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RISK & COMPLIANCE JOURNAL. | COMMENTARY

Crisis of the Week: Welspun India Faces 'Sheet Storm' Over Egyptian Cotton Claims

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Welspun corporate office building in Mumbai, India. PHOTO: REUTERS/SHAILESH ANDRAD

This is a weekly commentary by external experts.

Textile supply company Welspun India Ltd. is under the crisis microscope after Target Corp. cut ties with the company after alleging it was selling the retailer fake Egyptian-cotton sheets. Welspun's

stock price plunged after the news, and trading in the shares was halted temporarily. Wal-Mart and other retailers followed, saying they were investigating whether the sheets they buy from Welspun contain Egyptian cotton.

The company issued a statement calling the situation "an issue of highest priority for us," and announced the hiring of an outside auditor to review its supply chain systems and processes. The company defended its products and held a conference call to allay investor concerns in which it took responsibility. According to the transcript of the call with

investors, Managing Director Rajesh Mandawewala said: “Without any ambiguity the fault is on our side and so it is, let’s say, the error is from our side so I guess we have to take responsibility for it.”

The experts break down the effectiveness of Welspun’s message, and evaluate how well it communicated that message.

Aaron Kwittken, chief executive, Kwittken: “To this point, Welspun has been saying and doing all of the right things. Its response to allegations and findings of big companies like Target, Walmart, J.C. Penney and Bed Bath & Beyond has been swift and transparent, two of the most important ways to conduct communications in a time of crisis.

“The biggest step in the right direction that Welspun took was hiring an external accounting firm to conduct an investigation into its supply chain and supply processes. By doing this, Welspun proved it is looking to identify the root cause of the issue and prevent it from continuing, without being able to cover up any details internally. Welspun showed confidence in its existing processes but acknowledged there are possible faults and areas for improvement. This level of transparency is key...as it keeps stakeholders from feeling like they are being kept in the dark and shows [the company’s] true concern is finding out the issue at hand.

“Managing Director Rajesh Mandawewala has done a good job in outlining all of the steps that the company had taken in the days leading up to the conference call, including the aforementioned external audit. The big next step for Welspun is to continue to carry on with this level of transparency when it obtains the full results of the external accounting firm’s audit. Once the source of the error is confirmed, Welspun must clearly communicate what was wrong and what it has done to correct the problem.

“Additionally, it already mentioned its entire supply chain is under review, so communicating how it will improve that aspect of its business overall would help show it is striving to become a more efficient and trustworthy organization. This is another classic example of a situation where the company may be judged more on what was done after the crisis, not on the crisis itself.”

Jolie Balido, president, Roar Media: “Welspun’s response to its Egyptian cotton crisis has, in fact, not been wholly well spun. As Target prepared to sever ties and other large retailers announced investigations, Welspun’s implementation of sound crisis-management strategies could have helped the textile giant keep its communications and stock prices from wheeling so far out of control.

“In crisis situations, it’s important to be well-prepared and consider preempting the news and proactively delivering messaging to gain first-mover advantage in shaping future content. Instead, Welspun found itself in a purely reactionary position. Equally important, before engaging with media and stakeholders, tough questions should be anticipated and addressed with development of thoughtful, on-point responses.

“During Welspun’s investor call, critical questions were skirted and the managing director’s final rambling statement—which refers to the crisis as a ‘thing’ while simultaneously assuring that the ‘thing’ in question is being taken ‘very-very seriously’—struck as contradictory, if not banal. Additionally, references to Welspun’s ‘impeccable track record’ and to ‘coming out of this stronger’ appear cliched and insufficient considering the magnitude of the companies and crisis involved.

“Beyond mentioning the hiring of a Big Four accounting firm to study the problem’s root and preventative measures, Welspun will have to address critical questions, including to what extent was Welspun aware of and complicit in the problem? Going forward, its messaging should be incisively evaluated and customized to address lingering questions. An appropriate strategy for media, social media and internal/external communications must be implemented.”

Andy Gilman, chief executive, CommCore Consulting Group: “When faced with a 40%-50% drop in stock price and the loss of all of its business from Target—not just the products in question—Welspun’s comments have been both technically textbook appropriate and woefully inadequate. As news reports call this fake Egyptian cotton issue a ‘sheet storm,’ the company appears to be moving slowly and calmly while its reputation and business is on fire.

“Of course it’s appropriate to say, ‘We have initiated actions to investigate the root cause.’ It’s also commendable to say you are appointing an external auditor; that normally shows commitment to solve a problem. However, by the time the auditor finishes the investigation, more business will have been shredded. Poor word selection causes another problem. When [a top] executive uses an Indian-English phrase ‘fiber provenance issue’ instead of a more understandable phrase such as supply chain for U.S. customers, it sounds lame and like the company is soft-pedaling the issue.

“In answer to a question on the investor call, Rajesh Mandawewala took responsibility for the problem and the fact Target canceled its business: ‘So there has been, let’s say, a failure on our part, so without any ambiguity the fault is on our side.’ What was missing in his response was a passion or concern for shareholders, employees or the successful

business they had built.”

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