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How luxury brands can manage corporate reputation and ESG risks

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More than most sectors, luxury businesses stand or fall on perceptions of their brand.

Anything that taints those perceptions can cause customers to lose faith and the brand to lose value. In our social media age, adverse publicity can travel fast and make it difficult to regain control.

It's a concern that's rising up the corporate agenda. In our recent Reputational Risk Readiness survey[1], which included luxury retailers, 83% said reputation was in the top five in their risk register.

But reputational risks can be difficult to manage, especially as adverse publicity events are often sudden and unexpected. How do you predict, quantify and prepare for such an event? And how do you limit the damage to your brand and balance sheet if such an event occurs?

In this webinar, we looked at how luxury brands can take more control by:

- Improving governance of reputation and environmental, social and governance (ESG) issues
- Identifying where external threats could come from
- Developing response readiness and resilience in a crisis
- Making social media work for you not against you

Speaker

David Bennett, Director, Direct and Facultative, WTW

> **"Firms with strong positive reputations attract better people. They are perceived as providing more value, which often allows them to charge a premium. Their customers are more loyal and buy broader ranges of products and services. Because the market believes that such companies will deliver sustained earnings and future growth, they have higher price-earnings multiples and market values and lower costs of capital."**
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> Harvard Business Review, February 2007[2]

[1]https://www.wtwco.com/en-GB/Insights/2022/02/are-businesses-reputation-risk-ready
[2]https://hbr.org/2007/02/reputation-and-its-risks

How reputational risk can impact your bottom line

Negative publicity can mean more than a loss of face. As we've seen with recent high profile celebrity and sports star cases, it can soon result in loss of sponsorships, contracts and income. Translate that to business, and you might be talking about orders being cancelled and customers turning away from your brand.

In WTW's business survey Where Next for Luxury Brands?[3] carried out in 2021, a large majority (75%) said that reputation was critical to their ability to make money.

But a similar number (72%) said that reputational risk is more difficult to manage than other risks. This suggests a gap between brands being aware of the damage that adverse publicity can do and their confidence in being able to manage those risks effectively.

Improving governance of reputation and ESG issues

Reputational risk can arise out of a wide range of incidents – anything from an oil spill to a misjudged tweet. It's not just one risk but a complex risk of risks, and therefore needs a high level of focus. It needs to be treated as a business-wide strategic issue, managed at an enterprise level.

Establishing a rigorous oversight process

To gain control, brands should establish a rigorous oversight process. They need to have a firm grip on everything that's happening in their business and supply chain and be aware of how those actions and practices could put them at risk of serious adverse publicity.

Board directors should be responsible for managing that process, linked to KPIs. This will increase accountability and make it more likely that action is taken to reduce and mitigate risks.

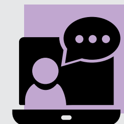
Evidence from our Reputational Risk Readiness survey shows that corporates are on that journey but not there yet. While the vast majority (86%) said they had a formal governance process for reputation and ESG risks, almost two-thirds (63%) said it was not linked to board level KPIs.

Assessing reputational risks from ESG

ESG issues should be among the key reputational risks looked at as part of the oversight process. Issues such as climate impacts, sustainability and abuses in the supply chain are increasingly in the news. Brands may find their reputations at risk if they are found not to live up to their promises in these areas.

Case study:

Large online clothes retailer



A supplier producing clothes for a large online fashion brand was found to have illegal working conditions and was paying below the minimum wage.

At first, this did not impact sales or affect the share price, as the news did not penetrate the brand's fashion-conscious customers.

However, the story was picked up on social media by a celebrity campaigner who attracted political support. The brand's share price tumbled and the brand was forced to terminate contracts with many of its suppliers.

[3]https://www.wtwco.com/en-GB/Insights/2021/10/global-luxury-brands-survey-report

Identifying where reputational risks could come from

As part of governance and oversight, brands need a process to identify the risks that are relevant to their business.

That means not only looking at what the company and its suppliers are doing, but also scanning the horizon to see what others are saying about them and what issues and trends are affecting their industry.

In today's world, businesses face scrutiny from a spectrum of stakeholders from shareholders to media, regulators to civil society organisations and members of the public. All of them are important in defining how a business is perceived and identifying likely threats to their reputation.

Brands also need to be aware of threats from those with a grievance, or competitors, who may seek to undermine its reputation to gain commercial advantage or inflict lasting damage.

Monitoring sentiment in real time

It can be hard to monitor sentiment across all these stakeholder groups and scenarios. The most effective way to manage this process is by using a technology solution.

WTW offers a monitoring service with our partner Polecat which can access publicly available media in hundreds of languages. It uses AI-powered algorithms to synthesize data from online and social media channels into dashboards and risk alerts, giving real-time intelligence about sentiment among key stakeholder groups.

Case study:

Social media giant

A large social media company was alleged to have used a PR consultancy to lobby against a rival and spread negative stories about them across a wide range of media. These are similar tactics to those seen in politics, when rival states are alleged to have spread false stories to affect the outcome of democratic elections.

This case highlights the range of threats and risk factors that companies face in protecting their reputation and highlights the importance of vigilance in monitoring what's being said about them across news and social media.

Developing response readiness and resilience

However much you plan to prevent and mitigate reputational risks, you can't eliminate the risk of an adverse publicity event completely. If this happens, what matters is how brands respond so they can limit the damage and recover their reputation quickly.

Key to this is crisis communications. Research has shown that brands that make no public statement and take no action generally do poorly, while companies that engage with a situation and handle it well come out ahead.[4]

The first 24 hours are vital in any crisis, so brands should make sure they have a plan to get on the front foot quickly. The plan should outline clear responsibilities in a crisis situation and detail how decisions should be escalated through the chain of command.

Case study:

Luxury fashion brand

A major fashion brand included a hoodie with a drawstring in the shape of a noose as part of its collection for a leading fashion show. This attracted strong criticism from a model in the show who had been affected by mental health issues, and charities dealing with suicide. It led to a backlash on social media.

The brand responded quickly. They apologized publicly and withdrew the hoodie from their collection. They also announced support for charities working in the area of young people and suicide and said they would learn from the experience.

By getting on top of the situation early and admitting mistakes, the brand was able to limit the reputational and financial damage from the incident.

[4]Stefan Hock, Sascha Raithel, Managing Negative Celebrity Endorser Publicity: How Announcements of Firm (Non)Responses Affect Stock Returns, Management Science 2019. https://www.researchgate.net/publication/331577333_Managing_Negative_Celebrity_Endorser_Publicity_How_Announcements_of_Firm_NonResponses_Affect_Stock_Returns

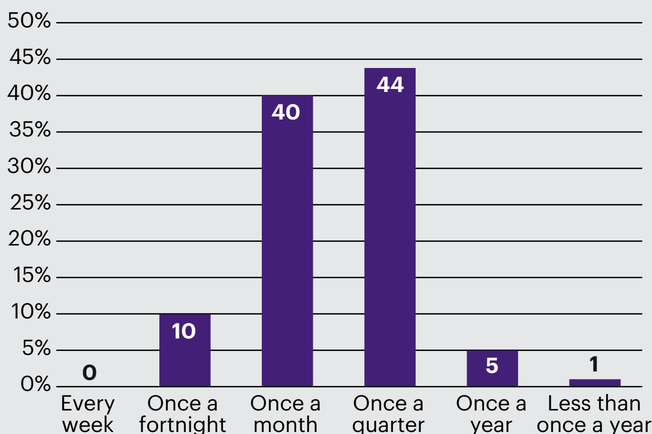
Making social media work with you, not against you

Our Reputation Risk Readiness survey found that most C suite executives do not use social media regularly – 90% post once a month or less. When they do, a large majority use LinkedIn, so they're often not using the same channels as their customers.

That can become a problem in a reputational crisis, when most organizations send C suite executives out to explain or apologize. If those executives aren't known, it's less likely customers and stakeholders will trust what they say.

People are more likely to believe a spokesperson if they've established a relationship with them. Brands should encourage C suite who are responsible for communicating in a crisis to engage meaningfully with stakeholders on social media, so they feel more authentic and trustworthy if a reputational crisis occurs.

Figure 1: **Frequency C Suite uses social media to communicate with stakeholders and customers**



Source: WTW 2021 Reputational Risk Readiness Review Survey

Case study:

Celebrity tequila brand

A major film star launched his own tequila brand in 2020 at a time of public skepticism as many other stars were lending their names to spirit brands without any real involvement.

The star has built up a strong following for the brand on social media, writing his own tweets and responding to messages from customers. Through this relationship, he has demonstrated his credentials as a responsible owner and employer who is closely involved with the product. His actions have built a level of trust with his customers that could mean they are more likely to listen to his side of the story if an adverse publicity event occurred.

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