Strategic case: Change and change management in adidas AG

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This business case is made on the base of direct observations at adidas AG in the first months of 2017. These observations have to be seen in the framework of a master's degree internship at adidas HQ in the finance department project management office. Smartsheet is an actual project at adidas AG and all the analysis done in this business case are based on actual problems encountered during the implementation of the tool. This business case gives a direct unique insight in how projects are done at adidas AG. it is important to mention that this business case is purely our intellectual product and interpretation and it was not written in a cooperative work with adidas.

In the first part of this business case, we present the general history of adidas from a change perspective. This text gives an overview of some of the major changes that have affected adidas rather than an exhaustive account of all the change moments in the company's history. In the second part, we focus on one specific project in adidas in which change and change management were applied.

I. adidas history 1924–2017 from a change perspective

The history of adidas began when Adi Dassler registered the "*Gebrüder Dassler Schuhfabrik*" in 1924 and embarked on his mission to provide athletes with the best possible sports equipment. Gold medals in Amsterdam (1928, Lina Radke) and Berlin (1936, Jesse Owens) were the first signs that his sports gear was revolutionary.

1949 represents a key moment in the history of adidas because, in that year, Adolf Dassler started the "*Adi Dassler adidas Sportschuhfabrik*." The first shoe this factory produced was the widely known three-stripes shoes. The company was an immediate success and the business continued to grow throughout the 50s, 60s, and 70s. Each year, the company grew in popularity and in response to this, the product range had to be widened too. Despite the tremendous growth, Adolf Dassler maintained a central role in decision-making processes, something that was deeply appreciated in the family nature of adidas. Commercial expansion was due in large part to the international efforts of Adolf Dassler's son, Horst, who realized that to sustain growth adidas had to expand internationally. He opened offices in the UK, France, and the USA.

The first change moment came in 1987 with the death of Horst Dassler. He had developed adidas into a flourishing global sports company with an enormous client base. His death marked the end of a period of stability for adidas and also the end of the Dassler era. The end of the 1980s and the beginning of the 1990s was a time when adidas AG was in stormy commercial waters, and you could say the company was like a rudderless ship.

The consequences of the rise of globalization in the 1980s were felt hard in the apparel industry; sneakers and apparel could be produced much more cheaply in Asia. This meant that adidas came under huge pressure to adjust its supply chain and cope with the ever-increasing costs, leading inevitably to the closure of production facilities in Germany. Competition for customers became intense, and around this time Nike overtook adidas as the largest global sports brand. This was the result of some major strategic mistakes made by the management of adidas.[1] All these elements combined led to a dangerous commercial "cocktail" that eventually forced adidas to become a public company in 1989, adding external pressure on the company that was already in heavy waters. In 1992, adidas almost had to apply for bankruptcy.[2]

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[1] http://www.theherzogenaurachstory.co.uk/endoffamilycontrol.htm

[2] Adidas-group.com, 2017

From 1992 onwards, under new leadership, the company began its long recovery to profitability (if space allowed, this phase could also been have chosen as a major change moment). Robert Louis-Dreyfus and Christian Tourres gave adidas a new strategic direction, focussing more on market demands and marketing. This led to a spectacular return of adidas such that, by 1996,[3] it declared profits of DM 314 million and, by 1998, this rose to DM 401 million.

The next major change moment for adidas was when Herbert Hainer became the new CEO in 2001. He continued the strategic direction of his predecessors but also introduced some personal accents by professionalizing and modernizing the company (technological innovation being one of these). Under Hainer, the company continued to grow steadily—the stock price tripled during his tenure as CEO—facilitating the acquisition of Reebok in 2006 and thus securing a higher profile for adidas in the United States.[4] Not everything went well under Hainer, however; the financial/economic crisis affected the sales and finances of adidas, and Reebok underperformed from the start, its market share in steady decline. Indeed, even after restructuring and integrating Reebok and adidas, Reebok's position remained precarious.[5] When asked why he had not sold Reebok, Herbert Hainer said, "W*e have been hammered for six or seven years for Reebok, and now we are turning it around, and it really inspires so many consumers*. *I think we would be stupid to sell it now*."[6]

In the context of this case study, the last major change moment for adidas came in 2015 with the introduction of the new strategic program, "Creating the New." With this new strategy, adidas aimed once again to be the world's leading sports brand and the forerunner in sports innovation. Herbert Hainer coined it thus:

"*We are living in a fast-changing world. Only what is new is relevant to the consumer. Therefore, we have to relentlessly focus on "creating the new" for our consumers. And we have to constantly re-invent ourselves as an organization to lead the change in our industry. Going forward, speed will be a key competitive advantage for us as we transform the adidas Group into the first true fast sports company*."[7]

Alongside this new strategic direction, Kasper Rorsted was appointed as the new CEO. Rorsted introduced a more profit-oriented mentality to the company, with a sharper focus on cutting costs and the sale of underperforming divisions or non-core business divisions such as TaylorMade and CCM-hockey. New rules and structures followed, and a clearer, stronger hierarchy was introduced in some divisions. This was partly based on ever-increasing pressure from shareholders to generate more profit. Under Rorsted's guidance and the newly developed framework, adidas declared record turnover and profits in 2016, a remarkable achievement in the face of Nike and the other multinational competitors spending enormous sums to promote their brands. Also, adidas' digital department became an absolute focus, with many projects aiming to improve clients' digital experience (website, home delivery service etc.). These results showed that adidas was finally sailing out of stormy waters, but many challenges lie ahead. According to the latest report from Allied Market research,[8] the global sports and fitness market will have a value of USD 184.6 billion by 2020. Rorsted's task now will be to focus on creating the conditions to capture the largest share of this market and create a sustainable development path for adidas.

Each of these three big change moments have affected all departments within adidas: procedures have been rewritten, structures have been reconceived, directors have changed positions, and new teams have been created. All this activity, inevitably, challenges organizations, but the "changes" had to be made in a "correct" way, Rorsted explained in an interview:

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[3] adidas annual report, 1996, p. 3

[4] NBC news, 2005

[5] adidas, 2017

[6] https://www.bostonglobe.com/business/2015/05/05/with-reebok-strong-adidas-insists-not-for-sale/QUsf9y64kPQ6UKK9ygsUaK/story.html

[7] https://www.adidas-group.com/en/media/news-archive/press-releases/2015/adidas-group-accelerate-growth-until-2020/

[8] Allied Market research, 2015, p. 1

"*You can always change a company, but you need to do it from the inside and in a constructive way. When I later enacted enormous changes at Henkel, I did it in a less confrontative way because people had to do new tasks, possibly in new structures*."[9]

Unsurprisingly, people were constantly unsure about their future and their jobs—manual workers were proved right to be so—and sometimes they reacted against the new status quo. As previously stated, the aim of this case study is not to give a comprehensive overview of every change management measure taken in every change moment, but rather to discuss the consequences of the structural changes in overall project management protocols since Kasper Rorsted's appointment. This will give a profound insight into how projects were/are done in adidas, what the change was, how people reacted to changes, and how adidas managed that change.

II. Smartsheet—an example of change and change management in adidas

Immediately after Rorsted's appointment as CEO in adidas, he decided that the organization's governance structure had to be more lean and efficient. He had been chosen by the shareholders specifically to increase profitability. Most business journals had a variant of the following phrase in their headlines: "*Mr. Rorsted's Henkel approach—cutting costs, shaking up hierarchies and giving an old-line company a Silicon Valley ethos—could turn around the sportswear company*."[10] This introduction of an "American" business ethos could be seen as one of the biggest changes applied to adidas' business culture; it had long been a company where business numbers played an important role, of course, but other social aspects had their role too. Hand in hand with Rorsted's appointment, then, profitability and financial gain became the most important goals. Newspapers reinforced and validated this new outlook: one hoped that the new boss would *"end the long dry spell in the profitability of adidas*,"[11] and in another, "I*f you're an adidas investor, the number one issue is still profitability, no question*."[12] This change was hard for many people and it demanded a certain change in mindset.

More specifically, one of the longer-term aims of the new approach was the proposal to merge the project management offices so projects could be tracked in a more transparent way and, hence, made clearer to higher management levels. This would involve changing project managers' daily operational activities and the way projects were conducted in the finance department. It is not argued that the Smartsheet project occurred just because of the appointment of Kasper Rorsted, but his appointment certainly helped make projects like it a greater priority.

In the short term, a plan was conceived to encourage project management to comply with the new demands as quickly as possible. Once the plan was initiated, a long process of deliberation and checking different providers of software began. Eventually, Smartsheet[13] software was chosen. Before we go into more detail about the Smartsheet software and the change management efforts, we present below an overview of working practices before Smartsheet was introduced.

Before Smartsheet, project tracking and follow-up procedures were lengthy processes. The directors of the PMO offices in adidas had to prepare PowerPoint presentations about current projects in their department for their respective senior vice presidents. One of the disadvantages of the "old" system, then, is that everything was manual—information from different teams had to be aggregated by one person (mistakes were easily made). The whole system was not transparent, the different statuses of projects were only presented to the senior vice president once a month, nobody really knew how projects were performing in the meantime, and the senior vice president

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[9] http://nordic.businessinsider.com/the-danish-ceo-of-adidas-reveals-how-the-worst-mistake-of-his-career-made-him-a-better-leader-2017-10

[10] https://www.wsj.com/articles/adidas-is-counting-on-incoming-ceo-to-captain-a-comeback-1456992674

[11] http://www.bbc.com/news/business-35345006

[12] https://www.marketingweek.com/2016/01/19/three-brand-challenges-awaiting-new-adidas-ceo-kasper-rorsted/

[13] See appendix A for more details on Smartsheet.

was only seeing an overview rather than major details, unless requested. Also, this procedure is not transparent with regard to budgeting for projects; because definitions were not standardized, and procedures not transparent, accurate budgeting and prioritizing were practically impossible. Budgets were allocated, but even the allocation board didn't have a clear understanding of how these decisions had been reached.

This is one reason that Smartsheet was eventually chosen to be the new platform for project management in adidas (other departments may in time also integrate Smartsheet, but that process is for a different case study).

What is Smartsheet? Smartsheet is an automated platform/tool to manage and track projects. It combines the functionalities of MS Excel, MS Project, and SharePoint. Smartsheet allows all projects to be shared and reported in a clear and comprehensive way. Most Fortune 500 companies use this application and several studies have proven that Smartsheet improves productivity, team output, and reduces costs.[14] Reviews from the practical application of Smartsheet in other companies are excellent as the following quotes demonstrate:

"*Smartsheet allows us to work on our tasks effectively and improves the interaction between team member*s."[15]

"*Smartsheet has been integral in not only growing our company and growing our business, but showing integrity to our clients, enabling them to see everything that is going on with our team, in real time, so they're always up-to-date*."[16]

The adoption of Smartsheet should save the project managers and the different PMO offices time and energy by giving the PMO office an enhanced update on the status of projects (milestones, budgets, etc.).

Of course, introducing a whole new approach for the management of projects will have required reconfiguration of project managers' modus operandi and caused tension in their mindset in the process. Previously, they could initiate a project without permission. In many cases, this led to significant sunk costs because the project manager worked for some days on a project before being told to stop since the project was not in the best interests of the company. The adoption of Smartsheet sought to minimize such sunk costs.

The supervising managers in adidas realized the potential problems associated with implementing the new software and modus operandi, so from the start they looked for measures to usher in the changes and to incorporate particular desires of the project managers into the software. One example of these measures were the exploratory interviews designed to find out how project managers reacted to new functions and procedures. These interviews were not always easy, as the following quote from a project manager demonstrates: "*I do not need permission from anybody, if I want to start with a project, then I start it*."

Another measure undertaken by the supervising managers was a pilot study of how the software performed in "real" circumstances, and which functions could be added to make the software easier for the project managers. This measure had mixed results, because managers were not that interested in Smartsheet and many argued that doing the pilot over and above their regular workload would overburden them. So, the pilot was actually run, albeit on a smaller scale, and consequently it failed to produce enough data to be completely generalizable.

A third measure undertaken to usher in the changes was in the form of presentations/updates on the Smartsheet project and classes on how to use the software. These events were attended by many project managers and the overall conclusion was that the meetings were positive; they helped to change many project managers' attitude toward the project and they began to appreciate the benefits.

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[14] https://www.smartsheet.com/project-management-software-comparison

[15] https://reviews.financesonline.com/p/smartsheet/

[16] https://www.smartsheet.com/why-smartsheet

Overall, we can conclude that, although change management at adidas is in progress, it’s still in its infancy. Greater efforts could be made to explain why change is needed. This is perhaps the greatest shortcoming of adidas in its management of change---it needs to be better explained, and conceiving measures to usher in change needs to be seen as an integral part of best practice that puts employees at the heart of change management.

III. Questions

- Question 1

Describe the three change moments in adidas and comment on the internal and external impacts they had. Which change do you think had the greatest effect on motivation? Do this in table form or in plain text.

- Question 2

Comment on the role of the CEO in each of the change moments and explain why Kasper Rorsted's vision did not match the old way of project reporting and tracking in the finance department.

- Question 3

Briefly describe the three stages in Lewin's model and apply the model to the Smartsheet project.

- Question 4

Comment on the change-management measures in the Smartsheet project and consider what the positive and negative points for each measure might be.

IV. Lexicon

PMO (Project Management Office): The office responsible for the initiation, support, and tracking of the projects in a specific department.

Pilot: The term "pilot studies" refers to mini versions of full-scale studies (also called "feasibility studies"), as well as the specific pre-testing of a particular research instrument such as a questionnaire or interview schedule.[17]

[17] http://sru.soc.surrey.ac.uk/SRU35.pdf

V. Appendix

A. Appendix 1: Adidas Smartsheet

Source: Screenshot of internal prototype dashboard finance, it shows the different finance functions for deeper project analysis. This screen-shot is the result of an internal mock-up in the Smartsheet software which is used by adidas.