therefore, waste at strategic suppliers should be reduced by 20% and waste diversion for owned operations should reach 50% until 2020.²⁶ Furthermore Cotton should be replaced with sustainable cotton and virgin plastic should be phased out.

We conserve energy: Energy consumptions from fossil sources is driving climate change and impacts the natural resources used in the production process impacts the social environment. Adidas' goal is to reduce energy consumption at suppliers by 20% and their absolute Scope 1 and Scope 2 emissions by 3% annually for owned operations by 2020.²⁷

People:

We empower people: Adidas defines wellbeing and knowledge „as a driving factor for their success.“ This also includes workplace and operations standards which guarantee a safe and productive environment. Adidas wants to train their suppliers in terms of sustainable leadership and foster more international and cross-cultural development programs for their own employees.²⁸

We improve health: As a sports company adidas wants to promote health and an active lifestyle through internal and external programs. Until 2020 employees should be educated strongly in health and work-life balance, a global health management strategy should be developed and a way for boosting people's academic and physical performance through sport should be established.²⁹

²⁵ (adidas AG, 2016c, p. 12)

²⁶ (adidas AG, 2016c, pp. 12-13)

²⁷ (adidas AG, 2016c, p. 13)

²⁸ (adidas AG, 2016c, p. 14)

²⁹ (adidas AG, 2016c, pp. 14-15)

We inspire action: To achieve change throughout their employees and stakeholders which ultimately also have a sustainable responsibility, adidas wants to continue to encourage employee volunteering, inspire stakeholders and use athletes as role models to influence consumers.³⁰

Only three of the 6 prioritized targets can be consistently measured. The problem of quantifying social impact and employee engagement as well as the holistic view of sustainability in all dimensions is clearly represented in the “people” part of the strategic targets.

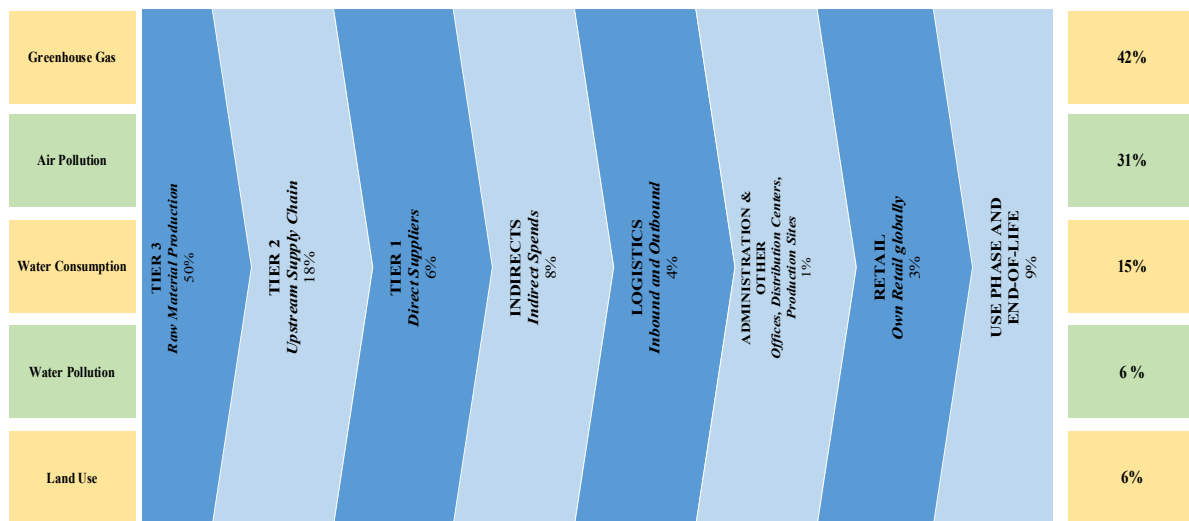


Figure 1: adidas' value chain and environmental impact³¹

Figure 1 visualizes adidas' environmental footprint across its value chain. It considers greenhouse gas emissions, air pollution, water consumption and pollution and land usage. Clearly, most of the impact is linked to suppliers (74%) and impact categories are being led by greenhouse gas emissions and air pollution (73%). Adidas own operations and direct control scope only covers 8% of the overall environmental footprint. Own management is therefore important but supplier development is even more crucial.

*SEA: Social performance and supply chain compliance in numbers:*³²

In 2017, adidas worked together with 782 independent factories in 56 countries.³³ This is a drop from 1038 in 2016 which was caused by the divestiture of TaylorMade and CCM Hockey and

³⁰ (adidas AG, 2016c, p. 15)

³¹ (adidas, 2017c, p. 12)

³² Appendix 1

³³ (adidas AG, 2018c, p. 95)

the consolidation of its factories and materials to reduce costs and environmental impact. Additionally, production occurred at another 360 factories of 62 licensees. 68% of all factories are located in Asia, 20% in the Americas and 12% in EMEA. Adidas's main environmental impact of 74% therefore occurs mainly in Asia. To ensure a minimum level of compliance these factories are being audited. In 2017, 1015 social compliance and environmental audits have been conducted which covered 48% of all active suppliers. Part of these, are regular assessments which create C- and E-KPIs for social compliance and environmental performance respectively.³⁴ For Social compliance 69% of direct suppliers fulfilled basic expectations of 3C or higher (on a Scale of 1-5). Only six factories in 2017 showed levels of concerns over serious issues and very weak commitment to compliance. These have a one-year grace period to improve or to lose the supplier contract. Forced or child labor and critical health, safety and environment conditions lead to immediate termination. In 2017 four supplier contracts have been terminated because of non-remediated threshold issues and in one case the refusal of factory access for planned audits. The three biggest individual labor non-compliance issues are basic wage, management systems for working hours and no standardized filing systems. In total 47% of factories are subject to C-KPI ratings in 2017. The E-KPIs track environmental data for suppliers and set targets of 20% reduction of energy, water and waste for Tier 1 Suppliers from until 2020.³⁵ Additionally, if suppliers are not on track of achieving these targets, support is provided through expertise and assessments for identifying implementation opportunities. The findings will be then rolled out as global guidance for suppliers to reduce their footprint.

Summarizing SEA is tracking, monitoring and developing suppliers on a social and environmental basis, which reflects most of the strategic targets of the sustainability strategy.

*Green Company: Environmental performance at owned facilities:*³⁶

The Green Company Performance Analysis covers offices, distribution centers and production sites with approximately 85% of global employee coverage.³⁷ Main targets of the program are the reduction of carbon emissions, energy consumption, water, paper and domestic waste usage per employee.³⁸ In 2017 adidas achieved an absolute carbon reduction of 29 % in contrast to their 2015 emissions.³⁹ This is partly decoupled from the energy consumption which shows a

³⁴ (adidas AG, 2018c, p. 96)

³⁵ (adidas AG, 2018c, p. 91)

³⁶ Appendix 2

³⁷ (adidas AG, 2018c, p. 90)

³⁸ (adidas AG, 2018d, p. 6)

³⁹ (adidas AG, 2018d, p. 7)

reduction of 33% since 2008 but only a 20% since 2015.⁴⁰ Water usage has decreased by 27 % relative to 2008.⁴¹ Regarding waste, consumption was reduced by 34% and paper, being the only KPI below target, by 48% against 2008.⁴²

In addition to the Green Company report more information is provided through the Carbon Disclosure Project (CDP) and the DJSI. These indices increase the viability of adidas' initiatives and award the running programs. The CDP is an international environmental NGO, which runs a global ranking system for measuring environmental impact on a self-reportable basis and scores companies on different sections annually.⁴³ The DJSI is a broader rating program, which invites companies to report social, environmental and financial data to generate investor focused industry cluster rankings. In comparison to CDP, the DJSI captures more data sets assess the overall long-term sustainability in various fields. Adidas was listed for the 18th consecutive time and is leading the "Textiles, Apparel & Luxury Goods Industry" in various categories.⁴⁴

Sustainability Brand and sustainable materials:

The commitment to Better cotton is one of SBs bigger projects. Better Cotton tackles the usage of normal cotton in products and reduces pesticides and water usage and promotes higher crop rotation and fairer working conditions.⁴⁵ In the last three years the share of Better cotton was increased from 43% in 2015 to 93% in 2017 and is set to reach 100% in 2018.⁴⁶ Not only cotton but also poly- and per fluorinated substances (PFCs) are being phased out of the production. For the year 2018, 99% of the spring-summer-season will be PFC-free. This share increased from originally 90% in 2014. Since 2015, the cooperation with Parley is also being rolled out with increasing product volumes. In 2017 one million pairs of Parley shoes have been created from upcycling plastic to polyester. SB is therefore affecting the impact of sourcing end of life for products and tackles the consumer dimension of the targets.

Considering all information, adidas started to minimize the risk in their supply chain by being as transparent as possible and standardizing practices across their suppliers to guarantee a level

⁴⁰ (adidas AG, 2018d, p. 9)

⁴¹ (adidas AG, 2018d, p. 10)

⁴² (adidas AG, 2018d, pp. 11-12)

⁴³ (CDP worldwide, 2018)

⁴⁴ (adidas AG, 2017b)

⁴⁵ (Better Cotton Initiative, 2018, p. 15)

⁴⁶ (adidas AG, 2018c, p. 93)

of sustainable management. This improved suppliers' environmental standards without affecting pricing and disrupted public supply chain reporting. Adidas made a good progress in reporting these efforts focuses on key indicators. An even higher transparency and especially a detailed data overview can be found in Green Company Program. It tackles all targets of the product level and is proactively engaging and expanding to cover more facilities. The problem hereby is, that it only affects 1% of the overall impact of the company. Lastly, SB is tackling issues at the supplier level with sourcing more sustainable materials therefore influencing the biggest share of environmental impact but lacks detailed public information on the actual environmental impact. Additionally, SB started improving the 9% impact at the end of life and use phase section with closed loop development and actual consumer communication and education.

2.6 Rolling out a global approach: drivers and the challenges

The impulse to change the current focus of hard to influence supplier management from a reactive perspective and a strong, low impact own operations management linked with the communication directed to specific educated stakeholders can potentially lead to benefits. A new approach towards a product and competitive focused sustainability strategy together with easy to understand communication to billions of potential consumers could increase adidas' competitiveness and establish it as a leader for environmental mass market products in the sports sector. Nevertheless, there is a risk of negatively affecting its credibility if the internal capabilities do not match the external communication.

The current strategic targets do cover quantitative and qualitative dimensions across the whole value chain. As the case shows, there have been different drivers for sustainable actions inside the three main departments. All departments have in common, that they were historically driven by top management as a reaction of external or internal events: SEA was created as a reaction of the CEO to an unknown risk of non-compliant supplying factories. Green Company was created as a smaller version of SEA, focused on owned operations because the CEO wanted to increase adidas' legitimacy claim of leading environmental management and act as a role model for suppliers. Lastly, SB started to gain momentum after a business case for profitable sustainable products could be build and a top executive was personally pushing the agenda through the normal organizational processes. Therefore, the original drivers of compliance, competitiveness and internal motivation have been pulling into different directions. As Green Company is strongly relying on compliance through tracking, monitoring and reporting environmental

performance and implementing standardized management systems globally, it can also be assumed that compliance is a strong driving factor. The direction of SB is a complete different one and could create challenges and opportunities in the future, impacting the overall sustainability direction. With the success of Parley for the Oceans, it was identified that creating environmental friendly products and communicating it simplified to consumers can reap economic benefits. The focus seems to shift from a compliance and legitimation stand point to a competitive and value creating orientation of sustainability towards the consumer. The difference in scale can be easily understood as on June 29th, 2015 a “United Nations X Parley” event took place, including a speech from the adidas CMO.⁴⁷ Ms. Klieber explains that “tracking, monitoring and risk management are increasingly hygiene factors for investors and are being used simply for negative screening. Everything points to the direction that the consumer will be driving future requirements to sustainable reporting with a focus on value creation.”

To find a viable solution, the CEO is being approached by Mr. Henke and Ms. Haass to find a transition between the different approaches. On the one side there is the historic viable view of Frank Henke who explains that: “The communication to the consumer, who is not educated in complex sustainability matters, is still in the beginning but is gaining more exposure and reaction than the process of creating credibility through transparent management which focuses on investors, academics and regulators. The consumer can be ambivalent in his behavior of requiring certain standards but not opting for investing into the company”. Opposing to this Alexis Haass contributes: “Consumers do care about sustainable engagement of companies, which is proven by our own research. Even if they are not buying the sustainable product they are more likely to buy at our stores and support environmental engagement. Additionally, the cost of producing from renewable resources can be profitable and therefore not disrupt financial performance but enhance it.” Kasper Rorstedt must now think about how the current and future drivers inside the departments, as well as requirements of all stakeholders’ influence the company and how processes and communication can be effectively managed to create the best possible impact on the environmental, economic and social dimension. Specifically, he must consider if a shift of external communication from a selected highly educated group of specialists, based on a reactive approach towards active incorporating consumers, who do not associate adidas with environmental leadership, will affect adidas’ overall credibility and if the internal capabilities are set out for this development.

⁴⁷ (Parley For The Oceans, 2015)

3. LITERATURE REVIEW

The following literature review should give examples of literature in the field of environmental engagement and sustainable development of firms. It will present the most important terms and definitions, showcase drivers which lead to sustainable actions and suggestions for operationalizing sustainability strategies.

3.1 Definitions and characteristics

In academic literature sustainability is a very broad term being applied to various fields and often substituted by corporate social responsibility (CSR), corporate responsibility, social ethical behavior and others. To understand what sustainability means, the nuances of CSR and stakeholder management, their differences and similarities have to be acknowledged. The most common and viable definition of sustainability is aligned to the WCED's definition of sustainable development which is "[...] development that meets the needs of the present without compromising the ability of future generations to meet their own needs"⁴⁸. Hence, sustainability is a goal which encompasses various dimensions for humanity to exist in the long run. A main term closely associated is the "triple bottom line" termed by John Elkington. Companies should look not only for their economic value creation, their profit bottom line but also their bottom line regarding social and environmental value.⁴⁹

The focus on social and environmental topics lead to the development of sustainability being often regarded as interchangeable with CSR.⁵⁰ The analogy comes easy, as CSR relates to companies having not only economic and legal obligations but also ethical and philanthropic responsibilities.⁵¹ To be viable, Carrol structures CSR into different components or responsibilities in a pyramid with the economic responsibility being the foundation of the others. Economic responsibilities include maximizing earnings and being consistently as profitable as possible. Legal responsibilities are the second layer but should be regarded as a second base and include the responsibilities of firms being law abiding citizens, working in expectation of governments and fulfilling legal requirements. The next level consist of firm's ethical responsibilities to comply with societal expectations, norms and standards. These should not be compromised by economic performance even if there is no legislation in place. Carrol states that ethical behavior

⁴⁸ (World Comission on Environment and Development, 1987, p. 44)

⁴⁹ (Elkington, 2004, pp. 1-2)

⁵⁰ (Van Marrewijk, 2003, p. 102)

⁵¹ (Carrol, 1991, p. 40)

goes beyond legal compliance but is affecting legal regulation. The last level represents philanthropic responsibilities. They represent voluntary responsibilities that are not expected but welcomed by society. Philanthropy and ethical behavior are on purpose separated, as ethical behavior complies with ethical standards and cannot be used for anthropological responses made of profits from unethical behavior. Even though there is a hierarchy, a firm should “strive to make a profit, obey the law, be ethical and be a good corporate citizen”⁵² at the same time. The linkages to sustainability and the triple bottom line with its social and environmental dimensions are evidently.

Carrol also states that CSR and stakeholder theory are a “natural fit” as stakeholder theory defines the social aspect of CSR more precisely.⁵³ Stakeholder management emphasizes the focus on processes on satisfying parties who have a stake in the company.⁵⁴ In this sense, stakeholders, which are “those groups and individuals who can affect or be affected”,⁵⁵ are an integral part of CSR. Bansal and DesJardine are contradicting the linkage of sustainability to CSR with arguing that sustainability in contrast to CSR requires tradeoffs across time through balancing profit and investment.⁵⁶ CSR does not have tradeoffs as it only deals with positive impacts for the society and the triple bottom line does not take time into account. They order sustainability in a systems view of relationships between organizational and macro systems in which competing stakeholder demands have to be balanced over time.⁵⁷ Hörrisch et al. are aligning on this approach of discriminating against CSR but include stakeholder management as CSR allows for redistributing value which was achieved through unsustainable actions.⁵⁸ The similarities with stakeholder theory contain the business purpose of being extended beyond maximizing short-term shareholder value, perceiving ethical issues as being interlinked with business, regarding profit making as not being immoral, and incorporating complex criteria into the management process. The dissimilarities include sustainability being more explicit on the linkage of social, environmental and ecological goals, highlighting the systems approach of the company moving in a broader ecosystem, incorporating explicitly the notion of time and consistency and challenging companies to shape sustainable development. Stakeholder management is therefore an applicable approach or theory to sustainability management which is a

⁵² (Carrol, 1991, p. 43)

⁵³ (Carrol, 1991, p. 43)

⁵⁴ (Freeman, 2004, p. 234)

⁵⁵ (Freeman, 1984, p. 25) Freeman (1984)

⁵⁶ (Bansal & DesJardine, 2018, p. 71)

⁵⁷ (Bansal & DesJardine, 2018, p. 72)

⁵⁸ (Hoerrisch, et al., 2014, p. 331)

concept and field of interest that encompasses more other approaches.⁵⁹ For this paper sustainability should be seen as the goal to allow a prosperous future in terms of economic, social and environmental value for future generations and CSR and stakeholder management as applicable and nonexclusive concepts integrated into sustainability.

3.2 Drivers of sustainability

Henriques and Sadorsky argue that companies engage in environmental behavior as a response to internal or external pressures.⁶⁰ Pressures can be divided into internal and external pressures. External pressures include regulators, the public and community and suppliers and contractors. Regulators can force companies to act environmental friendly by creating regulatory changes, establishing compliance penalties, eliminate certain products because of concerns or restricting material usage. The public and community can force companies towards environmental behavior through influencing legislators, changing buying patterns and engaging in civil suits. Internal pressures relate to shareholders, which can pressure a firm because of lower profits from paying environmental fines and disillusionment with progress towards goals linked to problems of raising capital and attracting investors. Additional internal pressures relate to the management team, which is criminally liable for environmental breaches or inability to identify compliance, and employees, due to the lack of training resulting in accidents or a higher tendency of whistle blowing if a non-commitment by management is perceived. Other factors facilitating the implementation of an environmental plan is financial liquidity, because of costs associated with the creating internal capabilities, and long term importance of environmental issues in the decision making process, because the bigger the perceived impact the more likely a strategy will be created.⁶¹ Firm size also affects environmental behavior due to larger firms being under more public pressure and higher public standards. The study has also found, that companies in more regulated industries are more likely to implement environmental plans. The sales to asset ratio as well as lobbying was found to negatively influence the creation of an environmental plan.

Harrison and Freeman have suggested that CSR is not being conducted because of intrinsic motivation but because of better financial performance.⁶² Stakeholders which “matter” are the ones which score high on the dimensions legitimacy, power and urgency. Increase in service

⁵⁹ (Hoerrisch, et al., 2014, p. 335)

⁶⁰ (Henriques & Sadorsky, 1996, p. 384)

⁶¹ (Henriques & Sadorsky, 1996, p. 385)

⁶² (Harrison & Freeman, 1999, p. 480)

levels of customers or stakeholders lead to a short term decrease in profitability but a higher market valuation which reflects long term benefit. External pressures only lead to decoupling of ethics programs from organizational procedures and therefore to fast and easy programs without extensive impact. The opposite is true for top management engagement which is linked to business integrated practices.

Delmas and Toffel are building on this approach with focusing on institutional pressures which are shaping actions focused on legitimacy.⁶³ They have found that younger suppliers are more likely to use reactive actions like a management system due to the lack of legitimation.⁶⁴ Drivers are governments which enforce regulation or reduce transaction costs through promoting knowledge, communities and environmental interest groups produce pressures through voting, joining NGOs or suing companies.⁶⁵ Customers pressure companies through requesting information and having the power to switch to a competitor, this is especially true for retail customers who are in direct contact with the product. They also suggest that the industry creates pressure through knowledge diffusion of MNCs practices which ultimately leads to higher competition which can force companies to catch up with environmentally leading competitors. Lastly, shareholders exert pressure through information requests, interests of institutional investors, and investor ratings. They have also found out, that the same pressures can result in different actions due to moderating effects of organizational functions.

Figure 2 visualizes Bansal's and Roth's model of corporate ecological responsiveness, which clusters individual drivers, explains influencing contexts and links everything to certain responses.⁶⁶ The main motivations behind environmental action can be clustered into different motivations. Competitiveness deals with increasing profit and does not have environmental benefit as a primary goal. Legitimation focuses on compliance with regulations, norms, values and beliefs. Environmental Responsibility focuses on a company's concern for its social obligations and values. These motivations are being facilitated by different contexts. Issue salience concerns itself with how issues are influenced by certainty, transparency and emotivity. Higher salience relates to higher competitiveness and legitimation and is normally seen in an ecological context. Field cohesion relates to the organizational field context, is driving legitimation. It is the "intensity and density of [...] network ties between constituents and organizational fields"⁶⁷.

⁶³ (Delmas & Toffel, 2010, p. 5)

⁶⁴ (Delmas & Toffel, 2010, p. 15)

⁶⁵ (Delmas & Toffel, 2010, pp. 7-10)

⁶⁶ (Bansal & Roth, 2000, p. 729)

⁶⁷ (Bansal & Roth, 2000, p. 730)

It is being facilitated by geographical and social proximity and is high if negative images, regulations and industry associations are in place. Lastly individual concern covers the individual context and consists of shared environmental values and the discretion to act on them. It facilitates environmental responsibility.

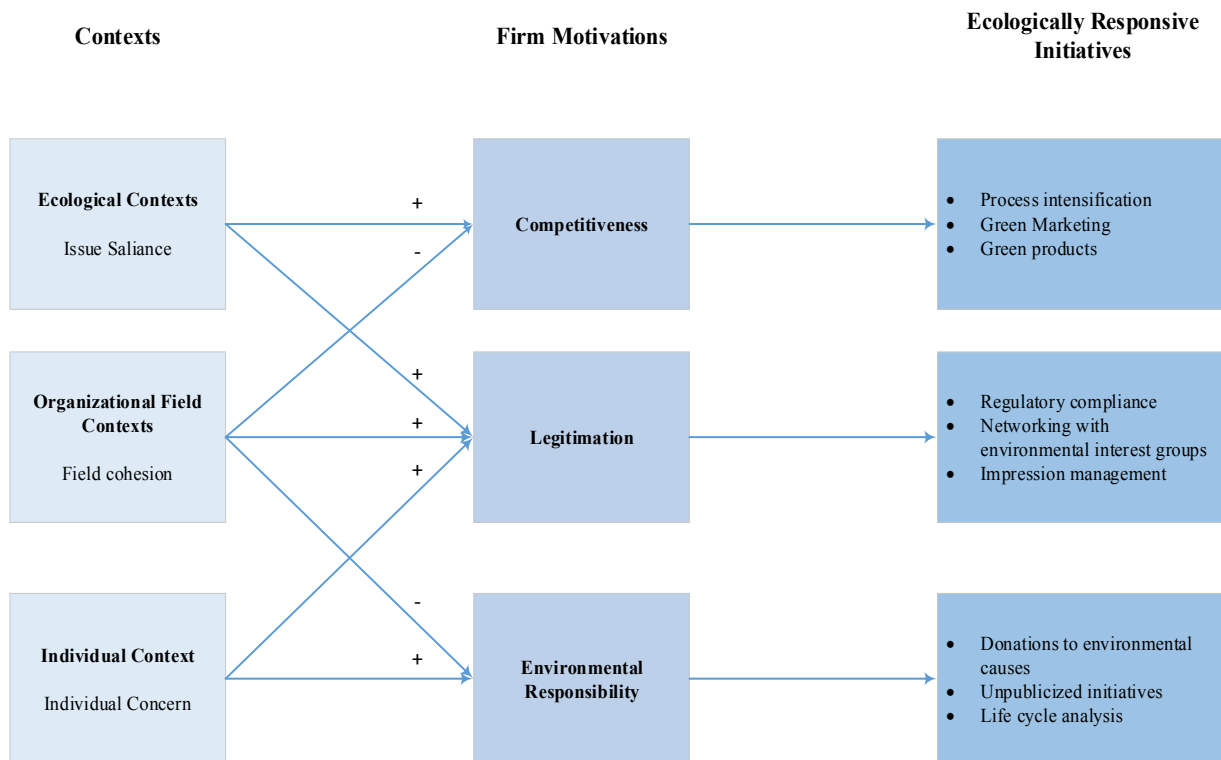


Figure 2: Advanced Model of Corporate Ecological Responsiveness⁶⁸

3.3 Operationalization of sustainability strategies

Bansal and Roth's model is also showing actions in which companies engage based on different motivations.⁶⁹ Competitiveness leads to green products, green marketing and process intensification. Legitimation leads to regulatory compliance, networking and impression management. Lastly, environmental responsibility leads to donations, unpublicized initiatives and life cycle analysis. Social responsiveness, according to Carroll, is the capacity of a company to respond to a societal pressure.⁷⁰ This can range on a continuum which starts with doing nothing and having a reactionary approach to doing much with a proaction-approach as seen in *Figure 3*. Clarkson

⁶⁸ (Bansal & Roth, 2000, p. 729)

⁶⁹ (Bansal & Roth, 2000, p. 729)

⁷⁰ (Carroll, 1979, p. 501)

developed the RDAP scale based on Carroll's categories in order to evaluate corporate performance and adds performance and posture levels.⁷¹ He aligns on social responsiveness model and clusters companies actions into reactive approaches (deny responsibility), defensive approaches (admit responsibility but fight it), accommodative approaches (accept responsibility) and a proactive approaches (anticipate responsibility). The related performance categories are doing less than required, doing the least that is required, doing all that is required and doing more than is required.

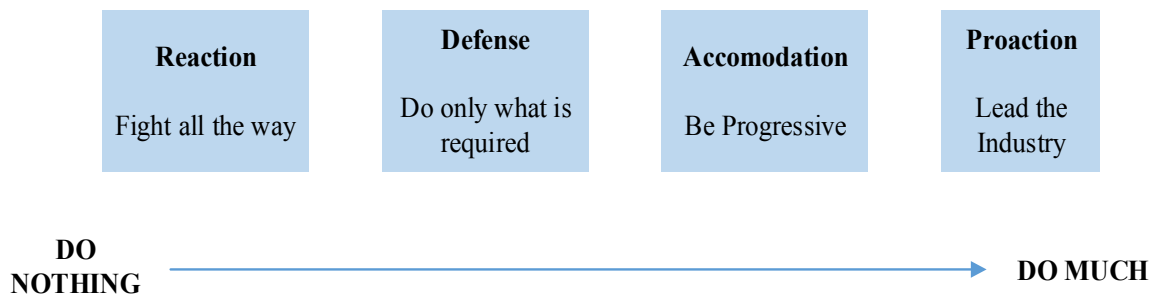


Figure 3: Social Responsiveness Categories⁷²

With these, actions like regulatory compliance are being categorized as defensive or accommodative strategies depending on the responsibility acceptance. Contradicting, Slawinski and Bansal argue, that with the notion of time, different actions have to be evaluated not on a continuum which sorts actions into bad and good.⁷³ The time constant requires tradeoffs which lead companies to be either focused or integrative. Focused companies approach sustainability with into technologies and a narrow applicable field like energy efficiency. Investments can result in satisfying current legislation in some fields and pioneering development in others. These companies can act faster and efficiently but may not address problems broadly. Integrative companies are slower to react as they consider the past, current and future developments and may address climate change as a whole but will have to drive short term solutions because of climate change's complexity. Additionally Sharma and Vredenburg found evidence that firms with proactive environmental strategies create multiple dynamic capabilities and with it competitive advantages which can only hardly be copied by followers.⁷⁴ This is also supported

⁷¹ (Clarkson, 1995, p. 109)

⁷² (Carroll, 1979, p. 502)

⁷³ (Slawinski & Bansal, 2012, p. 1559)

⁷⁴ (Sharma & Vredenburg, 1998, p. 749)

by the findings that only “genuinely green credentials are effective for acquiring social legitimacy”⁷⁵ and fast defensive greenwashing actions can have a negative effect on legitimation.

Kolk and Pinkse identified 6 strategic options for climate change.⁷⁶ They suggest that the two basic categories are “make or buy” and “make and sell”. Either companies invest in order to comply with minimum standards and they compensate with certificates or they innovate to be more efficient and sell emission certificates. These two options linked to the potential cooperation depth create a six-field matrix seen in *Figure 4*.

		Main Aim	
		Innovation	Compensation
Organization	Internal (company)	Process Improvement (1)	Internal Transfer of Emission Reductions (2)
	Vertical (supply chain)	Product Development (3)	Supply-Chain Measures (4)
	Horizontal (beyond the supply chain)	New Product/Market Combinations (5)	Acquisition of Emission Credits (6)

Figure 4: Strategic Options for Climate Change⁷⁷

Innovation deals with the development of new environmental technologies or services. Compensation improves the internal technological assets and competencies. Compensation does not alter competencies and they use otherwise developed technology. In a cap and trade environment (emission market) compensators are in need of innovators in order to keep the balance.⁷⁸ Innovation encompasses either production or product improvements. Compensation,

⁷⁵ (Berrone & Andrea Fosfuri, 2017, p. 375)

⁷⁶ (Kolk & Pinkse, 2005, p. 8)

⁷⁷ (Kolk & Pinkse, 2005, p. 8)

⁷⁸ (Kolk & Pinkse, 2005, p. 9)

focuses on transferring emissions. An internal approach for compensation involves integrating targets into investment decisions and “a first step for internal compensation is usually an inventory of GHG emissions, followed by target setting and the monitoring of progress in achieving these targets”.⁷⁹ The purchase of electricity from renewable sources and combined heat and power plants in one of the most common supply chain measures because it reduces the environmental impact of the input factor. Lastly, the purchase of offsets and other credits transfers emissions away from the supply chain. The main driver for what strategies will be implemented will depend on the managerial perception of climate change. Based on the findings six climate strategy configurations were developed:⁸⁰

1. Cautious planners are preparing for action, have low scores in all strategy options, and do not show a lot of activity.
2. Emergent planners started to develop a climate strategy and have already set targets.
3. Internal explorers show a combination of target setting and internal improvements on production procedures.
4. Vertical explorers focus on measures within the supply chain because decreasing input for products reaps greater benefits for them as internal improvements.
5. Horizontal explorers show moderate scores on most sections but focus on particular actions. They look for opportunities outside of the business scope e.g. upcycling waste or closed loop usage.
6. Emissions traders have moderate scores on most sections but focus on the particular action of trading emissions and offsets.

Summarizing, companies can use a variety of operationalization strategies in order to focus their activities. They can focus on specific strategic options based on their assets and capabilities, or they can use actions which fit their motivational background. Lastly, they can use a hierarchical approach in order to develop from a reactive to a proactive firm.

⁷⁹ (Kolk & Pinkse, 2005, p. 10)

⁸⁰ (Kolk & Pinkse, 2005, pp. 12-15)

4. TEACHING NOTE

4.1 Introduction

The case is exploring sustainability management with a focus on environmental topics at adidas, a multi-billion-dollar sports company from Herzogenaurach, Germany and how drivers are affecting the overall sustainability strategy. It describes the historic development from a reactive approach of supply chain transparency towards a proactive management of environmental issues at a product level. Issues highlighted in the case for discussion include: What are drivers for sustainability or CSR actions at MNCs? How are specific drivers related to specific actions? And finally, how can drivers positively or negatively affect the strategic direction adidas is taking.

4.2 Case overview

The case opens with an introduction of adidas and its different brands. It gives the students a characterization of adidas' positioning in the market and a feeling of the organizational scale, which encompasses a global spanning supply chain with high profile products and disproportionate high supply chain impact in relation to own operations. After the general company overview, the case introduces Frank Henke, SVP of Social Environmental Affairs (SEA) who provides information on the historic development of adidas' sustainability initiatives. These initiatives date back to the end of the 90s when adidas got challenged about its alleged labor practices at suppliers. The delayed response time of clearing the questions lead to the creation of the SEA team and a transparent approach to supply chain management. Following, various initiatives are introduced, focusing on social, environmental and legal compliance across various departments. One of these initiatives is the Green Company Program, which manages and tracks adidas' environmental performance for own operations. It uses capabilities in sustainability monitoring and reporting to enhance environmental reporting. Another department which continued SEA initiatives is driven by internal organizational consolidation and a strong CMO interest is Sustainability Brand. It is not driven by compliance and standards diffusion, but by building a business case around sustainability to leverage the consumers' tendencies to favor environmental friendly product materials. These three departments are the pillars of adidas' sustainability strategy and give insights into different drivers.

The case continues to explain how SEA, GWP and SB work towards adidas' sustainability strategy targets. These targets are a set of priorities including hard targets covering for example

carbon emission reductions of annual 3% for owned operations and soft targets like promoting health globally. The case showcases that most of the hard targets relate to owned operations which represents 1% of adidas' environmental impact. The whole supply chain, including sourcing, manufacturing and transportation is being operated by suppliers and can only be influenced by standards, audits, monitoring and tracking. SEA is actively controlling the suppliers, auditing them and engaging in education and training programs to enhance suppliers' environmental capabilities. Hereby, the environmental impact can be reduced and social and labor issues identified and solved. SB is tackling almost the complete supply chain, because it engages in sustainable sourcing and uses new materials for products and drives the sustainable brand experience for consumers. This relatively new approach, linked to the cooperation with Parley for the Oceans creates a shift towards consumer facing and integrated sustainability management on a product level.

Finally, the case elaborates exactly on adidas challenge' of strategic change. It can continue its having high transparency and data driven measures which increase compliance and standards across its value chain to report to a selected set of educated "triple A" clients and investors. Or, exploit the momentum of the collaboration with Parley in order to create a sustainability strategy which focuses on the consumer, potentially increasing sales. This could endanger adidas credibility as even if they are an established global player they are still new in the eyes of the sustainable aware consumer community. The final challenge is visualized by a meeting of responsables with the CEO: Looking at the historic drivers, should the sustainability approach be adapted? What are the operational options and what are the benefits?

4.3 Learning objectives

Due to adidas' widespread popularity, position in the public eye and operation in a controversial industry, the case gives students the opportunity to analyze and understand drivers and strategies for sustainability management in a for-profit environment. The case engages students in a topic which will become increasingly important: growing profits while increasing sustainable behavior.

Sustainability in a corporate environment

The main challenge of sustainability is to decouple economic growth from negative environmental and social impact. This is especially challenging in an industry, in which selling more is always better and margins are increased by outsourcing production to countries providing

cheap labor for worse working conditions all in the name of shareholder value. With disclosing information and enforcing standards, scandals like Nike's in 1996 for child labor can be prevented.⁸¹ The main motivation for disclosing information is legitimation, a key driver for sustainable actions. Companies perceive not complying with societal norms and expectations creates a threat to their actual existence, their legitimation. Most of today's companies have started with CSR after public requests of investors and NGOs about environmental and social practices in the 90s. In addition, legislation is being shaped by ethical norms, which since the identification of climate change as a threat to humanity has enforced stricter rules to battle negative impacts. But only monitoring and reporting is not enough, companies have to create value in order to legitimately claim being sustainable. Additionally, increasing interest, capabilities in sustainable impact assessment and aware consumers led to a focus on sustainability as an integral and value creating part of a company.

The case offers an opportunity to analyze the developments and motivations of sustainability initiatives, starting as supply chain monitoring initiative focusing on investors, academics and activists. Programs which are covering supplier auditing and education as well as supplier development are meant to decrease the environmental footprint but also to decrease the associated risks and communicate it effectively to the most influential parties. Since 2015, the steady increase in consumer facing programs like the expanding Parley for the Oceans collaboration is pushing into a different direction. Research at adidas has shown, that consumers do care about sustainable businesses and show a higher willingness to pay. Therefore, products which can be produced at nearly the same cost but with a sustainable component will have a positive influence on consumer behavior and can therefore become a competitiveness motivator.

Strategic options and actions for sustainable management

Building on the drivers the case offers students the possibility to discuss strategic options and directions of sustainability management and the concern of consistency in long term strategies. Adidas can choose various options when adapting their strategy. They can stay consistent to their historic developments of moving from a defensive position to a partly proactive one, keep reacting to and anticipating legislature, investors' information requests and activists' concerns and steadily increase standards and expand management systems. Or adidas can build on own

⁸¹ (Scamardella, 2014, p. 80)

research and focus on the possibility of creating products which positively impact the environmental footprint across the whole value chain while making a profit and increasing revenue for normal products. Naturally, the later approach is deviating strongly from the historic development and could spark potential consistency concerns or “green washing” claims as data is not yet that available on a product level as in the almost two-decade long supply chain and operations management organization. Students can discuss the potential benefits of changing the management model as well as the potential negative backlash and come up with solutions on how a transition, refocus or a dual approach could look like.

4.4 Assignment questions

1. *Identify adidas’ various drivers for engaging in CSR/ sustainability actions. Try to cluster the drivers into overarching motives. Are the drivers different in the three distinct sustainability departments and is there a dominant driver overall?*

2. *Did the drivers affect the operationalization of the strategy and the actions that have been performed? Analyze the strategy in terms of options and how can you characterize them? Have there been changes over time?*

3. *Assume you are the responsible for adidas’ sustainability strategy. Would you adapt the sustainability approach? Discuss the potential pros and cons and give a suggestion.*

4.5 Class discussion

The following teaching plan is structured for a 70 min case discussion. It is split into three major sections that build upon each other to facilitate a natural flowing discussion.

Introduction (5 minutes)

1. What are adidas’ different drivers for engaging in CSR/ sustainability actions? What is/ are the dominant one/s? (20 minutes)
2. How are drivers affecting the operationalization of the sustainability strategy and have there been changes over time? (20 minutes)
3. Should adidas adapt its approach to sustainability management? (20 minutes)

Conclusion: Wrap up and lessons learned (5 minutes)

What are adidas' different drivers for engaging in CSR/ sustainability actions? What is/ are the dominant one/s?

The instructor can start the discussion by asking students about the drivers of adidas' sustainability efforts and summarize these findings on the board. Students will identify activist pressure as an important driver as the original spark for creating the SEA team information requests during football World Cup in 1998. Additionally, building on the first answer other students will link it to the "triple As", the focus group of academics, activists and analysts. They will argue through specifically targeting these groups, adidas is being influenced by them to adapt their sustainability strategy towards their requirements. This includes taking part in various indices like the DJSI or the CDP to create credibility and legitimation. Some students will argue that the initial driver for sustainability was executive pressure, as executives have pushed for SEA's creation after the unsatisfying information retrieval, pushed for Green Company's creation as a reaction to the successful supply chain counterpart and even the successful creation of the Parley for the Oceans collaboration was strongly supported by the CMO. Looking into the three sustainability departments students will also identify that the drivers for SEA, GWP and SB are different. SEA and GWP are heavily transparency and compliance driven with data tracking and monitoring as well as internal target setting and auditing. SB is purely driven by economic reasons for increasing revenue, satisfying consumers which reaction positively on environmentally friendly products and to create shareholder value.

In the next step the instructor should ask if there are overarching main motivations which can be found by clustering the answers given by the students. Some students will argue that the motives can be clustered in external pressures, like NGO pressures, regulatory pressures and consumer pressures and others can be clustered into internal pressures, like executive engagement and internal motivation to stay in a leadership position in environmental reporting.

Lastly the instructor should explain, relying on Bansal and Roth, that the drivers of companies to act sustainable can be clustered into three main motivations: Competitiveness, legitimation and environmental responsibility and that these are facilitated by the contextual factors: Issue salience, field cohesion and individual concern. The instructor should then proceed to visualize Bansal's and Roth's Advanced Model of ecological responsiveness in front of the students and animate them to cluster the previously identified drivers in these three categories. Students will realize that most of the drivers are found inside the legitimation section with only SB's drivers

being in the competitiveness section, which will set up the issue of strategic focus or realignment for the next questions.

Students should identify that, adidas' drivers are historically linked to legitimation and credibility creation as a reaction to industry and production concerns in the textile manufacturing business. The first initiatives have been started as a reaction of activist pressures in order to create a transparent supply chain. Additionally, eliminating the threat of negative public backlash and reducing the risk of unknown uncompliant behavior against social and environmental standards and norms have driven the implementation of monitoring procedures for adidas' suppliers. The pressures adidas was reacting to, can be identified as external and are also implicitly linked to the "triple As" to which the sustainability strategy and information disclosure was tailored to. This can be seen by the example of increasing the share of better cotton or organic leather and supplier development programs. These initiatives build on interested outside parties' perception of Adidas. NGOs influence legislators and public opinion, Academics were the main drivers of awareness about climate change and analysts evaluate adidas in indices against its peers.

On the other hand, internal executive personal interest cannot be overlooked as every department grew because of executive commitment, which was automatically linked to more financial liquidity on a department level, higher issue salience and individual concern and a higher level of importance in the decision process. This is especially true for SB which could collaborate with Parley and grow their public exposure in recent years because of individual concern.

Clustering these drivers into Bansal's and Roth's Advanced Model of ecological responsiveness. Legitimation should be identified as the main driver for most of adidas sustainability actions as the focus is on compliance with international regulation and social and ethical norms. Without adidas' standards, transparent reporting, and monitoring system, even if actions are above regulatory requirements, the company would lose its legitimacy in the public eye. This is also being driven by a high issue salience, with increasing transparent and emotional discussions about sustainability and a great field cohesion which is favored by a negative reputation of the industry and global spanning supply chains. Lastly, the students should identify that SB with its product and materials oriented projects is being driven by competitiveness and facilitated by individual concern as the CMO personally acknowledges the profitable business case which can be linked to more environmentally friendly products.

How are drivers affecting the operationalization of the sustainability strategy and have there been changes over time? (20 minutes)

Building on the previous question, the instructor should first ask students what they think is “good” and what they think is “bad” sustainability management. Typically, students will relate short term oriented solutions like end of pipe technology or management by exception of supplier relations to “bad” sustainability management. On the other hand, long term investment into sustainable development goals, supplier education, and proactive environmental impact reduction can be accounted to good sustainability management. Some students will also argue, that good sustainability management relies on ethical values and social responsibility and should not focus on being purely profitable. With this a sense for different grades of sustainable behavior can be established. This prepares students for identifying operation models in accordance with Clarkson’s RDPA scale and Carroll’s social responsiveness model. In the next step students should link adidas’ drivers to these “good” and “bad” actions and arrange them. The students will organize drivers linked to ecological responsibility and competitiveness being on the good side, because they are driven by social and ethical values resulting from internal pressures e.g. adidas’ executive engagement and internal leadership motivation. On the bad side students will identify external pressures related to legitimation, like community pressures from potential mismanagement, NGO pressure through enforcing transparency, and regulatory pressure through new legislation. With this generic actions and specific drivers of adidas have been matched on a scale and the instructor can substitute the “good” and “bad” scale with Clarkson’s RDAP scale or Carroll’s social responsiveness model.

The students will realize that adidas’ original approach when creating supply chain management and monitoring procedures was reactive or defensive with reacting to external pressures by legitimate and powerful stakeholders. On the other side over time, internal pressures have created actions like the product oriented Parley Collaboration which should have a positive environmental impact and generate profit at the same time. This can be accounted towards a proactive approach as it involves active value creation and a consideration of the whole integrated value chain to deliver a positive impact in all dimensions. Lastly, the instructor should ask the students if they would change some of their drivers and/or actions regarding the model used. With this, students are given the opportunity to evaluate if all ecological responses based on legitimation are reactive or defensive. Some students will realize that even in the legitimacy domain there are differentiations, as proactive setting of standards, enforcing compliance and

anticipation of future regulation can lead to proactive approaches. This can be seen at adidas' workplace standards and voluntary management systems and supplier education programs.

Alternatively, the instructor can use Kolk's and Pinkse's strategic options for climate change to allow the students another view on strategic options that is not linked to a continuum but clusters the potential actions based on the organizational collaboration intended goal. With this model, students will identify adidas as having started in the fields of internal compensation and emission transfer and supply chain measures. Adidas has actively set targets for their own operations and have set targets for its supply chain. Additionally, suppliers are being developed and GHG emissions are tracked. With this, some students will argue, adidas qualifies either as an internal or vertical explorer. Given the changes over time, students will identify that the horizontal dimension beyond the supply chain got more important through carbon certificate purchases and a new product/market combination with the Parley Collaboration, making adidas a horizontal explorer and emissions trader for own operations. This development will prepare students for the third question.

Ideally students will identify adidas dominant motivation, legitimation, is clearly driving most of the initiatives which are related to increasing transparency, complying with local law and international social, ethical and voluntary standards. Additionally, there is a strong emphasize on reacting to external pressures from the "triple As". This is based on the historic drivers and initiation of SEA and the Green Company Program explained in the previous answer and in the case. In accordance with Clarkson's RDAP scale and Carroll's model of social responsiveness, adidas overall approach in the past should be located between the defense and accommodation sections of Carroll's model. Adidas did what was required by complying with the law but was also progressive with establishing standards above regulatory requirements and making their supply chain transparent. In Clarkson's RDAP scale adidas starts in between accommodative and proactive because of the same reasons. Over time, more and more proactive actions have been created based around legitimation drivers, like the Green Company Program which implement Integrated Management Systems at adidas own sites and is tracking the environmental footprint of adidas own operations, or the continuous development of suppliers through new rating systems and annual audits. The first purely proactive action, being driven by competitiveness and integrating sustainability into the whole value chain, was the collaboration with Parley for the Oceans through using ocean plastic as a raw material. This hints a potential strategic shift, which can be better visualized by adidas' movements in Kolk's and Pinkse's strate-

gic options matrix. It can be analyzed, that adidas started its sustainability approach using actions from internal transfer of emissions reductions through setting targets for its individually supply chain and own operations as well as making the whole value chain more transparent. Over time, the establishment of Green Company and especially SB shifted actions towards the option fields supply chain measures because of substitution of raw materials for better alternatives like the Better Cotton usage or organic leather roll out as well as the steady increase in renewable energy usage. Lastly, the Parley collaboration and carbon offset acquisitions have enabled adidas to use the strategic options “new product/market combinations” and “acquisition of emission credits” making adidas a horizontal explorer which can lead to a potential strategy focus change.

Should adidas adapt its approach to sustainability management? (20 minutes)

Consolidating the information acquired in the previous questions the instructor should ask the students if adidas’ current approach makes sense and if the changes which are being foreshadowed should be explored. Here the instructor should make a poll with a simple “Yes” or “No” answer. Students that have voted with “yes” will most likely argue around adidas’ development towards proactive ecological response actions, like the Parley collaboration, and the internal drivers of executive support and alignment with being a consumer driven for-profit-company which should create value for the consumers. Additionally, students will stress the importance of a competitive industry which does not have a dominant global player actively being involved in sustainable product models, which can create a competitive advantage. Next, the instructor should invite students which answered with “No” to present their arguments. These students will argue that adidas should not change their strategic approach towards a more consumer oriented one, as it could damage the credibility and legitimation created in fields of sustainable standards and transparent reporting based on historic developments. The argument is, that sustainability is not established as a part in the consumers’ mind and adidas’ business model. This can potentially lead to adidas being perceived as only using sustainable practices to drive revenue growth and jeopardize its reputation. To bridge the gap between these two sides the instructor should ask for “Are there ways to combine these two seemingly opposite views?”. As seen in the previous questions, adidas has focused on legitimation and only recently explored competitiveness motivations for sustainable actions. This does not mean that they will have to pursue only one strategic option. By relying on Kolk’s and Pinkse’s strategic options adidas can utilize different options in different parts of its value chain. With that in mind, some students

will propose to align the consumer facing strategic options with the capabilities of transparent supplier and operations monitoring. The main argument hereby is that a new target group and a new product/market combination can work in adidas favor, if the approach of tracking, and communicating openly about the impacts and standards can be realized, even when scaled.

In the final pasture of the class, the instructor should shift the discussion so that students envision themselves as the CEO having to make a decision. Some students will argue changing the strategy to focus on consumer oriented measures will reap a higher benefit because of the potential reach and the already established capabilities in supplier and operations tracking and development. Other students will argue that the consumer-focused actions should not be the main actions going into the future as it would contradict adidas' historic development and position as a multinational company which does not target specific sustainable aware consumers. Most likely, there will be a slight favor for changing towards a consumer oriented sustainability strategy if certain criteria are met.

Ideally students should connect the previous drivers and strategic options and models in order to understand that adidas' sustainability strategy is extremely focused on external regulatory and activist and analyst pressure. At the same time there is no alternative to changing the sustainability strategy towards a higher consumer facing orientation after the collaboration with Parley for the Ocean attracted so much interest, positive feedback and even had positive effects on "triple A" information requests. The drivers have shown, that competitiveness is a motivation which can lead to faster and result driven sustainability actions with a higher reach than legitimation drivers. The ecological response models also show that even though there are proactive actions from legitimation motivations, a lot of actions are still defensive or accommodative at least. Additionally, the strategic option diversification into a new product/market combination could potentially help adidas to gain a competitive advantage. With overcoming the challenge of having a consistent strategic approach building on internal capabilities from SEA and GWP to elevate SB's exposures and legitimacy claims a strategic refocus could have an extensive positive impact on adidas' environmental footprint and tackle the consumers' part of the value chain. It would integrate sustainability actions across the whole organization and not in specific departments and could enable adidas to accelerate their growth without increasing social and environmental risks.

Conclusion and Wrap up (5 minutes)

To conclude, the instructor should stress the understanding of drivers for sustainable action inside companies and the importance of the three main motives: Legitimation, Competitiveness and Ecological Responsibility, with the first one being the main driver not only at adidas but also in most of other industries. In terms of development, the importance of a strategic change from reactive to proactive sustainability actions should be explained with the help of adidas move towards an environmental friendly mass product range which is clearly a proactive approach but is built on historic defensive and legitimate developments, without the current state could not have been achieved. Lastly, the potential outcomes: Success as an established MNC which implemented integrated sustainability, or loss of legitimacy based on the lack of credibility in the mass market for product oriented sustainability should be touched. These will materialize in the next 3-4 years as adidas' environmental friendly products will be scaled and more direct impacts will be visible. It will all depend on how adidas will educate and face the consumer and sell a story while also transforming its legitimacy claims it build in its supply chain into a competitive advantage.

5. CONCLUSION

As seen in the business case and the teaching note, adidas is an example of a company which established a formal sustainability strategy because of external pressures from non-governmental institutions and regulatory compliance. This resulted in a strategy which is relying on transparency, compliance and reporting for communicating its sustainable improvements and is coming from a legitimation motivation. Nevertheless, changes in internal drivers based on better capabilities and resources linked with consumers' awareness about environmental issues have created the opportunity for engaging in proactive actions such as global product improvements and above industry level standards. This lead adidas from a company which only monitors and guides its supply chain in order to prevent reputational damage to a company which has a strong and transparent supply chain and own operations management, and is starting to market products which have been developed for being specifically appealing towards a sustainable aware audience. This is a first proof of a transfer towards sustainability being motivated by competitiveness and therefore creating economic and ecologic value.

This process is only beginning and it is yet to be seen if a strong strategy based on a legitimation motive can enhance the success and transition towards actions which are driven by a competitiveness motivation over time and keep its consistency. Still, it is a great example to showcase the different drivers of sustainable behavior and how they affect the strategic operationalization.

5.1 Contribution to literature and managerial implications

The topic of environmental engagement and sustainable development is of steady and increasing importance. It is a problem which can only be tackled by the global society as a whole and in specific through changing business practices. As MNC are a key driver of greenhouse gas emissions due to their size, this case provides insight into the drivers of a company with a global spanning supply chain. In current literature, business cases of MNCs that have either implemented sustainability into their business model from the beginning or that have reacted to environmental and/or social crisis have been discussed. There is little exploration of how MNCs have moved towards more sustainable practices naturally by using a business case approach and analyzing one global player. Therefore, the case contributes to literature by linking the theoretical frameworks of social and ecological responsiveness and drivers of sustainable actions to the real world outcomes as seen through various pressures and historic development of adidas.

As for managerial relevance, adidas is a good example of a strong, renowned fast moving fashion company which naturally has a global environmental impact as well as the possibility and willingness to tackle these issues. The main implications for managers are to understand that external and internal drivers need to be assessed in order to understand if the current sustainability strategy is fitting the companies' environment. After that, identification of the main motivation can lead to appropriate assessment of the gap between the ecologic responsiveness and the drivers and how to create more active approaches suitable for the strategic option set.

5.2 Limitations and future research

Even though the case gives insights into what drives and changes sustainability strategies of MNCs, there are clear limitations which must be acknowledged. First, the conclusions are based on the adidas' case and might not be representative in other industries or companies of the same scale which makes it hard to generalize the insights. Second, the data which was used, is acquired by interviews with company representatives, public data records and external statements and might be subject of biases on a company and personal level by the interviewed parties and

the author. Third, the theoretical frameworks and models used are selected because of their ability to give students the tools to understand the drivers and mechanisms that shape sustainable actions. Therefore, they over-simplify the complex issue of external and internal drivers for sustainable behavior in favor of creating general basic knowledge applicable in the professional life of students and managers alike. Building on this case, future research could investigate how other companies of the same scale in different industries or in the same industry react to different drivers, or if the same drivers lead to the same results.

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7. APPENDIX

7.1 Supply Chain Performance in numbers

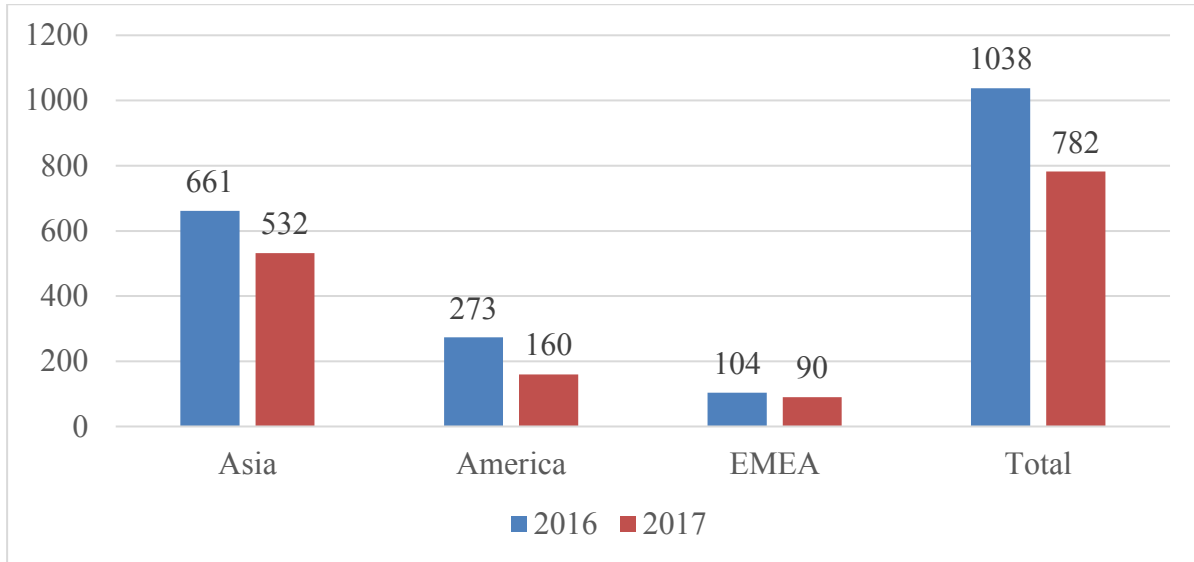


Figure 5: Supplier factories by region⁸²

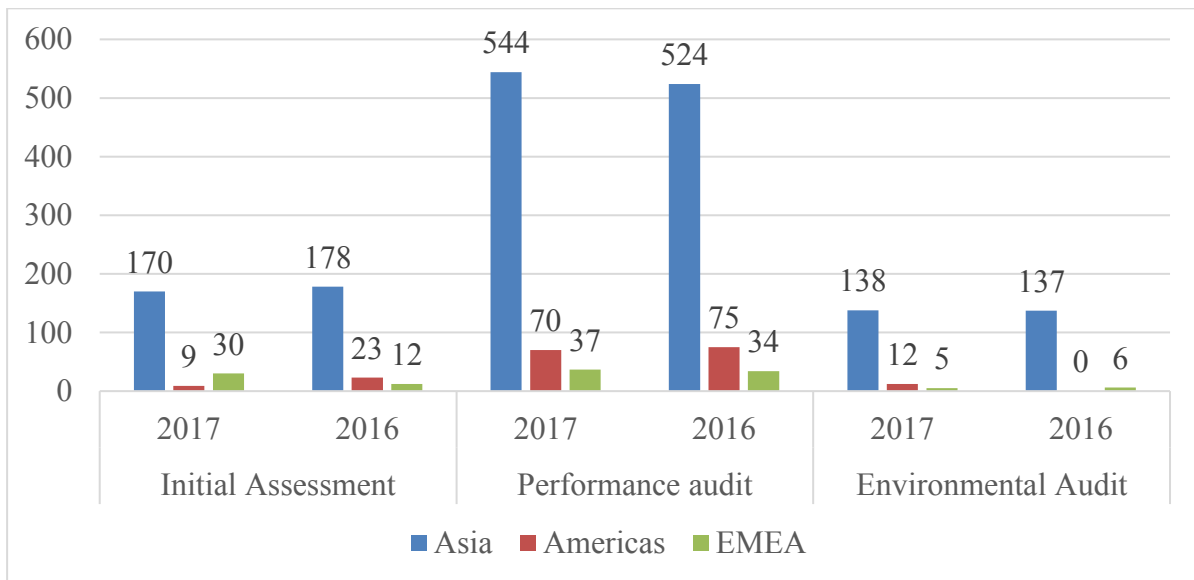


Figure 6: Number of audits by region and type⁸³

⁸² (adidas AG, 2018c, p. 95)

⁸³ (adidas AG, 2018c, p. 96)

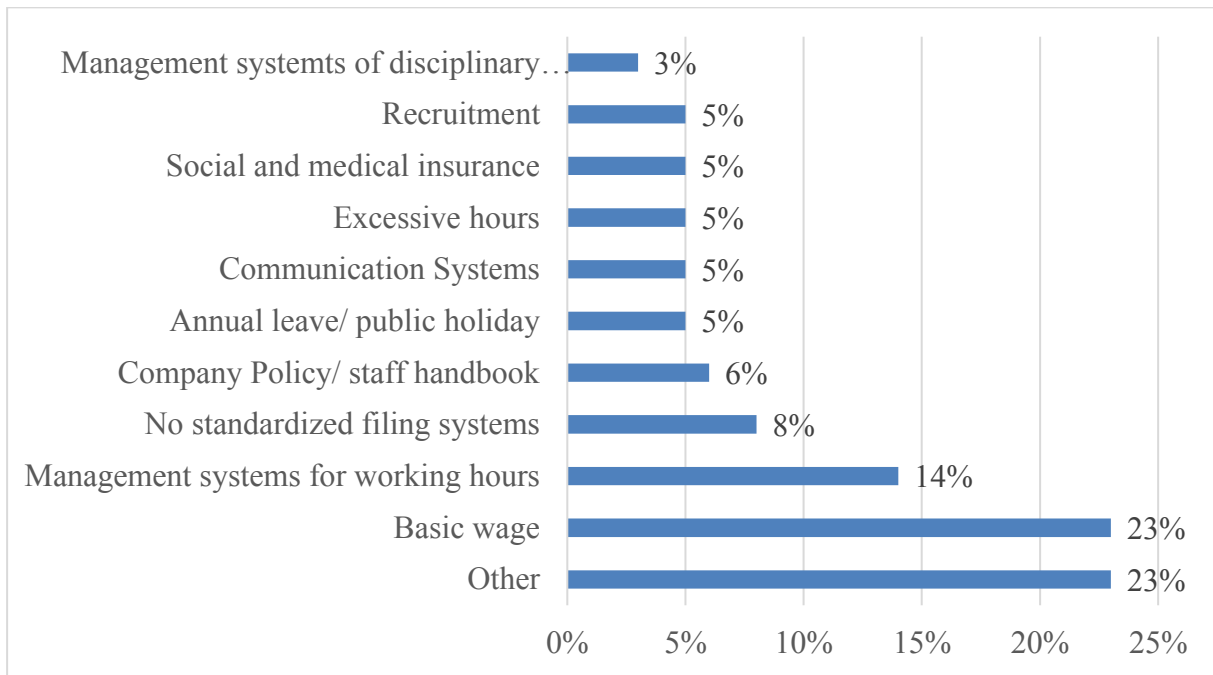


Figure 7: Major non compliance findings in 2017⁸⁴

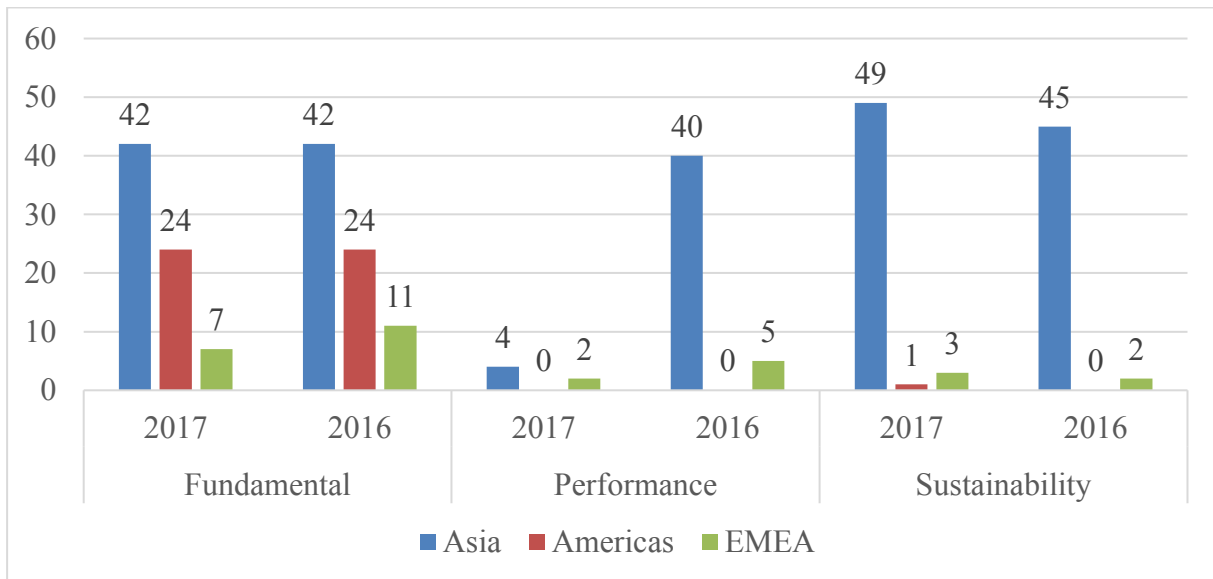


Figure 8: Number and type of training sessions per region⁸⁵

⁸⁴ (adidas AG, 2018c, p. 97)

⁸⁵ (adidas AG, 2018c, p. 97)

7.2 Adidas Green Company KPI targets

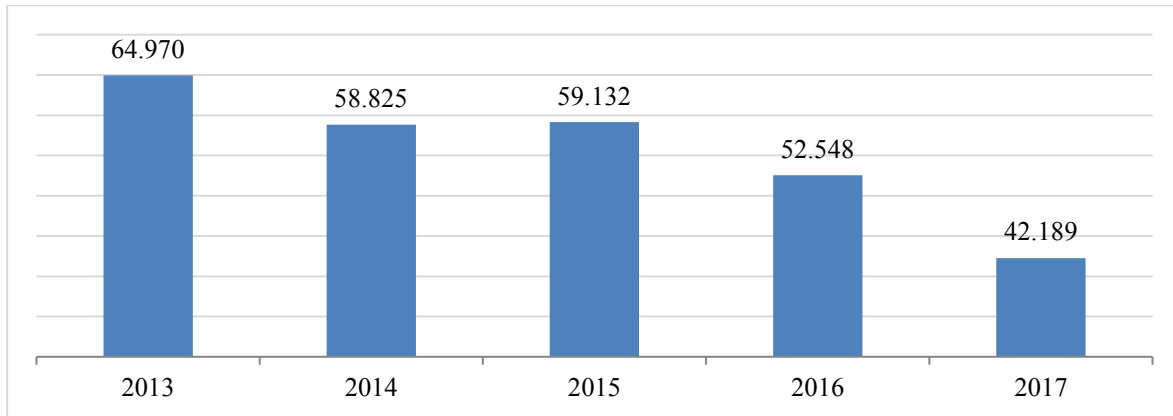


Figure 9 Net carbon emissions in t ⁸⁶

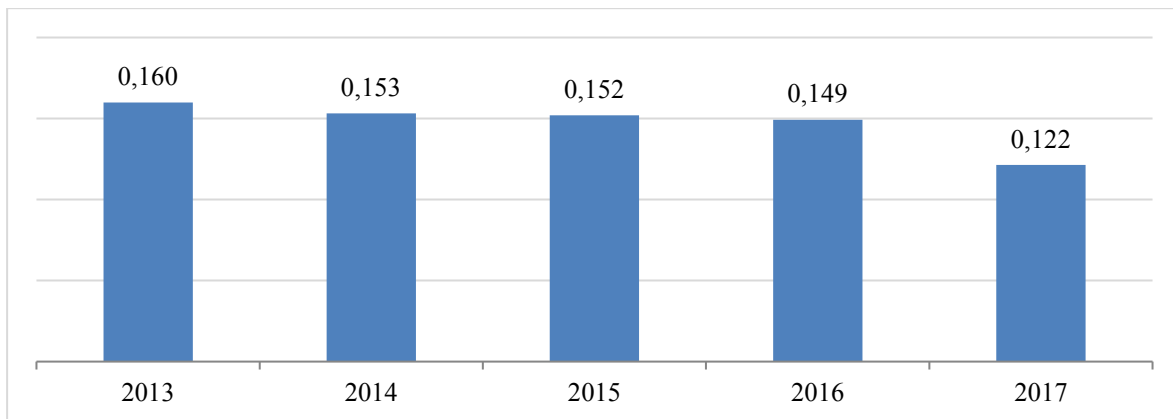


Figure 10: Energy consumption per m² in MWh / m² ⁸⁷

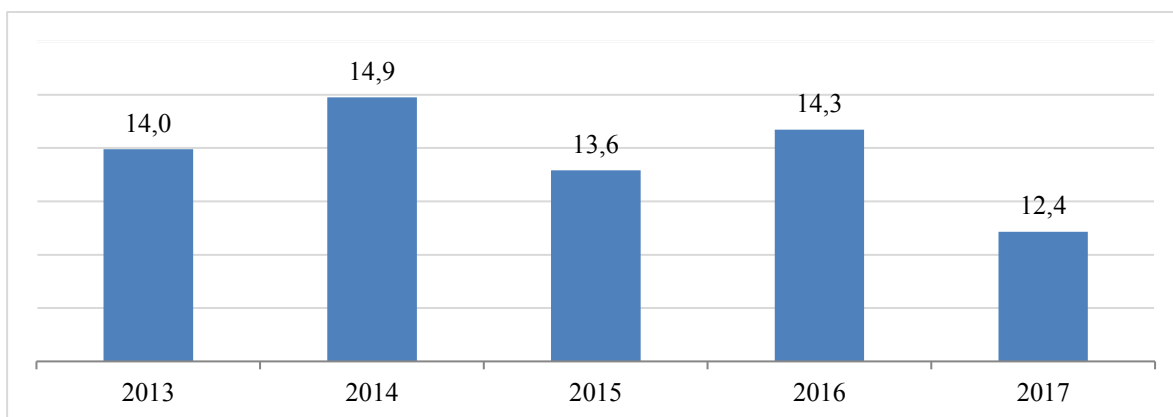


Figure 11: Water consumption per employee in m³/ employee ⁸⁸

⁸⁶ (adidas AG, 2018d, p. 8)

⁸⁷ (adidas AG, 2018d, p. 9)

⁸⁸ (adidas AG, 2018d, p. 10)

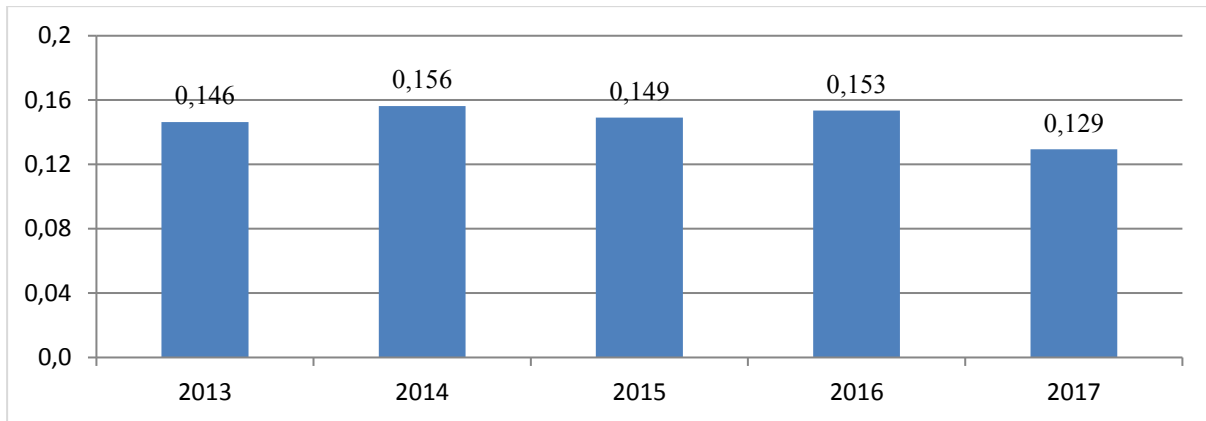


Figure 12: Domestic Waste per employee in t/employee⁸⁹

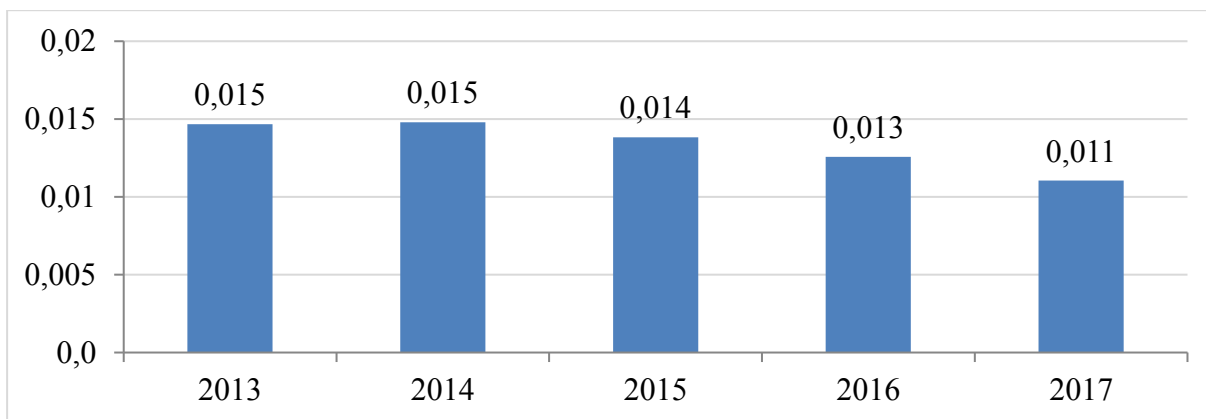


Figure 13: Paper consumption per employee in t/employee⁹⁰

⁸⁹ (adidas AG, 2018d, p. 10)

⁹⁰ (adidas AG, 2018d, p. 11)