

When headlines hit brand value

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Lucia holds a bachelors degree in political economics and a masters in economics and finance, both from the LUISS Guido Carli Business School in Rome.

Executive summary.

Supply chain risk management and its impact on brand reputation

The belief that ethical scandals can be “managed away” has become a strategic fallacy. In an era of instant information and rising transparency expectations, supply chain risks have become financial risks. Weak oversight is not merely a compliance issue: it undermines brand value, investor trust, and strategic partnerships.

Globalization has brought efficiency but also systemic fragility. Research by the Bank for International Settlements¹ demonstrates that shocks – from human rights abuses to environmental crises – spread rapidly through interconnected supplier networks, affecting the firm involved and its entire ecosystem.

For the luxury sector, reputation is both currency and capital, so the integrity and transparency of supply chains are strategic imperatives. Controversies linked to labour practices, sourcing, or environmental harm can erase years of brand equity in days.



Supply chain transparency has become a prerequisite for maintaining brand image and competitiveness in the luxury sector.

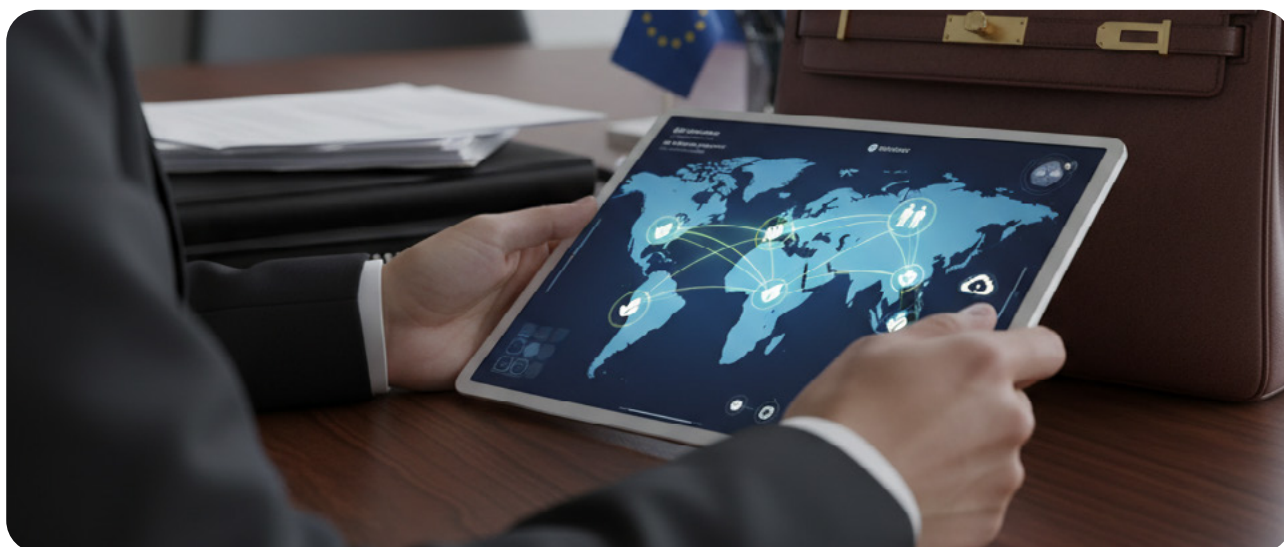
1 - Chen, Sally and Eric Tsang and Leanne Si Ying Xhang. September 2023. Global Supply chain interdependence and shock amplification – evidence from Covid lockdowns. accessed 12 December 2025

Yet, methods such as current data or tracking of controversies as they arise remain too backward-looking to anticipate emerging risks. That's why Candriam advocates for a forward-looking due diligence framework, grounded in international standards such as the [UN Guiding Principles](#) on Business and Human Rights and the EU's [CSRD](#),² to assess and price supply chain exposure within investment analysis.

We explore how supply chain risks shape market reactions and long-term value creation in the luxury industry. Illustrated with case studies, we demonstrate a framework for determining effective practices in managing supply chain risks. Investors might ask themselves three central questions:

- **How do supply chain risks affect the reputation of luxury brands, and what market value impact can arise from supply chain controversies?**
- **What are the social risks inherent in supply chains?**
- **What might a due diligence analysis framework for investment analysis look like?**

The conclusion is clear: in luxury goods, reputation is valuation and anticipating supply chain risks is an investment necessity, as well as ethical leadership.



This report mentions companies in which Candriam held positions in either equity, bonds, or both (as of 31 December 2025): Hermès, Kering, LVMH, Moncler, and Richemont.

² -Corporate sustainability reporting directive.

Brand value and regulation in luxury

Brand value remains a cornerstone of corporate success, and market value. Consultants such as Interbrand attempt to quantify brand strength using traditional metrics such as awareness, loyalty, and financial performance. Yet, the drivers of brand resilience are shifting. In the luxury sector, a paradox emerges: markets often ignore supply chain controversies unless regulation forces a reaction.

The perception paradox

Luxury thrives on perception, exclusivity, and craftsmanship. Brands build value through image and artistry. While consumers may voice concern for transparency and sustainability, behavioural data shows limited impact on actual purchasing choices.. Consumers may not necessarily make the effort to look for audited ethical sourcing. . . until there is an investigation and an embarrassing news headline.

Meanwhile, investors react strongly when regulation introduces compliance costs or operational risks such as the EU's forthcoming textile recycling requirements or forced-labour bans. To add to the risk, luxury goods companies often purchase from suppliers which are part of lengthy and opaque chains. Direct suppliers might succeed in luxury brand compliance checks the information they provide could be inaccurate. In luxury, then, regulatory shifts define the pace of ethical change. As a result, ethics follow the law, not the market.

Regulation is the catalyst

Across industries, those subject to human rights risks in their supply chain gain a competitive edge if they anticipate regulatory changes. Early adoption of due diligence practices, traceability, or circular economy frameworks can transform compliance into a strategic differentiator rather than a burden.

Markets do not typically punish unethical practices until legal or reputational exposure materializes. But when regulation arrives, unprepared brands face fines, operational disruption, and valuation shocks. The EU CSDDD³ and Textiles Strategy⁴ will soon require brands to disclose sourcing, mitigate labour risks and ensure recyclability across value chains.

³ -EU Corporate Sustainability Due Diligence Directive, a set of the rules put in place to meet the CSRD.

⁴ -The EU Sustainable and Circular Textiles Strategy, 2023-2030. .

Luxury's blind spot: the illusion of immunity

Luxury brands often act as though their premium positioning shields them from scrutiny. Yet, our analysis shows the widening gap between crafted image and production reality is increasingly dangerous.

Investigations in Italy revealed that subcontractors for two leading luxury brands had underpaid migrant workers and violated labour standards. These findings led to penalties of €3.5 million and €2 million, respectively⁵. In 2024–2025, Milan prosecutors expanded their inquiries to the supply chains of about a dozen luxury fashion houses. These led to court-ordered oversight of Italian subsidiaries and corrective commitments. Although investigations have not so far resulted in fines, such misconduct strikes at the heart of luxury's value proposition. For brands built on notions of excellence and integrity, the contrast between opulence and exploitation is beyond ironic, it's a brand identity crisis. Even if consumers don't boycott, the reputational risk can be acute.

Our work shows three compounding effects:

- **Reputational damage** among younger and other values-driven consumers
- **Financial loss** through near-term stock price declines and long-term investor distrust
- **Strategic isolation**, as partners, retailers, and collaborators distance themselves to avoid reputational contagion

Ignoring these risks is strategically reckless and potentially a failure of financial fiduciary duty on the part of investment managers.

As news reports have increasingly shown, luxury brands cannot assume immunity. Their image of superior craftsmanship, scarcity, and timeless value depend on consumer trust. As global scrutiny and expectations of worker rights intensify, investigations and allegations will unfold more frequently in the future, amplified by social media and investor pressure.

In today's luxury market, consumers can be expected to become less and less 'indulgent'. Brand resilience relies increasingly on regulatory foresight to stay out of the news. The strategic move is to anticipate and align with upcoming legislation, transforming ethics into a true competitive and financial edge. Brands must map their supply chains, conduct social audits, and undertake comprehensive due diligence efforts. They may find it necessary to change operations or sources of suppliers to countries with lower workforce and social risks, in order to identify and manage them.

This leads directly into identifying and quantifying the specific supply chain risks that threaten luxury brands. Having established that regulation drives ethical change, the next step is to examine where and how luxury supply chains remain exposed, and how strategic risk management can protect and build brand equity and investor confidence.

⁵ -Reuters, 1 Aug 2025, Italy antitrust fines Giorgio Armani 3.5 million euros. Accessed 15 January, 2026. CNN, 21 May 2025. Dior to pay \$2.3 million to help victims of labor exploitation. Accessed 16 January 2025.

Supply chain risks

Behind the seams: social risks hidden in the supply chain

Supply chains for textiles, leather, and other materials are exposed to human rights risks including child labour, forced labour, and opaque external suppliers. As part of a comprehensive due diligence process, we determine whether companies have adopted critical measures to identify, prevent and address these risks. We believe investors should look for three in particular.

- **A human rights impact assessment** can identify the most salient potential business-relevant impacts
- **A human rights policy** can communicate clear and measurable expectations to stakeholders and business partners
- **Robust stakeholder engagement mechanisms** should be designed to ensure continuous monitoring of both potential and actual impacts, to identify and activate timely preventive measures or effective remedies where necessary

Child labour

Raw material sourcing for luxury goods -- such as jewellery, handbags, apparel, and footwear -- faces significant scrutiny due to the risk of child labour, particularly in mining and agriculture. Child labour is prevalent in diamond and gemstone supply chains, cutting and polishing workshops, and among suppliers of exotic leathers. In apparel and footwear, children are involved across multiple stages, from harvesting and processing raw materials like cotton and leather to garment assembly.



Forced labour

Modern slavery, including forced and bonded labour, remains a major concern in luxury supply chains. Luxury supply chains, as with some food ingredient supply chains, can be both long and opaque (we offered an approach to food supply chains in our 2023 white paper, [Cultivating Human Rights in the Food Supply Chain](#).)

Migrant workers -- about 169 million globally -- are especially vulnerable, often facing low wages, unpaid overtime, and excessive hours. The exploitation of migrant workers and the use of

forced labour have been extensively documented across industries in countries such as China, Indonesia, Turkey, and Madagascar. More specifically to luxury goods, labour exploitation has been documented in leather manufacturing in Italy. Recruitment abuse is widespread, with workers frequently paying excessive fees to brokers or agencies. The ILO⁶ defines recruitment fees broadly as any costs incurred to secure employment, regardless of where or how they are imposed.

'Bonded labour' and 'recruitment fees'

Under bonded labour, workers are trapped into working for their employer to repay a debt or loan. Debts to employers can even be *inherited*, effectively trapping a worker's family.

The extremely low wages are even thinner as fees for food, housing, tools, and interest expense are added. Wages may be withheld entirely.

These debts can arise when a worker pays a broker, agency, or recruiter to find a job for him. Recruitment fees can sound reasonable when described – passport fees, visa fees, transportation, and 'related' costs easily mean that workers have to borrow to pay the costs of finding work. The problem comes when those fees are enormous relative to the wages.

This is one of the forms of modern slavery.

There is no real freedom to quit. Beyond the inability to quit until the debt is paid, terms can be unfair or unclear. The debt and work obligation might be enforced through threats, coercion, or even violence. Passports and other documents may be confiscated until the 'debt' is paid.

In a case reported by the Guardian in 2023⁷, workers in India took on 14-hour shifts for 100 rupees per day to pay off a 25,000 rupee loan from their employer. Interest rates increased the outstanding debt every month for ten years. This occurred despite the legal abolition of debt bondage in India in 1976.

No worker should pay for a job – the costs of recruitment should be borne not by the worker but by the employer. --- [Institute for Human Rights and Business, 2018](#).

6 -International Labour Organization, founded in 1919, and now a specialized agency of the United Nations, with 187 member nations.

7 -The Guardian, October 2023. 'We know the pain': freed India coffee workers lead way from bonded labour | Global development | The Guardian

Collective bargaining hurdles

The ILO defines collective bargaining as a voluntary process that sets employment conditions through dialogue rather than conflict. It is intended to foster workplace stability and social cohesion, but its effectiveness depends on freedom of association. According to the ITUC⁸ Global Rights Index (2025), collective bargaining rights were limited or absent in 121 countries.

How's your math?

The ILO states that collective bargaining is limited or non-existent in 121 countries. The ILO, the first organization to be established by the United Nations, currently has 187 members, of which 160 have ratified its [Convention No. 98](#) on collective bargaining rights. If we assume that there are 195 sovereign nations across our planet, then even some members of the ILO have not signed, and even some members of the ILO which have signed restrict or prohibit collective bargaining..

The convention was ratified in 1951, before most consumers of luxury items were even born.

Reputational and investment risk? Investors in image-based brands may decide for themselves.

⁸ -International Trade Union Confederation.

Fair compensation

Wages remain a key focus of labour relations. The ILO's Global Wage Report (2024–25) shows wide regional disparities, with low-income countries exhibiting the greatest inequality. In 2024, the ILO adopted a definition of the **living wage** -- remuneration "necessary to afford a decent standard of living for workers and their families".⁹ **Most national minimum wages fall below this threshold.** A PwC survey¹⁰ found that globally, only 24% of employers currently pay a living wage, though over half plan to do so within five years, driven by inflation, talent retention, and regulatory trends.

Localization of suppliers

High-risk supplier regions are concentrated in countries such as China, where investigations have linked major brands to forced labour among migrant and Uyghur workers. However, risks also extend to Europe – the developed world. In Italy, reports reveal excessive hours, underpayment, and undocumented labour in the leather sector.¹⁰ A recent case involved Dior SRL, an Italian subsidiary of LVMH, where poor working conditions and illegal employment led to court-ordered judicial administration. This demonstrates the reputational and legal consequences of weak supply chain oversight.

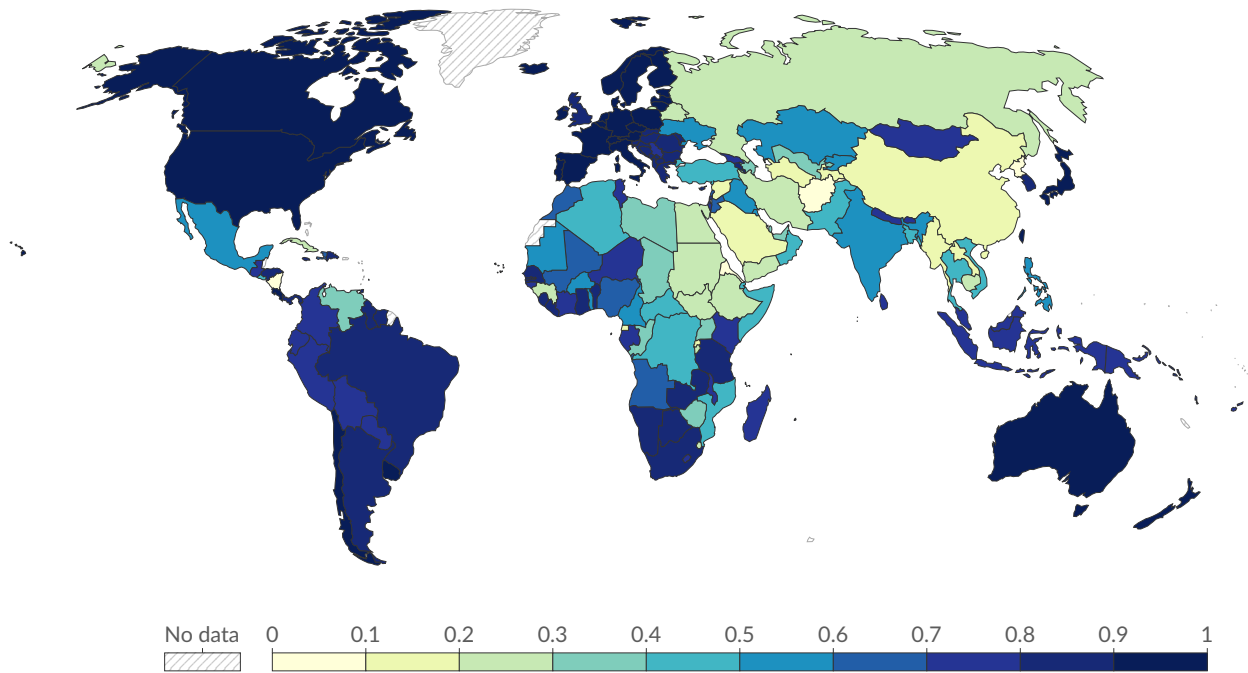


9 - What is a living wage ? | International Labour Organization, accessed 8 January 2026.

10 - PwC, Global Living Wage Survey 2023. <https://www.pwc.com/gx/en/services/tax/esg-tax/global-living-wage-survey.html>

Figure 1: Violations of workers' rights

V-Dem Human Rights Index, 2024.



Index constructed from approx. 3,500 expert estimates of: The extent to which populations are free from government torture, political killings, and forced labour., plus estimates of property rights, and freedom of movement, religion, expression and association.

Source: V-Dem. The Varieties of Democracy, 2025, used under Creative Commons license.

Material matters: a risk-based look at what we wear

With long, complex, or opaque supply chains, risk analysis of workforce and other social risks must go well beyond the investee company itself. With the support of information from the Textile Exchange, we have mapped the key raw materials used in the luxury industry and identified the associated social risks. Figure 2 summarizes the social impacts associated with the most-used raw materials in the luxury goods sector. Among these, conventional cotton exhibits the highest social impact, while mycelium ranks as the raw material with the lowest negative footprint.¹¹

- **Cotton:** Conventional cotton cultivation relies heavily on synthetic pesticides. These contaminate soil and water and harm local vegetation, insects, and animal species. Social risks arise from the fragmented nature of the cotton supply chain, creating transparency and traceability challenges and raising concerns for child labour, forced labour, and certification compliance.
- **Cattle:** Leather from cattle farming contributes to deforestation and destruction of vital habitats. Social risks include poor workplace safety, absence of clear codes of conduct, and frequent use of child labour in countries such as Bangladesh, India, and Pakistan, where regulatory oversight is often weak.
- **Polyester:** The petrochemical base of conventional polyester (PET, or polyethylene terephthalate) make it non-biodegradable and difficult to recycle. Social risks arise from the geographical concentration of polyester manufacturing in regions like China, India, and Southeast Asia, where workers frequently face low wages, unsafe working conditions, and risks of forced and child labour.



¹¹ -<https://www.fashionforgood.com/wp-content/uploads/2025/02/Raw-Materials-Landscape.pdf>

- Manmade Cellulosic Fibers (Lyocell and Viscose):** These fibres generally emit less CO2 than synthetic alternatives but are derived from wood pulp, potentially contributing to deforestation. Key distinctions exist between viscose and lyocell:
 - Viscose employs carbon disulfide, sulfuric acid, and caustic soda in an open-loop system, which has environmental drawbacks.
 - Lyocell uses NMMO (N-Methylmorpholine N-oxide) in a closed-loop process that recovers and reuses 99% of solvents, reducing environmental impact. Socially, production occurs mainly in countries with more stringent labour and environmental regulations.
- Mycelium:** Emerging as a highly sustainable alternative, mycelium is cultivated in controlled, low-impact environments without the use of toxic chemicals or emissions. It requires minimal water for growth, relying primarily on moisture, and can even be grown on agricultural waste. Social risks lean towards the safer end of the scale, as mycelium production involves minimal labour under safe working conditions and presents opportunities for community-based, ethical manufacturing models.

Figure 2: Supply chain risks for selected materials

	Cotton	Leather	Polyester	Viscose	Lyocell	Mycelium
Pollution	High	High	Very high	High	Low	Low
Water use	Very high	Very high	Low	Moderate	Moderate	Moderate
Soil degradation	High	Very high	High	Very high	Moderate	Very low
Social impact	Very high	High	High	Moderate	Moderate	Low

Source: Candriam analysis

Case study: Cotton

One of the most concerning examples of the risks to workers in the cotton supply chain arose in Xinjiang in 2020, when it was reported that at least 500,000 cotton field workers were allegedly forced labourers from the ethnic minority Uyghur population. End-users included well-known sportswear brands.

At that time, rising wages in China, increased transportation costs for seasonal workers, and seven years of reduced subsidies for the cotton sector had made hand-picked Chinese cotton more expensive than mechanized cotton produced in the United States. China has sought to accelerate mechanisation, but it still accounts for less than 30% of cotton harvesting in the southern Xinjiang region, while the area dedicated to cotton farming continues to expand. As of 2019, 70% of Xinjiang's cotton production was still harvested by hand.¹²

This has global significance, as China is the world's largest cotton producer. Between 2018 and 2021, Xinjiang alone accounted for more than 80% of China's cotton production and approximately one-fifth of global output.¹³

Anyone wearing garments or accessories containing cotton fibres sourced from China must confront the strong likelihood that forced Uyghurs labour was involved at some stage of the supply chain¹⁴. Producing nearly 130 billion garments annually under such a model is inherently unsustainable, entailing significant human costs and effectively funding a broad and systematic exploitation of forced labour.

Facing mounting reputational risks, leading sportswear companies have since adapted their approaches. For example, Puma and Adidas now disclose the locations of their contracted suppliers.

How can we be certain that our favourite brands do not source from regions where ethnic cleansing and forced labour persist?

12 - https://www.lemonde.fr/international/article/2020/12/15/les-ouigours-victimes-de-travail-force-dans-les-champs-de-coton-en-chine-selon-un-rapport_6063438_3210.html. Figures cited do not add to 100% because they were from different sources, and both were attempting to be conservative.

13 - OECD & FAO. OECD-FAO Agricultural Outlook 2021-2030. (OECD Publishing, 2021). Accessed 30 January 2026.

14 - https://www.lemonde.fr/international/article/2020/12/15/les-ouigours-victimes-de-travail-force-dans-les-champs-de-coton-en-chine-selon-un-rapport_6063438_3210.html Accessed 30 January 2026.

Data availability in supply chains

Supply chain transparency has become a prerequisite for maintaining brand image and competitiveness in the luxury sector. The 2024 EU legislation on corporate due diligence¹⁵ now requires companies to assess and mitigate environmental and human rights impacts across their supply chains. Transparency is both a competitive advantage (reducing reputational risk) as well as a legal necessity. Consumer perception increasingly values the story behind the products, expecting traceable, ethical, and sustainable sourcing. Yet achieving full visibility remains difficult in globalized supply chains, where materials and production processes often span multiple countries and tiers of subcontractors.¹⁶

In the luxury industry, effective logistics and supply chain management (LSCM), and transparency are critical to sustaining financial success.



¹⁵ - Corporate sustainability due diligence - European Commission

¹⁶ - Kathiala, Roit. April, 2020, Women's Wear Daily. Cited by Shen, Bin and Sefan Minner, Hau-Ling Chan, Allesandro Brun. November 2020. Transportation Research Part E: Logistics and Transportation Review, Science Direct, <https://www.sciencedirect.com/science/article/pii/S1366554520307444?via%3Dihub>, 13 December 2025

Risk monitoring

We overview some of the tools we use at Candriam to analyse and monitors human rights–related risks within supply chains.

Blockchain as a tool for transparency

Blockchain offers a promising solution to address the complexity of luxury supply chains. As a decentralized and tamper-proof ledger, it enables end-to-end traceability, allowing all stakeholders to verify each step in the value change from raw material extraction to final sale. Research¹⁷ highlights how blockchain can improve both supply chain efficiency and transparency. Combined with QR codes and digital product passports, blockchain systems empower consumers and investors to access verified information on sourcing and craftsmanship, reinforcing trust and brand integrity and reducing risks.¹⁸

Upholding workforce standards

The EU's Do No Significant Harm (DNSH) principle and related frameworks such as the SFDR,¹⁹ CSDDD, and CSRD require companies to monitor and report social and environmental risks and make efforts to prevent harm throughout their supply chains, including external suppliers. These laws address key risks including child and force labour and other human rights violations (Principal Adverse Impacts/ PAIs 10–11), and poor labour conditions (PAI 9). National initiatives such as Germany's Supply Chain Due Diligence Act (LkSG, or Lieferkettensorgfaltspflichtengesetz) France's Duty of Vigilance Law (devoir de vigilance), and the UK Modern Slavery Act reinforce these obligations.

With more detailed understanding of the reporting costs involved, the adoption of EU Omnibus Directive²⁰ attempted to balance costs of data reporting while retaining the core obligations of the CSDDD. In our opinion, the Omnibus risks weakening the original ambition of the CSDDD. By aiming to simplify compliance obligations, the directive reduces certain requirements for supply chain traceability and oversight. Our company engagement suggests that while this approach seeks to lessen administrative burdens and enhance the competitiveness of European companies, it simultaneously complicates the work of compliance and sustainability teams. These teams now face a more ambiguous regulatory framework, where the relaxation of due diligence obligations may undermine the ability to effectively detect and address social and environmental risks across global supply chains.

We believe that while simplification may reduce short-term compliance costs, it also increases the risk of reputational damage to the brand-owning companies if social risks remain undetected or unaddressed.

17 - Choi, Tsan-Ming. August, 2018. ScienceDirect, August 2019. <https://www.sciencedirect.com/science/article/abs/pii/S1366554519303540>

18 - Karaosman, Hakan and Patsy Perry, Alssandro Brun, and Gustavo Morales-Alonso. ScienceDirect, September 2020. <https://www.sciencedirect.com/science/article/abs/pii/S0148296318304673>

19 - EU Sustainable Finance Disclosure Regulation (March 2021), Sustainability-related disclosure in the financial services sector - Finance

20 - European Commission, April 2025. Omnibus Package

Engaging to identify workforce risks in supply chains

At Candriam, we are active owners and stakeholders. We engage with companies and stakeholders in luxury goods and other sectors to understand how they identify and manage workforce and other social risks within their supply chains. With the increasing regulatory focus on supply chain due diligence across Europe, companies in the Textiles, Apparel and Luxury Goods (TALG) sector are facing growing scrutiny of their risk management practices.

Engaging for change. As part of our long-standing stewardship efforts and in response to mandates from our institutional clients, we have organized a dedicated engagement campaign to better understand how TALG companies are navigating these evolving regulatory requirements. Our goal is to identify and share best practices that enhance transparency and improve risk management throughout complex supply chains. We engage not only with corporate entities and industry associations, but with other stakeholders, such as NGOs and labour unions.

Our luxury goods engagement plan has been designed to strengthen the identification and mitigation of workforce and human rights risks across global supply chains. Many companies participate in sectoral organizations or industry federations, which provide collective platforms for dialogue with EU institutions. These forums allow companies not only to contribute to shaping regulatory frameworks, such as the Corporate Sustainability Due Diligence Directive (CSDDD), but also to stay informed about evolving compliance expectations and to share best practices.

Participation in regulatory discussions also helps companies align their internal social audit processes, risk assessments, and supplier development programs with the due diligence obligations outlined in the CSDDD. Ultimately, this strengthens their ability to prevent harm, support remediation when issues arise, and foster long-term, responsible relationships with suppliers

Our objective is to support companies in developing structured and transparent systems that proactively identify potential human rights risks such as forced labour, unsafe working conditions, or discrimination, especially in regions or tiers of the supply chain where oversight has historically been limited. By embedding human rights due diligence into their operations, companies both reduce financial risks to shareholders and align with international standards like the UN Guiding Principles on Business and Human Rights.

Candriam's luxury goods and apparel engagement campaign

Luxury goods and apparel companies are particularly exposed due to complex, geographically dispersed supply chains and reliance on specialised, often smaller suppliers. Supply chain risk management is a core determinant of long-term resilience for consumer-facing companies, because it shapes **operational risk, cost** structures and exposure to **reputational, regulatory, and legal challenges**. The robustness of supply chain risk management frameworks is a key factor in the ability of these companies to adapt to rising expectations and protect long term value.

Our exchanges with companies on the topic clarified several converging trends.

- There is a shift from purely audit driven approaches towards more embedded risk management models, combining purchasing practices, long-term supplier relationships, internal governance and remediation mechanisms.
- While audits remain a necessary foundation, companies increasingly acknowledge their limits and are seeking to complement them with deeper supplier knowledge, selective vertical integration, training programmes and contractual engagement.
- The capacity of procurement teams to identify, assess and manage social risks is emerging as a critical success factor, requiring dedicated expertise and clearer accountability.

Supply chain risk management is likely to remain a key focus for shareholder value creation and protection, as well as for sustainable investors. Traceability, remediation and oversight are increasingly differentiating long-term performers.²¹ This is why we are pursuing a multi-year campaign on the topic, with more to report in the future.

²¹ -Razak, Ghadafi M., Hendry, Linda C. and Stevenson, Mark. 2023. University of Warwick, "Supply Chain Traceability: A Review of the Benefits and its Relationship with Supply Chain Resilience". Accessed 16 January 2026.

ESG Ratings

Given the data challenges, many investors and stakeholders increasingly rely on external ESG ratings and industry benchmarks. These tools offer snapshots of sustainability profiles, including issues such as supply chain standards, labour and community relations, and societal impacts.

Newer and sometimes not-for-profit data sources, such as the non-profit World Benchmarking Alliance (the Corporate Human Rights Benchmark or CHRB) and KnowTheChain (KTC), offer complementary information specifically on human rights and labour rights, both within the internal operations of corporates and for their external supply chains. Figure 3 summarizes major indicators and metrics relevant for investors assessing supply chain risks.

Figure 3: Selected sustainability data sources

Data provider	MSCI	Sustainalytics	WBA (World Benchmarking Alliance)	KnowTheChain
Score Ranges	AAA to CCC	0–10 (Negligible) 10–20 (Low) 20–30 (Medium) 30–40 (High) 40+ (Severe)	Total score (out of 100) Social inclusion (out of 30)	Out of 100 (per indicator)
Social Supply Chain Focus (Indicators)	Supply chain standards Controversial sourcing Stakeholder opposition Community relations Labour management Health & safety	Society Employees Human Rights Occupational Health and Safety Labour Relations	Core Indicators: Respect human rights Provide and promote decent work Act ethically Other Indicators: Forced labour Land rights Living wage	Commitment and governance Traceability and risk assessment Purchasing practices Recruitment Worker voice Monitoring Remedy

Source: MSCI, Sustainalytics, WBA, and KnowTheChain.

In Figure 4 we compare sustainability ratings and industry benchmark scores using publicly available information²² to illustrate disparities in scoring, especially between MSCI Ratings, Sustainalytics Risk Ratings, and workforce ratings such as KnowTheChain and the World Benchmarking Alliance.

Figure 4: Comparison of selected agency and NGO ratings for luxury goods companies

Company Name	Sector	Market cap (February 2026)	MSCI ESG Rating	Sustainalytics ESG Risk Rating	WBA Score--2023 (out of 100)	KnowTheChain Score--2023 (out of 100)
LVMH	Textile and Luxury Goods	€258 bn	A	13.8 (Low)	15.4	6
Hermès	Textile and Luxury Goods	€217 bn	AA	12.7 (Low)	NA	12
Richemont	Textile and Luxury Goods	€101 bn	AA	15.9 (Low)	NA	NA
Kering	Textile and Luxury Goods	€33 bn	AA	10.7 (Low)	33.1	23
Moncler	Textile and Luxury Goods	€14 bn	AAA	8.5 (Negligible)	NA	18

Source: Candriam, <https://companiesmarketcap.com/>, MSCI, Sustainalytics, KnowTheChain, WBA. N/A = not available.



22 - MSCI and Sustainalytics ratings are publicly available. The underlying details are by subscription.

All these inputs are indeed relevant for sustainable investors. However, the difference in overall ratings among each source raises important questions: Is a company with a triple-A sustainability rating inherently less risky than one with a single-A or double-A rating from MSCI? The answer is not straightforward.

Take Moncler as an example: its risk rating from Sustainalytics is very low, while its KnowTheChain score remains quite low as well. This does not invalidate the sustainability ratings per se, but it does underscore the importance for investors to deeply understand the underlying methodologies and differences in purpose.

Provider coverage is a key factor -- some companies are not evaluated by all providers, leading to gaps in assessment. Limited data availability on companies and sometimes-vague disclosures make it difficult for investors and rating agencies to conduct detailed, granular analyses of human rights risks. Another factor is less-than-complete transparency on how these ratings are determined; for some providers, they are proprietary, of course.

We add an additional layer of analysis by actively engaging with companies. Our database begins with data from external providers and adds our own proprietary research we conduct our own assessment based on proprietary research and criteria tailored to our sustainability framework, augmented by direct dialogues with companies and stakeholders.



The Candriam approach

Framework

Candriam’s approach aims to provide a structured framework that can be adopted by investors seeking to develop their own approaches to assessing corporate human rights due diligence. Part of our overall approach to sustainability risk and opportunities analysis, we evaluate a company’s risk identification, exposure and management through two complementary dimensions: Business Activities and Stakeholder Management.

- **Business Activities Assessment:** Across this dimension we examine how a company’s business model is affected by critical global challenges, including climate change, resource consumption, public health concerns, and digital transformation.
- **Stakeholder Management Assessment:** Under this aspect we evaluate the company’s policies and practices aimed at preventing, addressing, mitigating, and remedying risks or adverse impacts. It also considers the company’s capacity for innovation and the development of new solutions.

We offer our approach to supply chain assessment under our Candriam methodology. Given the fragmented nature of supply chains in the luxury sector, social and environmental risks can be particularly pronounced. At Candriam, we have designed a framework intended to minimize the exposure of workers to social risks within these supply chains.²³ A simplified scope of our social risk monitoring is illustrated in Figure 5.

Figure 5: Workforce risk monitoring



Source:Candriam

²³ - That is, the engagement, collaborative engagements, investment choices, and information-sharing which arise from the model are intended to identify and minimize the risks!

Code of conduct

It is crucial for companies to implement a robust and enforceable code of conduct for all suppliers. We believe that compliance with this code must be mandatory for engaging new suppliers. An effective supplier code of conduct should ideally include the following core elements:

- **Prohibition of child labour:** Companies must establish and enforce a zero-tolerance policy for child labour across all levels of the supply chain. This includes rigorous age verification processes and the implementation of remediation mechanisms. Suppliers should be obligated to conduct regular due diligence and audits to verify workers' ages. Yet again, the length and complexity of the supply chains makes verification difficult, and leather tanning is among the most abusive industries, and among the most difficult for which to verify the suppliers' suppliers' suppliers' workforces.
- **Prevention of forced labour and protection of migrant workers:** Each company's code should demonstrably seek to eliminate all forms of forced, bonded, or trafficked labour. Adoption of a zero-fee²⁴ recruitment policy is best practice, ensuring recruitment costs are borne entirely by the employer to prevent wage deductions. Suppliers must also be prohibited from withholding passports, personal documents, or wages.
- **Confidential grievance mechanisms:** Workers should have access to safe and confidential channels for reporting violations of the code of conduct. These mechanisms must guarantee anonymity and protection from retaliation, ensuring workers can report issues without fear of losing their jobs.
- **Commitment to fair and living wages:** The code must ensure that workers receive wages above legal minimums, and should make every effort to align remuneration with living wage benchmarks defined by the International Labour Organization (ILO). Transparent pay structures and payslips should be provided in a language understood by the worker.
- **Guarantee of freedom of association and collective bargaining:** All workers must have the right to form and join trade unions and engage in collective bargaining without fear of retaliation, even in jurisdictions where such rights are restricted. The code should explicitly prohibit union-busting practices and require suppliers to facilitate alternative worker representation when local laws limit union activities.

²⁴ -That is, the employee should not be paying any fees to the employer, recruiter, intermediary, or others.

This framework offers a comprehensive and actionable foundation for assessing or designing supplier codes of conduct, for the luxury and retail sectors. It provides a clear pathway toward building resilient, ethical, and transparent supply chains.

Figure 6 summarizes our assessment of some major luxury goods companies based on their published supplier codes of conduct.

Figure 6: Current supplier codes for selected luxury goods companies

Company	Hermès	Kering	LVMH	Moncler	Richemont
Policy against child labour	Child labour policy Age verification mechanisms in place	Child labour policy Age verification mechanisms in place	Child labour policy No age verification mechanisms in place	Child labour policy Age verification mechanisms in place	Child labour policy No age verification mechanisms in place
Policy against forced labour	Policy against forced labour Policy stating workers do not pay recruitment fees	Policy against forced labour Policy stating workers do not pay recruitment fees	Policy against forced labour No policy regarding recruitment fees	Policy against forced labour Policy stating workers do not pay recruitment fees	Policy against forced labour No policy regarding recruitment fees
Confidential grievance mechanisms	Confidential grievance mechanisms in place Main issues disclosed (number and types of issues)	Confidential grievance mechanisms in place Main issues disclosed (only number of issues)	Confidential grievance mechanisms in place Main issues disclosed (only number of issues)	Confidential grievance mechanisms in place Main issues are not disclosed	Confidential grievance mechanisms in place Main issues disclosed (only number of issues)
Collective bargaining agreements	Workers have freedom of association rights Only if local laws allow them	Workers have freedom of association rights Only if local laws allow them	Workers have freedom of association rights Only if local laws allow them	Workers have freedom of association rights Only if local laws allow them	Workers have freedom of association rights Only if local laws allow them
Fair compensation // living wage	Workers are paid a living wage following ILO definition The company has a definition of what consist of a living wage according to Hermès in the Code of Conduct	Workers are paid a salary above minimum wages in the country Living wage analyses and assessments according to the ILO definition	Suppliers are paid at least minimum wage No definition of what consists a living wage according to LVMH Code of Conduct No compliance with ILO definition	80% of suppliers were involved in a living wage analysis 20% above minimum living wages according to the ILO definition Living wage definition compliant with Fair Wage Network	Definition of the living wage provided but no mention of compliance with ILO definition Suppliers must not pay a living wage

Source: Candriam, company reports.

Hermès: March 2025 - 2024 Universal Registration Document including the Annual Financial Report
 Kering: 2025: [kering.com/api/download-file/?path=KERING_CODE_OF_ETHICS_EN_2025_f343cfff8a.pdf](https://www.kering.com/api/download-file/?path=KERING_CODE_OF_ETHICS_EN_2025_f343cfff8a.pdf)
 LVMH: April 2025; Key documents - LVMH - 2024 Social and Environmental responsibility report
 Moncler: April 2025 ; Moncler-Group-Annual-Report-2024
 Richemont: June 2025 - Richemont Non-Financial Report 2025

A key observation from this analysis is that policies addressing child labour, forced labour and respect for collective bargaining agreements tend to be structured similarly across companies. However, the area that requires deeper analysis and a more nuanced understanding is the policy on fair compensation.

Engaging with well-run companies to further improve their methods can be mutually beneficial. These companies often welcome the sharing of research and information. In turn, when market leaders improve further, other industry participants feel a competitive need to step up. We have taken this approach to nutrition in the [food industry](#), for example, with [Unilever](#).

Distinguishing between minimum wage and living wage is critical for accurately assessing compensation practices. While the minimum wage refers to the legally mandated salary floor, it often falls short of covering basic living expenses, such as paying bills or feeding a family. In contrast, a living wage defined according to ILO conventions to enable workers to cover essential needs with discretionary income left over, supporting both the worker and their family's well-being. Understanding this distinction is essential for evaluating whether compensation policies genuinely promote fair and sustainable livelihoods.

Localization

The geographic localization of supply chains influences the labour conditions experienced by workers. Data from the ITUC²⁵ demonstrates a strong correlation between supplier location and labour rights violations, particularly regarding the right to form and join trade unions. Specifically, in regions where regimes are more repressive, rights to establish and join trade unions are more frequently violated.

As the ITUC repressive index value rises, so does the incidence of these violations, underscoring that regions such as the Middle East, North Africa, Africa, and Asia-Pacific are associated with heightened systemic risks related to labour rights abuses, especially in terms of freedom of association and collective bargaining.

Indirect involvement, such as the suppliers of suppliers, is also a reputational and therefore brand value risk. When companies source from or outsource to regions with weaker labour protections, they increase their risk of involvement in labour rights violations. These risks are often more severe in the lower tiers of supply chains, where transparency is limited and monitoring is insufficient.

To address risks stemming from supply chain localization, companies should undertake comprehensive geographic mapping of all suppliers within the full chain, incorporate risk ratings (such as the ITUC index) into supplier evaluation processes, and prioritize sourcing from regions with stronger labour protections. In higher-risk regions, enhanced oversight and monitoring measures should be implemented to identify and mitigate potential violations.

25 - ITUC Global Rights Index 2024 - International Trade Union Confederation

Social audits

Even the most robust code of conduct, and practices of sourcing from regions with lower human rights risks, social audits are necessary to detect risks and to ensure respect for human rights throughout the supply chain. Effective social auditing is a fundamental pillar of sourcing to address the increasing demands for transparent, low-risk, and ethical and transparent supply chains.

Among industry leaders, our analysis shows Kering distinguishes itself through the transparency of its social audit framework. From initial supplier assessments to rigorous follow-up and remediation processes, Kering exemplifies best practices in managing labour rights and other supply chain risks.

Next Steps

The Candriam framework provides investors with a robust tool to assess and mitigate human rights risks in luxury supply chains.

Given this foundation, it is essential to understand how these supply chain risks translate into financial consequences, particularly through their impact on the reputation and overall performance of luxury brands.



Case study: Kering social audits

Kering has developed a comprehensive audit system covering its global supplier base. In 2024, the group conducted 4,550 audits across its supply chain, including:

- 1,588 comprehensive audits
- 2,085 follow-up audits
- 877 activation audits

In total, 70% of suppliers were audited in 2024.

Kering applies a mixed model that combines the benefits of internal auditing with independent oversight:

- 44% of audits are carried out by Kering's internal auditing team according to the Kering's standards.
- 56% are conducted by independent third-party auditors using the same standardized audit protocol.

Third-parties audits are performed using a standardized assessment protocol based on internationally-recognised frameworks such as SA8000²⁶ and SMETA,²⁷ covering 97 questions across 13 categories, including child labour, forced labour, freedom of association, working conditions and discrimination. Audits may be either scheduled or unannounced (52% out of the total audits conducted in 2024 were unannounced). The audits always include document reviews; site inspections and confidential workers interviews to encourage transparency and capture grievances or hidden issues.



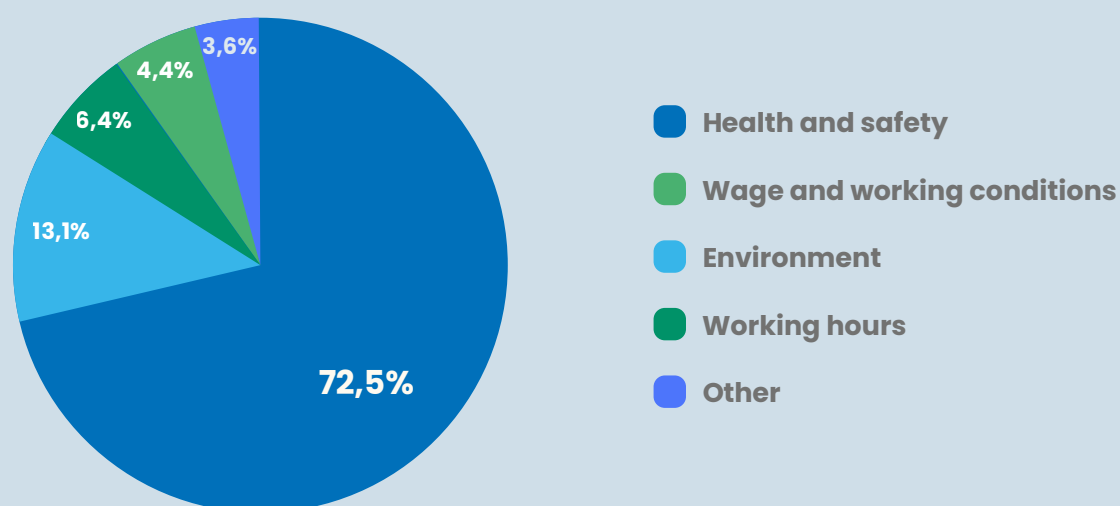
²⁶ - Social Accountability International, an NGO.
²⁷ - Sedex, a for-profit workforce audit supplier,

In 2024, 64% of Kering's suppliers were found to be fully compliant with the group's standards, while 30% were assessed as partially compliant. Another 5% were evaluated as requiring progress following audits, and 1% fell into the zero-tolerance category. In cases of serious violations, a dedicated committee consisting of Kering's audit team and representatives from the relevant brand reviews the findings to decide whether to continue the supplier relationship. Suppliers may be immediately delisted or, when possible, placed under a corrective action plan with ongoing monitoring. As a result of this rigorous process, Kering terminated its business relationship with 89 suppliers in 2024 due to unsatisfactory audit outcomes.

The group categorizes identified anomalies into observations, moderate and severe instances of non-compliance, and zero-tolerance cases. Kering further discloses a breakdown by theme of the top five most common anomalies detected among suppliers, as shown in Figure 7.

Figure 7: Breakdown by theme of the top five supplier anomalies

Example from Kering audit process, 2024



Source : [Kering Sustainability Report 2024](#) © All rights reserved.

Conclusion: preserving brand value

The luxury sector stands at a turning point, in our view. The complex risks embedded within lengthy, complex, and global supply chains are no longer reputational side notes. These risks, including worker rights risks, are material threats to enterprise value. Labour standards and human rights risks are financial variables, not moral options. They can lead directly into operational disruption, regulatory sanctions, and the erosion of brand and other intangible assets, the very essence of luxury. In an age of instant communication, a single credible boycott can destroy brand equity built over decades.

The shift from voluntary to mandatory accountability under the EU's CSDDD is welcome. To date, uneven enforcement and political dilution risk widening the gap between regulatory ambition and real-world impact. Waiting for the law to force change is no longer sufficient to protect shareholder value and sustainability.

Brands that anticipate tightening regulations on human rights compliance within their supply chains are likely to be better-positioned competitively. Companies that implement robust due diligence frameworks, with concrete policies and verification mechanisms, will not only mitigate regulatory and reputational risks but may also gain a comparative advantage over peers that fail to take human rights obligations seriously. Investors may wish to read and evaluate investee reports for themselves.

An increasing number of sportswear brands are disclosing detailed supplier lists, including specific factory addresses, enhancing transparency and facilitating monitoring in the event of a controversy. Within the textile and luxury sectors, supplier codes of conduct have become more comprehensive, and a growing number of companies are publishing remediation mechanisms to address issues identified through social audits.

We advocate a proactive approach, combining our framework with insights from data suppliers such as Sustainalytics and MSCI. We advocate for radical transparency: companies must disclose, even imperfectly, and investors must reward progress over silence.

Luxury's next era of brand value will be defined not only by heritage and excellence, but by accountability and responsibility.



€156 B

of assets under
management
30 June 2025



600

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