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## ****Financial Performance Management Report****

## ****1. Introduction****

In an increasingly dynamic and competitive global market, the evaluation of corporate performance requires more than a simple review of financial statements. Stakeholders demand deeper insight into a company’s strategic position, financial health, operational efficiency, and long-term sustainability. This report aims to assess and compare the financial and non-financial performance of **Adidas AG**, a global leader in the sportswear industry, and its closest competitor, **Puma SE**. Both companies are headquartered in Germany and operate extensively across similar markets, making them ideal for comparative analysis.

The report is structured into three core sections. The first section presents a detailed financial ratio analysis for Adidas and Puma, using example financial data for the years 2023 and 2024. This comparison explores multiple performance dimensions including profitability, liquidity, efficiency, leverage, and market valuation.

The second section offers a critical review of Kaplan and Norton’s Balanced Scorecard (BSC) and proposes a customized BSC for Adidas, identifying strategic objectives and performance indicators aligned with its corporate vision.

The third section discusses the application of Integrated Reporting (<IR>) at Adidas. It critically examines the benefits and challenges of implementing IR and how it enhances transparency, sustainability, and long-term value creation.

Through this multidimensional performance evaluation, the report aims to provide a holistic understanding of Adidas’s performance and strategic capabilities, as well as how it positions itself against a key industry competitor.

## ****2. Financial Performance using Ratio Analysis****

### 2.1 Company Overview

**Adidas AG** is a multinational corporation designing and manufacturing sportswear, footwear, and accessories. Known for its innovation and strong brand equity, Adidas operates in over 160 countries and employs more than 60,000 people.  
**Puma SE** is a direct competitor in the same sector. While smaller in scale, Puma has a strong market presence and targets a similar customer base with sports and lifestyle products.

### 2.2 Rationale for Competitor Selection

Puma SE is selected as the closest competitor due to:

1. Similarity in business model (sports apparel and footwear)
2. Geographical proximity (both headquartered in Germany)
3. Overlapping product categories and target markets
4. Comparable financial scale (though Adidas is larger)

### 2.3 Dummy Financial Data (in € millions)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Metric** | **Adidas 2023** | **Adidas 2024** | **Puma 2023** | **Puma 2024** |
| Revenue | 22,000 | 24,000 | 9,000 | 9,800 |
| Net Income | 2,200 | 2,400 | 700 | 750 |
| Current Assets | 7,000 | 7,500 | 2,800 | 3,100 |
| Current Liabilities | 4,000 | 4,300 | 1,600 | 1,700 |
| Total Assets | 18,000 | 19,000 | 8,000 | 8,600 |
| Total Liabilities | 10,000 | 10,500 | 4,200 | 4,500 |
| Inventory | 2,000 | 2,200 | 900 | 950 |
| Equity | 8,000 | 8,500 | 3,800 | 4,100 |
| Market Capitalization | 60,000 | 66,000 | 20,000 | 21,500 |
| Shares Outstanding | 500 | 500 | 200 | 200 |
| EPS (Earnings per Share) | 4.40 | 4.80 | 3.50 | 3.75 |

### 2.4 Ratio Analysis

#### A. ****Profitability Ratios****

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Formula** | **Adidas 2024** | **Puma 2024** |
| Net Profit Margin (%) | Net Income / Revenue | 10.00% | 7.65% |
| Return on Assets (ROA) | Net Income / Total Assets | 12.63% | 8.72% |
| Return on Equity (ROE) | Net Income / Equity | 28.24% | 18.29% |

**Interpretation**: Adidas outperforms Puma across all profitability ratios, reflecting better cost management and operational efficiency. The high ROE for Adidas signals strong shareholder returns, though it may indicate higher financial leverage.

#### B. ****Liquidity Ratios****

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Formula** | **Adidas 2024** | **Puma 2024** |
| Current Ratio | Current Assets / Current Liabilities | 1.74 | 1.82 |
| Quick Ratio | (Current Assets - Inventory) / CL | 1.23 | 1.26 |

**Interpretation**: Both companies have healthy liquidity. Puma holds a slightly higher liquidity buffer, although Adidas maintains a safe margin above 1, indicating low short-term insolvency risk.

#### C. ****Efficiency Ratios****

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Formula** | **Adidas 2024** | **Puma 2024** |
| Inventory Turnover | Revenue / Inventory | 10.91 | 10.32 |
| Asset Turnover | Revenue / Total Assets | 1.26 | 1.14 |

**Interpretation**: Adidas uses its assets more effectively to generate revenue and turns over its inventory more frequently, indicating stronger operational performance.

#### D. ****Leverage Ratios****

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Formula** | **Adidas 2024** | **Puma 2024** |
| Debt to Equity | Total Liabilities / Equity | 1.24 | 1.10 |
| Equity Ratio | Equity / Total Assets | 44.74% | 47.67% |

**Interpretation**: Adidas is slightly more leveraged than Puma, which may amplify returns but also increases financial risk. Both companies maintain a balanced capital structure.

#### E. ****Valuation Ratios****

|  |  |  |  |
| --- | --- | --- | --- |
| **Ratio** | **Formula** | **Adidas 2024** | **Puma 2024** |
| Price to Earnings (P/E) | Market Cap / Net Income | 27.5 | 28.67 |
| Earnings per Share (EPS) | Net Income / Shares Outstanding | 4.80 | 3.75 |

**Interpretation**: Both companies trade at similar P/E ratios, suggesting comparable market expectations. Adidas’s higher EPS implies stronger profitability on a per-share basis.

### 2.5 Comparative Evaluation & Discussion

Adidas demonstrates stronger overall financial performance than Puma across most categories. Its higher profitability, efficient asset utilization, and strong returns to equity holders suggest a robust operational model. While it assumes slightly more debt, this has not negatively affected its liquidity or performance.

On the other hand, Puma maintains a conservative financial position with higher equity proportion and slightly better liquidity. However, it trails Adidas in profitability and efficiency metrics, indicating areas for potential improvement.

The integrated analysis of ratios presents a holistic financial picture. For Adidas, the synergy between high profitability and strong operational control contributes to its market leadership. Puma's more cautious approach supports financial stability but may limit growth potential.

## ****3. Balanced Scorecard (BSC) – Strategic Performance Evaluation****

### 3.1 Introduction to the Balanced Scorecard

The **Balanced Scorecard (BSC)**, developed by Kaplan and Norton (1992), is a widely adopted strategic performance management framework. It expands traditional financial measurement by incorporating **non-financial dimensions** that are critical to achieving long-term goals. These dimensions typically include:

* 1. **Financial**
  2. **Customer**
  3. **Internal Business Processes**
  4. **Learning and Growth**

The BSC enables organizations like Adidas to align daily operations with strategic objectives and vision by translating strategy into performance metrics.

### 3.2 Critical Evaluation of BSC

While the BSC has proven to be an effective management tool, academic literature highlights **several criticisms**:

* 1. **Static and Rigid**: Traditional BSC frameworks may not reflect rapidly changing business environments (Hoque, 2014). This is a concern for dynamic industries like sportswear, where innovation and market trends evolve quickly.
  2. **Underdeveloped Causal Links**: Kaplan and Norton suggested that each BSC perspective influences the next (learning → internal → customer → financial). However, empirical studies (Nørreklit, 2014) argue that these links are often weak or unproven in practice.
  3. **Overemphasis on Measurement**: The implementation of BSC often prioritizes measurable KPIs over qualitative factors like culture or leadership (Busco & Quattrone, 2015).
  4. **Outdated Dimensions**: The growing importance of **sustainability**, **digital transformation**, and **stakeholder diversity** suggests that the traditional four perspectives may not fully capture modern strategic priorities (Cardinaels & van Veen-Dirks, 2010).

Nonetheless, the BSC remains valuable when tailored to an organization’s context and strategy.

### 3.3 Adidas’s Strategic Vision

Adidas’s corporate strategy revolves around:

1. **Brand credibility and desirability**
2. **Customer-centric innovation**
3. **Sustainability and social responsibility**
4. **Digital transformation**

These strategic pillars inform the creation of a customized BSC that aligns with Adidas's ambitions.

### 3.4 Balanced Scorecard for Adidas AG

#### ****Financial Perspective****

|  |  |  |
| --- | --- | --- |
| **Objective** | **KPI** | **Target** |
| Improve profitability | Net Profit Margin | ≥ 12% |
| Maximize shareholder value | ROE, EPS | ROE > 25%; EPS growth 10% YoY |
| Optimize cost efficiency | Cost-to-revenue ratio | Reduce by 2% annually |

#### ****Customer Perspective****

|  |  |  |
| --- | --- | --- |
| **Objective** | **KPI** | **Target** |
| Increase customer satisfaction | Net Promoter Score (NPS) | > 70 |
| Strengthen brand loyalty | Repeat purchase rate | > 60% |
| Expand digital customer base | % sales from e-commerce | 35% by 2026 |

#### ****Internal Process Perspective****

|  |  |  |
| --- | --- | --- |
| **Objective** | **KPI** | **Target** |
| Improve supply chain agility | Lead time (order to delivery) | < 10 days |
| Enhance product innovation | % of new product revenue | ≥ 25% |
| Reduce carbon footprint | Emissions per product | 15% reduction by 2026 |

#### ****Learning & Growth Perspective****

|  |  |  |
| --- | --- | --- |
| **Objective** | **KPI** | **Target** |
| Foster employee development | Training hours per FTE | ≥ 40 hours/year |
| Enhance digital capabilities | Investment in tech & AI | Increase 10% annually |
| Promote inclusive culture | Diversity index | 50%+ leadership roles held by women/minorities |

### 3.5 Critical Success Factors (CSFs)

From the BSC, Adidas’s CSFs include:

* 1. Continuous innovation in design and technology
  2. Digital transformation in both operations and marketing
  3. Supply chain optimization
  4. Employee engagement and upskilling
  5. Environmental sustainability

These CSFs support Adidas’s ability to outperform competitors and deliver long-term stakeholder value.

### 3.6 Discussion

Adopting a **customized BSC** offers Adidas a structured method to translate strategy into actionable goals. By integrating sustainability and digitalization into the traditional framework, Adidas can navigate modern market expectations and competitive pressures.

Furthermore, the BSC reinforces internal alignment—helping departments coordinate efforts toward shared outcomes. It also allows management to monitor long-term initiatives rather than focusing solely on short-term financial results.

However, the effective use of BSC depends on strong **strategic communication**, **data infrastructure**, and **organizational buy-in**. Without these, even well-designed scorecards can become checklists rather than dynamic strategy tools.

## ****4. Integrated Reporting (IR) – Critical Analysis****

### 4.1 Introduction to Integrated Reporting

Integrated Reporting (<IR>) is a forward-looking corporate reporting model that aims to provide a **holistic picture of an organization's value creation** over time. Developed by the **International Integrated Reporting Council (IIRC, 2013)**, the <IR> Framework promotes a shift from traditional financial reporting to a more inclusive communication model that addresses financial, social, and environmental performance in a unified report.

For a global, innovation-driven company like **Adidas**, Integrated Reporting represents a valuable opportunity to communicate its long-term strategy and responsible business practices to investors and stakeholders alike.

### 4.2 Benefits of Adopting Integrated Reporting at Adidas

#### A. ****Enhanced Stakeholder Communication****

Integrated Reporting provides a **comprehensive narrative** that helps stakeholders understand how Adidas creates value over the short, medium, and long term. It connects financial results with **non-financial drivers** such as sustainability efforts, innovation capacity, and human capital. This aligns well with Adidas’s branding as a purpose-driven company.

“Integrated reporting allows companies to explain how they use resources and relationships to create value” (Dumay et al., 2016).

By using IR, Adidas can enhance transparency and deepen stakeholder trust—especially among socially conscious investors and consumers.

#### B. ****Improved Capital Allocation Decisions****

According to **Barth et al. (2017)**, companies that produce high-quality integrated reports tend to experience **lower capital costs** due to better investor understanding and reduced uncertainty. For Adidas, which invests heavily in R&D, digital infrastructure, and sustainability, IR can help justify long-term investments and attract ESG-aligned capital.

#### C. ****Strategic Alignment and Internal Thinking****

IR promotes **“integrated thinking”**—a management philosophy that encourages cross-functional collaboration and long-term planning (Busco et al., 2017). For Adidas, this can enhance coordination between finance, marketing, sustainability, and HR teams, improving internal decision-making and alignment with the company’s strategic vision.

#### D. ****Sustainability and Brand Reputation****

Adidas is known for sustainability initiatives like using ocean plastic in footwear and aiming for carbon neutrality. Integrated Reporting offers a structured platform to showcase these efforts under recognized capitals:

1. **Natural Capital**: Energy usage, emissions, water conservation
2. **Human and Social Capital**: Diversity, employee training, supply chain ethics

This builds brand equity and aligns Adidas with global standards such as the **UN Sustainable Development Goals (SDGs)**.

### 4.3 Challenges of Implementing Integrated Reporting at Adidas

#### A. ****Complexity and Resource Intensity****

Developing an integrated report requires Adidas to capture and process a vast amount of both **quantitative and qualitative data**. This includes inputs from various departments, creating a potential burden on time, systems, and internal capabilities.

“For many companies, the shift to integrated reporting involves a steep learning curve and significant upfront investment” (De Villiers et al., 2014).

Adidas may face challenges in aligning systems, selecting appropriate metrics, and ensuring consistency in narrative and data.

#### B. ****Measurement and Assurance Issues****

Non-financial information—such as corporate culture, intellectual property, and social impacts—is often **difficult to measure or audit**. Adidas must ensure that metrics related to innovation, inclusivity, and sustainability are both meaningful and verifiable.

Additionally, IR is **voluntary** in many jurisdictions, which can lead to inconsistencies in reporting quality and stakeholder expectations.

#### C. ****Balancing Stakeholder Interests****

Adidas has a wide range of stakeholders: shareholders, customers, athletes, suppliers, NGOs, and regulators. Aligning the integrated report to meet the needs of **all these groups simultaneously** is a considerable challenge. The risk is producing a report that tries to satisfy everyone but lacks focus and clarity.

### 4.4 Application of the <IR> Framework at Adidas

According to the IIRC (2013), Integrated Reporting focuses on **six capitals** and **seven guiding principles**. Here’s how Adidas might apply the framework:

|  |  |
| --- | --- |
| **<IR> Capital** | **Example at Adidas** |
| **Financial** | Revenue growth, capital allocation |
| **Manufactured** | Factory and logistics infrastructure |
| **Intellectual** | R&D investment, patents, product innovation |
| **Human** | Training programs, leadership diversity |
| **Social & Relationship** | Community initiatives, partnerships, sponsorships |
| **Natural** | Emissions, renewable energy usage, sustainable materials |

Adidas already provides elements of this in its **annual sustainability report**. Integrating these elements into one cohesive IR document would streamline communication and strengthen Adidas’s reputation as a sustainable innovator.

### 4.5 Academic Support and Future Outlook

Several studies support IR’s positive impact:

1. **Busco et al. (2013)** argue that IR redefines corporate accountability and transparency.
2. **Malafronte et al. (2020)** emphasize that corporate culture plays a key role in successful IR adoption.
3. **Garcia-Sanchez et al. (2020)** link high-quality IR disclosures to greater CEO accountability and long-term planning.

Adidas, with its brand identity rooted in **performance, purpose, and sustainability**, is in a strong position to lead the adoption of integrated thinking within the apparel industry.

### 4.6 Summary

While the transition to Integrated Reporting would pose operational and strategic challenges for Adidas, the **potential benefits outweigh the difficulties**. IR can enable Adidas to:

1. Reinforce stakeholder trust
2. Align internal strategy with sustainability
3. Improve long-term capital access
4. Differentiate itself from competitors like Puma

To maximize impact, Adidas must invest in **training, systems integration**, and develop a **strong governance model** for report preparation and review.

## ****5. Conclusion****

This report has evaluated the financial and non-financial performance of Adidas AG in comparison to its closest competitor, Puma SE. Using realistic dummy data, the financial ratio analysis demonstrated that Adidas outperformed Puma across most performance dimensions — including profitability, efficiency, and shareholder return. Although Adidas exhibited slightly higher leverage, this was effectively managed without compromising liquidity or solvency.

The second part of the report critically examined the Balanced Scorecard framework and proposed a customized version for Adidas. By aligning the BSC with Adidas’s corporate strategy — focusing on innovation, digital transformation, and sustainability — the framework provides a holistic mechanism for evaluating strategic success. Critical success factors such as product innovation, operational agility, and customer-centricity were emphasized.

Finally, the third section explored the benefits and challenges of adopting Integrated Reporting at Adidas. IR was shown to enhance transparency, strategic coherence, and stakeholder engagement. Although implementing IR can be complex, it aligns strongly with Adidas’s existing sustainability agenda and brand values. Applying the <IR> Framework would allow Adidas to communicate how it creates long-term value across multiple capitals — financial, natural, intellectual, and social.

Altogether, this report underscores the importance of integrating financial performance management with strategic and sustainability-focused tools. Adidas’s ability to balance financial rigor with innovation and responsible business practices positions it for sustained success in an increasingly conscious and competitive marketplace.

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## ****Appendix****

### A. Dummy Financial Statements (Condensed)

#### Adidas AG – Selected Financial Data

|  |  |  |
| --- | --- | --- |
| **Item** | **2023** | **2024** |
| Revenue | 22,000 | 24,000 |
| Net Income | 2,200 | 2,400 |
| Current Assets | 7,000 | 7,500 |
| Inventory | 2,000 | 2,200 |
| Current Liabilities | 4,000 | 4,300 |
| Total Assets | 18,000 | 19,000 |
| Total Liabilities | 10,000 | 10,500 |
| Equity | 8,000 | 8,500 |
| Shares Outstanding | 500 | 500 |
| Market Capitalization | 60,000 | 66,000 |

#### Puma SE – Selected Financial Data

|  |  |  |
| --- | --- | --- |
| **Item** | **2023** | **2024** |
| Revenue | 9,000 | 9,800 |
| Net Income | 700 | 750 |
| Current Assets | 2,800 | 3,100 |
| Inventory | 900 | 950 |
| Current Liabilities | 1,600 | 1,700 |
| Total Assets | 8,000 | 8,600 |
| Total Liabilities | 4,200 | 4,500 |
| Equity | 3,800 | 4,100 |
| Shares Outstanding | 200 | 200 |
| Market Capitalization | 20,000 | 21,500 |

### B. Summary of Key Financial Ratios (2024)

|  |  |  |
| --- | --- | --- |
| **Ratio** | **Adidas** | **Puma** |
| Net Profit Margin | 10.00% | 7.65% |
| Return on Assets (ROA) | 12.63% | 8.72% |
| Return on Equity (ROE) | 28.24% | 18.29% |
| Current Ratio | 1.74 | 1.82 |
| Quick Ratio | 1.23 | 1.26 |
| Inventory Turnover | 10.91 | 10.32 |
| Asset Turnover | 1.26 | 1.14 |
| Debt to Equity | 1.24 | 1.10 |
| Equity Ratio | 44.74% | 47.67% |
| Price-to-Earnings (P/E) | 27.5 | 28.67 |
| Earnings per Share | 4.80 | 3.75 |