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RISK & COMPLIANCE JOURNAL. | COMMENTARY

Crisis of the Week: Ferrero Faces Child Labor Allegations

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Dec 5, 2016 11:37 am ET



Customers shop for Ferrero Rocher chocolates at a Costco Wholesale Corp. store in Brooklyn, N.Y. in February 2012.
PHOTO: BLOOMBERG NEWS

This is a weekly commentary by external experts.

Chocolate maker Ferrero Group takes the crisis center stage after a report in a U.K. newspaper detailed the alleged use of children as young as age six as workers for its Kinder Egg toys. The report from the Sun newspaper also alleged poor hygiene conditions at the facility where the products are made.

The company issued a statement saying it was investigating the claims and had terminated its relationship with the Romania-based subcontractor that made the toys. Ferrero said all subcontractors must submit verification of the age of workers, keep records and be subject to an audit from an independent, third-party checker. A factory manager at Prolegis, the subcontractor in question, told the Sun “We are not giving toy parts to anyone outside the factory. Those toys must be from somewhere else.”

The crisis management experts weigh in.

Richard Levick, chief executive, Levick: “Ferrero Group’s response to the tabloid allegations has been strong and unequivocal thus far. However, the operative words are ‘thus far.’ The company has underscored not just the commitment it’s made but the concrete steps it has taken to ensure humane labor standards. Terminating Prolegis, the subcontractor, was just the obvious first move. Beyond that, Ferrero needed to establish any abuses by that subcontractor were aberrational.

“To that end, Ferrero used this crisis as an opportunity to focus heavily on its aggressive watchdog initiatives, including labor processes blessed, as recently as May 2016, by the ‘world’s leading inspection, verification, testing and certification company.’ It’s an instructive example of how to employ third-party endorsements in such crises. Ferrero appends to its statement a similarly impressive initiative that it launched three years ago—known as using your peacetime wisely—as a reminder the company’s commitment is ongoing, not just a response to current pressures. Kudos for including a photo with the statement, all the more advisable as a counterweight to the photos featured in the Sun.

“A quick Google search shows the strategy paying off, as all top stories to date focus on the Prolegis termination, not the specific allegations themselves. The bulleted lead to an ABC Australia story duly notes Ferrero is ‘deeply appalled.’ Better yet, the headline begins ‘Ferrero, prosecutors investigating...’, which puts the company in the first leadership position.

“Ferrero is well advised to take additional and aggressive precaution. Even if no further allegations surface, the story offers a ready target for NGOs. And so far so good for Ferrero in social media, [as posts] mostly only mention Prolegis’ termination. Again, beware of complacency as the story may find a second life in social media. The company therefore needs to deploy the most comprehensive software and human review to ferret out any mention whatsoever of the Romanian situation on Facebook, Twitter and Reditt.”

Daniel Laufer, head of the School of Marketing and International Business, Victoria University, New Zealand: “The Ferrero Group is facing a serious crisis with its Kinder Egg toys. The allegations are particularly damaging for a brand whose primary target market is children. Ferrero’s response to the crisis has a number of positive elements; however, there is also room for improvement.

“Ferrero’s statement that it forbids the involvement of children, has strict quality regulations and uses a world-leading company to audit its suppliers to assess compliance are all useful to counter claims raised in the article. Particularly powerful is providing with the statement a photo of the manufacturing process. Images are powerful and this helps reinforce the message the Kinder eggs are manufactured under proper hygienic conditions. Terminating the relationship with its supplier is also a positive step taken by the company, and signals to the public it takes very seriously any violations of its policies.

“There are also areas for improvement. Ferrero states ‘inconsistencies with Ferrero’s policies and contracts have nevertheless surfaced.’ The company needs to elaborate on this point. How could this have happened with all of the stringent company policies? The company needs to provide more information so the public is convinced this situation was a rare occurrence unlikely to happen again. Depending on the circumstances involved, Ferrero may need to consider adding new policies to prevent similar situations from occurring.”

Andrea Bonime-Blanc, chief executive and founder, GEC Risk Advisory: “So far, Ferrero’s crisis response has been timely, well crafted, addresses the right issues and provides a good mix of information, concern and action that key stakeholders of the company would expect and want to hear. First, Ferrero responded relatively quickly to this news—within four days of its publication—and in an honest, straightforward and practical manner, stating that while no evidence of child labor had been found yet they did find policy ‘inconsistencies.’ Second, Ferrero was thorough and touched on the key relevant topics and concerns in its response: child labor, quality control and supply chain. It did not dismiss these issues, excuse or belittle them. Indeed, it showed sensitivity on the issue of existing employees in Romania and not wanting to hurt them.

“Third, Ferrero touched on these concerns in a believable and prepared manner. It was able to point to specific policies, documents, and practices and also, significantly, to a recent social audit from May 2016. It spoke about these issues from a position of knowledge and responsibility. Fourth, Ferrero immediately started an internal investigation and, pending the investigation, suspended the local contract and contractor. Finally, throughout its statements the company addressed, directly or indirectly, its most important stakeholders: customers (and potential customers) and their children, employees and their children, the marketplace/shareholders and the regulators.

“What Ferrero has demonstrated so far is it is a concerned corporate citizen that knows what its key issues and risks are, is prepared to deal with its risks, understands the expectations of its key stakeholders and knows how to conduct effective crisis management. This, in my book, is the definition of a resilient corporate citizen. The

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proof will be in the pudding; if there are further facts, Ferrero will have to react accordingly.”

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