

**The London School of Economics and Political Science**

*Power, profit, and principles: Industry opportunity structures  
and the political mobilisation of jewellers*

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## **Declaration**

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For LUDO.

## ABSTRACT

This thesis focuses on the creation of private environmental and social regulation through the interaction of non-state actors in the US market for gold jewellery. By investigating the role of business actors in the development of private regulation through their cooperation and contestation with civil society activists, this study brings a business power lens to the study of non-state institution-building. It focuses on a new case and elaborates on current understandings of ‘industry opportunity structures’ (IOSs), taking a model built for the study of social movements and applying it to business actors. It seeks to treat agents from the private sector as political actors in their own right and traces the effects of industry structures on the emergence, development, and impact of the political mobilisation of ethical, specialty, and diversified jewellers. It argues that business actors face different opportunities for political leverage during the private institution-building process depending on the nature of the firm within which they are embedded. It helps explain the variation observed in firm responses to activist contestation while informing debates over the broader implications of the increasing emergence of private regulation in the global economy. Business actors are embedded agents, subject to the constraints of industry structures and market forces. Opportunities for business actors to mobilise firm resources for political purposes varies with the opportunity window available to them, which expands or contracts with the politicisation of the market. Therefore, contrary to previous interpretations, civil society contestation can actually empower institutional entrepreneurs from the private sector to shape the regulatory landscape. While market forces privilege ‘business interests’, and business power safeguards the autonomy of industry, through learning and leadership there appears to be a cumulative effect to contentious politics that has the potential to ratchet-up private regulation in both its depth and breadth of coverage.

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## SELECTED ACRONYMS

ARM	Alliance for Responsible Mining
ASM	Artisanal, Small-scale Mining
CI	Conservation International
CIBJO	World Jewellery Confederation
CRB	Commodity Research Bureau
DDI	Diamond Development Initiative
DRC	Democratic Republic of Congo
EDF	Environmental Defence Fund
EITI	Extractive Industries Transparency Initiative
EPA	Environmental Protection Agency
ETF	Exchange Traded Funds
FJA	Fair Jewellery Action
FLO	Fairtrade International (formerly Fair Labour Organisation)
FT/FM	Fairtrade/Fairmined Gold Standard
GRI	Global Reporting Initiative
ICMM	International Council on Mining and Metals
IIAP	Instituto de Investigaciones Ambientales del Pacífico
ILO	International Labour Organisation
IRMA	Initiative for Responsible Mining Assurance
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
KPCS	Kimberley Process Certification Scheme
LBMA	London Bullion Market Association
LSM	Large Scale Mining
NDG	No Dirty Gold campaign
OTC	Over-The-Counter (gold trading in physical bullion)
RAN	Rainforest Action Network
RJC	Responsible Jewellery Council
USD	US Dollars
WDC	World Diamond Council
WGC	World Gold Council
WWF	Worldwide Fund for Nature

## CHAPTER 1 – INTRODUCTION

### INTRODUCTION

Gold – and the quest for it – has always played a prominent role in world affairs. From driving imperial expansion to underpinning global finance, gold continually makes appearances throughout world history. Mined by the ancient Egyptians as early as 2000 BC, gold has historically been a source of power and prestige, maintaining a deep cultural significance throughout the world (see, for example, Bernstein, 2000; CRB, 2009). This precious substance is sourced from every continent, save Antarctica, while demand is predominantly driven by jewellery. The impacts of gold mining are significant. It is a source of subsistence for millions of miners and a major source of revenue for rich and poor countries alike. It is highly controversial as well, allegedly stunting local development, destroying local environments, and fuelling conflict in numerous societies. Many groups find regulation of the mining industry inadequate and have taken it upon themselves to supplement existing official regulation with social and environmental institutions formed outside the legalistic institutions of the state. Activist groups have begun targeting the industry directly, utilising shaming tactics and threatening grassroots action, but also working cooperatively with companies to reform industry practices.

Even though activists are most concerned with practices at the site of extraction, jewellers have become the most targeted node in the gold supply chain. Activists have been able to threaten the reputational value of these consumer-facing firms, attempting to leverage the jewellers' demand for gold into an economic incentive for miners to produce a more ethical product. As such, jewellers have also been among the most responsive actors in the chain, undertaking leadership roles in creating institutions through which collective decisions

about mitigating the negative impacts of gold production can be taken. However, doubt remains as to how deep these reforms will go and how robust these institutions will prove to be.

All firms in the gold supply chain have not been equally receptive to activist demands. Even when firms do take on a more active and collaborative role in non-state policymaking, they often do so in different ways, with differing preferences for coalition partners and institutional arrangements, and different capacities to alter industry practices and the regulatory landscape itself. This is equally true for companies occupying the same node in the supply chain, such as retail, as it is for companies operating in different nodes, such as retailers versus miners. This thesis posits that there are firm-level structures impacting upon the ways in which firms respond to the politicisation of their market and investigates this proposition through a structured comparison between different firms operating within the US jewellery market.

The investigation to follow concerns itself with this ostensibly private governance creation through the interactions of private actors and seeks to contribute to our understanding of the emergence, development, and impact of transnational collective action in markets. The project mobilises concepts from the study of business power to trace the opportunities for business actors to achieve political leverage in markets. It adapts an analytical model from the study of social movements, the ‘industry opportunity structures’ (IOS) model, and applies it to business actors, investigating how industry structures influence corporate political mobilisation<sup>1</sup> around the social and environmental issues within their market.

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<sup>1</sup> This thesis uses the term ‘corporate political mobilisation’ as an attempt to change the focus from ‘the firm’ to the actors within the industry who attempt to mobilise firm and industry resources for the purpose of influencing their institutional environment in the face of countervailing forces. Political mobilisation has been usefully defined by Nedelmann (1987, p. 181) as ‘the actors’ attempt to influence the existing distribution of power.’ As a concept, corporate political mobilisation better captures the active and collective nature of industry responses to political contestation than the idea of corporate political ‘strategy’ or ‘activity’ as it

## BACKGROUND DEBATE

Non-state actors have played a significant role in both the theory and practice of world politics for some time. A renewed interest in non-state actors, especially corporations, in International Relations (IR) emerged from the 1970s and many in the field have adapted their approaches to include them (see, for example, Keohane and Nye, 1977; Josselin & Wallace, 2001). The concomitant rise of International Political Economy (IPE) as a discipline helped legitimise this interest for scholars of global politics (see, for example, Gilpin, 1987; Strange, 1988; Eden, 1991; Vernon, 1998). In addition to the study of corporations, scholars began focusing on how NGOs and other transnational activists influence international policy processes (see, for example, Lipschutz, 1992; Keck & Sikkink, 1998; Betsill & Corell, 2007). Until very recently, business-NGO relations had garnered significantly less attention, perhaps because of the continuing state-centric nature of political studies in general and IR in particular (Cox, 1996). However, there is an emerging body of work incorporating business-NGO relations into analyses of corporate social responsibility (CSR), certification institutions, and corporate campaigns. This thesis contributes new findings and an adapted approach through a firm-level study of variation in corporate responses to civil society pressure and their concomitant engagement in the private institution-building process.

At the macro-level, the IOS approach is presented as a contribution to the debate currently taking place in IR/IPE surrounding the implications of the increasing privatisation of social and environmental regulation in the global economy. Over the past couple of decades there has been an exponential rise in the number of non-state regulatory initiatives and a related rise in scholarship on the subject.<sup>2</sup> With states appearing both unwilling and

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emphasises the process of building support for initiatives while centring on the role of power and the struggles inherent in the process.

<sup>2</sup> See, for example, Cutler, Haufler, & Porter (1999), Higgott, Underhill & Bieler (2000), Haufler (2001), Hall & Biersteker (2002), Falkner (2003), Pattberg (2005c), Dingwerth (2007, 2008), and Pattberg & Stripple (2008).

unable to regulate globe-spanning commodity chains, civil society actors have taken to circumventing state institutions and targeting corporations directly in an attempt to incentivise them into changing their sourcing strategies (Keck & Sikkink, 1998; Bartley, 2003; Schurman, 2004).

While some have interpreted non-state, or private, regulation to be indicative of the neoliberal ideological agenda to weaken the regulatory state (Ford, 2003; Amoores & Langley, 2004), others have preferred to conceptualise these activities as opening up political space outside of the state system in which threats to the public interest may be challenged (Wapner, 1995, 1996, 1997; Ruggie, 2004). The first perspective emphasises the political power of business actors and their ability to neutralise threats by co-opting and domesticating attempts to limit their autonomy. The second perspective emphasises the ability of civil society actors to fill the gaps in global regulatory coverage through their newfound power and innovative strategies. The debate has seemed to centre on the extent to which activists will be able to hold business actors to account outside of state-sanctioned regulatory frameworks or, conversely, the extent to which business actors are able to control the process of private institution-building.

All private regulatory initiatives are not created equal. They take different forms, serve different functions, and have different impacts. While there are many studies chronicling the differences amongst initiatives, there remains a need to understand the role of business actors in shaping these outcomes. How business actors contribute to their emergence, the extent to which business actors shape the process, and the potential impacts of the engagement of business actors in global social and environmental regulation remains understudied. As Levy and Egan (2003, p. 804) have argued, the existing literature on corporate political strategy 'does not account well for the multiple forms of industry responses to societal pressures.' This includes the diversity of business responses to civil

society contestation outside of state and inter-state institutions. Different firms respond in different ways and these diverse responses are reflected in the form, function, and impact of the private regulatory initiatives that emerge. Therefore, this thesis argues that our understanding of the causes and consequences of the expanding private regulatory landscape would be improved by a nuanced account of the multiple ways in which industry responds to activist pressure, focusing on the collaboration and contestation that shape these emerging initiatives. This thesis seeks to contribute to this endeavour through a focused comparison of different types of firms within the US jewellery retail market and investigating the link between their organisational characteristics and their respective responses to the politicisation of their industry by civil society activists.

In the cases presented within, business actors from different types of jewellery retailers have mobilised the resources of their firm to engage in non-state institution-building along their supply chains. They have mobilised different strategies in accordance with the different economic and institutional constraints they face and, therefore, have had different impacts on the process.<sup>3</sup> In demonstrating the conflict and accommodation driving the process, the IOS approach developed within offers a nuanced, firm-level account of the potential impacts of this increasing privatisation of social and environmental regulation in the global economy.

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<sup>3</sup> Institutional constraints refer to the channelling effect of institutional structures, defined here as the constituent parts of the social, organizational, and political environment in which agents operate.

## RESEARCH QUESTION

Corporate responses to social and environmental issues vary greatly. Activists do not always achieve the corporate responses they seek. Firms adopt policies that do not always meet the expectations of society and even adopt policies over the objections of other firms. The preferences of key decision-makers from the private sector and their ability to implement these preferences are the outcomes of power relationships mediated by environmental conditions. Past studies have explained how firms from different locations along production chains often respond differently to social and environmental challenges based on their unique sets of interests (Falkner, 2005; Andree, 2005). Likewise, related studies have shown how firms from different national political environments often respond differently based on divergent modes of organization (Doremus et al., 1998) and differing lobbying tactics (Coen, 2004) associated with the political and industrial cultures of their home states (see also Newell & Levy, 2006).

However, corporate political mobilisation in response to societal demands not only varies greatly across industries, positions in the supply chain, and national contexts, but also amongst firms occupying the same position of the supply chain, within the same national market, and even within the same firm over time. This thesis seeks to develop and refine a conceptual model that can account for the ways in which different firms, occupying the same position in the supply chain, respond to civil society pressure based on the opportunities and constraints faced by business actors embedded within them. As such, the research question asks:

***To what extent does the firm-level, industry operating environment impact upon the ways in which business actors respond to civil society pressure in a particular market?***

## THE ARGUMENT

Naturally, power is a central concern in IR/IPE and interest in business power has been a core feature of IPE scholarship for many years. To date, the vast majority of literature on business power in the field has been concerned with the power of business in state institutions, whether the politics plays out in the national or international realm. But how does business fare in political contests outside the state system? There remains a need to study the coalitions and contests between non-state actors when they seek to create global private regulation outside of the legalistic institutions of the state. Just as pluralists, Marxists, and their critics have focused on the relationship between the power of business and the structure of national political systems, this study concerns itself with the relationship between business power and the industrial structures that constitute the political field upon which private regulation is negotiated.

The model developed in this thesis links variation in firm-level structures to variation in the constraints and opportunities confronting institutional entrepreneurs working within the private sector and, ultimately, to the ways in which these actors mobilise firm resources for political purposes. Institutional entrepreneurs are ‘actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or to transform existing ones’ (Maguire, Hardy & Lawrence, 2004, p. 657).<sup>4</sup> In other words, instead of traditional IPE accounts that either treat business as a monolithic bloc or anthropomorphise ‘the firm’ as a unitary and profit-maximising entity, the approach undertaken in this thesis emphasises the embedded agency of private sector actors. The focus is on the emergence of institutional entrepreneurs from the private sector who engage in

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<sup>4</sup> The term seems to have originated with Paul DiMaggio (1988, p. 14), when he argued that ‘new institutions arise when organized actors with sufficient resources see in them an opportunity to realize interests that they value highly’.



collaboration and contestation with civil society activists within the environmental constraints imposed by market forces and firm-level structures.

To be perfectly clear, this thesis explores the structural opportunities and constraints confronting business actors working within firms, with a focus on what we can consider latent leaders. While the industry-level constraints and opportunities faced by firms are also considered, the thesis focuses on the structural opportunities for and constraints on those actors working within firms. So while the two are obviously related, this focus on actors within firms means that the characteristics of the firm itself are considered part of the operating environment for these actors.

Corporate political mobilisation is curtailed by a number of countervailing forces, including state regulation, activists and other non-state actors, as well as divisions within the industry itself (Falkner, 2008; Meckling, 2011). This thesis posits that there is an additional countervailing force to the political power of business actors that has been understated in the literature, namely, the structural constraints imposed by market forces. Furthermore, it argues that recognition of the effects of market forces is crucial to understanding the political leverage of business actors which, in turn, helps explain the emergence, development, and impact of corporate political mobilisation. There are political resources locked-up in firms which activist campaigns help liberate by creating opportunity windows for business actors to act politically. These resources include latent institutional entrepreneurs who now have the opportunity to innovate, expending financial and human resources to pursue political goals without being punished by the market for doing so.<sup>5</sup> In this way, activists empower business

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<sup>5</sup> The concepts of 'policy window' and 'policy entrepreneur' have been developed in the public policy literature by John Kingdon (1995) among others. This thesis adopts the concept of 'opportunity window' instead of 'policy window' in order to differentiate its use in the non-state context and link it to the IOS model developed within. Additionally, Kingdon's (1995, p. 203) concept argues that latent 'policy entrepreneurs' or 'advocates in and around government keep their proposals and their solutions at hand, waiting for an opportunity to occur', which is not necessarily the case in the argument put forward in this thesis.

actors to act politically by expanding opportunities for these *individuals* to influence political processes by mobilising the resources of their firm.

Civil society activists create a crisis situation through direct-targeting campaigns, and this crisis fractures the regulatory equilibrium in markets. When this regulatory equilibrium is fractured, structural constraints break down. Under these conditions, opportunities for political action appear; it is into these opportunities that policies can be driven utilising the instrumental power of strategic agents. Individual and collective action – through coalitions of individuals and organisations from industry and civil society – facilitate institution-building outside state institutions (Pattberg, 2005b, 2006). In this way, direct-targeting campaigns create opportunities for institutional entrepreneurs within industry to implement policies that would not have been possible without campaign pressure. Somewhat ironically then, under certain conditions civil society direct-targeting campaigns actually increase the political influence of business actors in non-state institution-building. Of course, they have also altered the playing field by moving the goal posts for these political actors from the private sector.

In the beginning of the private regulatory process, market forces are functioning as conservative forces by punishing actions that do not abide by the rules of market institutions, instruments, and logic. This is just as true for corporate actors as it is for would-be regulators. There may be latent institutional entrepreneurs working within industries, but they are equally bound by the dictates of market structures.

At this stage, with the underlying logic of the markets unchanged, economic inducements are necessary to drive change. Exposing companies to risk dislodges structural constraints and creates an economic incentive for firms to change practices; the greater this exposure, the greater the capacity for internal leadership to mobilise the resources of the firm

for political purposes. In other words, civil society direct-targeting campaigns expand the opportunities and capacities for industry actors to implement reforms without being disciplined by the market. Industry structures now offer opportunities for agents within firms to implement policies that were not feasible pre-campaign.

Once these structural constraints are upset, actors working within firms employ instrumental power in an attempt to shape outcomes. This is the implementation stage of the private policy process and the power wielded by corporate actors is now more easily observable. Operating at the level of the firm, policy leaders from the private sector work within and upon firm-level structures while being channelled by economic and institutional constraints.

One way to think of this is as a push for firms to regain their privileged position in markets. Once the industry becomes politicised, market expectations change and the structural forces that once protected firms now threaten them. To recapture their structural power (i.e. realign their interests with market forces), managers must adjust firm practices in accordance with these new expectations in order to insulate the firm from political risk and avoid being punished by the market. Once they do this, the privileged position of the firm outside state institutions is restored.

Once the risk is mitigated, structural forces of the market are re-established, albeit in an altered form. Institutional entrepreneurs create new institutions, both intra-firm and inter-firm, to consolidate their reinvented positions and reinstate their structural power. New markets are generated as new expectations amongst stakeholders take shape and new ways of doing things become the new standard. So the structural constraints of the market bend, but do not break. Industry structures channel the process, while agency drives initiatives through the opportunity window framed by the constraints of the particular firm and industry. This

explains why we observe a patterned variation in the form of corporate political mobilisation within industries.

This thesis will show that a focus on market forces can account for broad patterns across firm preferences, but it does not tell the whole story. To understand why some firms come to lead the process of private institution-building, one must also consider the ways in which activist contestation is interpreted. The risk that activists expose firms to needs to be interpreted by business actors within the firm. This is because risk, by nature, is intangible. The need to interpret the issues and the potential threat they pose to the firm gives managers tasked with these matters a certain amount of discretionary power in the policies they choose to deal with them.<sup>6</sup>

This thesis argues that coming to terms with the broader implications of this increasing movement toward private regulation requires a deeper understanding of the causes and consequences of the ways in which different firms respond to civil society contestation. This requires focusing on the business actors within firms as the ultimate implementers of policy and asking why they choose different policies and what the impacts of these different choices might be.

## CONTRIBUTION

By investigating the role of business actors in the development of private regulation through their cooperation and contestation with civil society actors, this study brings a business power lens to the study of private institution-building. It focuses on a new case, the role of jewellers in the politics of gold, and elaborates on current understandings of ‘industry opportunity

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<sup>6</sup> This perspective resonates with Lipsky’s (1980) well-known *Street-level Bureaucracy* in which he argues that policy implementation comes down to the people who actually implement it. This argument emphasises the discretionary authority and interpretive ability of front-line bureaucrats and the immense power and significant role it allows them in policy implementation (see also Levy & Newell, 2005).

structures' (IOSs) by taking a model built for the study of social movements and applying it to business actors. The study traces the dimensions of IOSs, mobilising case-specific empirical findings to analyse the impact of firm-level structures upon the development of corporate strategies for mobilising politically. It seeks to treat business actors as political agents in their own right and highlights a hitherto neglected countervailing force to the political power of business actors – the market itself. In so doing, this thesis complements existing studies of CSR, certification initiatives, and corporate campaigns that have led investigations into non-state institution-building to this point.

### *1) Bringing a business power perspective to private regulation*

Business involvement in social and environmental politics has been a popular focus for management scholars over the last two decades. Studies focused on company CSR strategies offer insights into the intra-firm dynamics that contribute to firm preferences. The majority of these studies tend to be rather apolitical and focus on, for example, 'win-win' situations (Baron, 1995, 2001, 2006; Porter & van der Linde, 1995a, 1995b; Porter & Kramer, 2002, 2006; Esty & Winston, 2006; Heal, 2008), how CSR may affect firm performance (McWilliams & Siegel, 2000, 2001; McWilliams, Siegel & Wright, 2006; Paul & Siegel, 2006; Graff, Zivin & Small, 2007), whether firms will ever act altruistically as opposed to being profit-maximising (Baron 2001; Portney, 2008; Reinhardt, Stavins & Victor, 2008), the effects of managerial orientation on firm CSR strategy (Cook & Barry, 1995; Blumentritt, 2003; Waldman et al., 2006), the potential trade-off between CSR policies and managers' fiduciary responsibility (Burriss, 2001; Rubin & Barnea, 2005), and reviews that attempt to piece together this diffuse literature (Hillman et al., 2004; Lyon & Maxwell, 2008). Generally speaking, these studies do wonderful work toward explaining

individual firm strategy when faced with social and environmental demands but, not surprisingly from the field of strategic management, they focus on how these decisions feedback into firm performance and do not usually extend their findings to their effects on the exogenous political landscape.<sup>7</sup>

Additionally, CSR is often presented as unproblematically consistent with and integrated into the legal norms of corporate governance and fiduciary responsibility (Mason & O'Mahony, 2008). This has the effect of obscuring the very real conflicts that inevitably arise when managers are faced with competing demands and attempt to harmonise their responsibility to shareholders with those to the wider society. In other words, the literature on CSR, mirroring corporate CSR statements themselves, often conceals what Mason and O'Mahony (2008, p. 4) describe as the 'role neurosis' faced by managers tasked with reconciling their sometimes seemingly irreconcilable responsibilities to shareholders and to the wider society.

Furthermore, the mainstream literature often glosses over the fact that CSR activities are, more often than not, the outcomes of power relationships, namely, those between activists and business actors (Levy & Egan, 2003; Blowfield, 2005b). While there is significant diversity in this vast literature, the tendency is to treat CSR as a technical issue, overselling the possibilities for political problem-solving through market innovation alone.<sup>8</sup> This obscures the power dimension of policies that are often the result of political battles taking place within industries. With industries exposed as political places, it becomes much easier to envision the possibilities and limits of CSR, the parameters of which are decided

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<sup>7</sup> Of course, there are a small number of political scientists who have penetrated the field, including David Vogel (2005) who weighs the potential of CSR to contribute effectively to global governance and finds that it often falls short as businesses align their CSR strategies to their strategic interests. See also Dauvergne & Lister (2010b) for a related analysis of the potential and limits of eco-consumerism.

<sup>8</sup> There are, of course, some exceptions to this rule even within management studies: see, for example, Levy & Egan, 2003; Hamann & Acutt, 2003; Hamann, Acutt & Kapelus, 2003; Hamann & Kapelus, 2004; Blowfield, 2005a, 2005b; Banerjee, 2008).

through power relationships mediated through the economic and institutional dictates of the industry.

## *2) New case and new focus*

This is not to dismiss the burgeoning literatures focused on certification regimes and corporate campaigns, both of which highlight aspects of the political nature of non-state institution-building. Certification institutions, usually focused on the most institutionalised, third-party varieties, have garnered increasing interest from IR/IPE scholars who tend to bring more of the contentious power dimensions into the equation.

There is a growing body of work concentrating on the certification institutions that emerge from NGO-firm interaction (Bernstein & Cashore, 2000; Cashore, Auld & Newsom 2004; Pattberg, 2005b). This literature is exceedingly relevant to the question at hand as these studies often include elements linking the characteristics of an industry to the governance strategies that result. Despite a growing number of studies focused on diverse industries, such as, fisheries (Constance & Bonanno, 2000; Cummins, 2004; Gale, 2004; Gulbrandsen, 2009), genetically modified organisms (Skogstad, 2001; Falkner, 2000; Bail, Falkner & Marquard, 2002; Schurman, 2004), and coffee (Muradian & Pelupessy, 2005; MacDonald, 2007; Auld, 2010a) the vast majority of studies are overwhelmingly focused on the forestry industry. In fact, David Vogel (2008, p. 275) points out that there have been more studies focused on the Forest Stewardship Council (FSC) and forestry codes than on all other codes combined. Of course, this focus on forestry is easily justified as it is, arguably, the sector with the most developed non-state regulatory initiatives (Auld, Gulbrandsen & McDermott, 2008).

These studies represent the cutting edge of certification scholarship and, the critique of the almost singular focus on forestry notwithstanding, they do many things very well. Grouped together based on their focus on certification, they naturally utilise a number of different theoretical approaches to frame their studies and cover a lot of ground.<sup>9</sup>

This thesis complements these efforts by contributing new empirical data from an understudied case that can be utilised for cross-industry comparisons moving forward. It also represents somewhat of a ‘non-case’ as, while a third-party certification is being developed and should be launched imminently, thus far the institutional landscape has been dominated by industry-led initiatives and a true multi-stakeholder initiative reminiscent of the FSC has yet to emerge.

By shifting focus from activist-led initiatives to industry-led varieties, it offers an account that leans more heavily on the firm perspective than many past studies. It differentiates between different types of firms within the same industry and suggests how firm-level structures affect how these different firms might engage with, and participate in the creation of, private regulation. Importantly, it also ‘unpacks’ the firm to reveal the ways in which business leaders participate in the process, how their approaches differ, why they take

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<sup>9</sup> There have been studies utilising the FSC as a single-case study into the relationship between this ostensibly private initiative and public policies, usefully demonstrating that a closer examination reveals the fingerprints of the state at various stages of regime development (Falkner, 2003; Hysing, 2010). *Cross-national* comparative studies have shown how variation between political contexts – specifically, the position of a country in the global economy, the structure of the domestic forestry industry, and the history of forestry on the public policy agenda – can account for variation in support for the FSC (Cashore, Auld & Newsom, 2003, 2004; see also Cashore & Lawson, 2003). Studies undertaking *cross-issue* comparisons have offered compelling explanations for the emergence of certification regimes, for example, Tim Bartley’s (2003) study comparing the emergence of certification regimes in the apparel and forestry sectors. Additionally, there have been *cross-issue* studies tracing the diffusion of certification models across issue areas, for example, the design uptake from the FSC in forestry by the MSC in fisheries (Gale & Haward, 2004; see also Conroy, 2007) and the significant cognitive impacts of norm diffusion and institutional learning that accompany these emerging forms of regulation (Pattberg, 2006). There have been interesting single-case studies of how the FSC has garnered sufficient legitimacy in the eyes of both business and civil society circles for them to grant it ‘rule-making authority’ (Cashore, 2002; Bernstein & Cashore, 2007). Studies using supply chain analysis to link NGO strategies and firm preferences to certification outcomes have offered useful insights (Sasser, 2003) as have those attempting to explain why firms may or may not relinquish some control over outcomes to these regimes (Klein, 1999; Gereffi et al., 2001; Bartley, 2003; Ruggie, 2004; Sasser et al., 2006).



these different approaches, and how these different approaches affect the establishment of non-state institutions.

The certification literature tends to focus on the activist campaigns that spawned them and, as such, is inclined to treat business actors as the target of political actors and not political actors in their own right. Despite recognition that firms may not only be the cause of much environmental degradation, but also the potential solution, there continues to be a lack of attention paid to corporate strategy in studies of global environmental politics (Levy & Newell, 2005b, p. 5). Despite recognition of the escalating role firms play in non-state public policymaking, the vast majority of existing studies utilise analytical models that focus on the political strategies and mobilisation of NGOs versus an industry, continuing to treat business actors as passive or reactive entities.<sup>10</sup> This thesis seeks to redress this omission by treating business actors as political agents operating within the political field of markets.

### *3) Applying the IOS model to corporate political mobilisation*

The idea that industry structures channel social movement strategies, development, and effectiveness has been well-established (see, for example, Schurman, 2004). These structures also channel the strategies, development, and impact of corporate political mobilisation responding to these issues. This project draws on the model of ‘industry opportunity structures’ (IOSs) and extends it to the field of corporate political strategy when business

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<sup>10</sup> Some exceptions that prove the rule include Utting, 2005, as well as studies recognising business actors as purveyors of norms (Sell & Prakash, 2004; Flohr, Rieth & Schwindenhammer, 2007; Meckling; 2009, 2011). Previously, the literature had tended to only consider groups from civil society as ‘norm entrepreneurs’ (Khagram, Riker & Sikkink, 2002) and have even explicitly differentiated between the motivations of transnational advocacy networks who are driven by shared principled beliefs, epistemic communities who are motivated by shared causal beliefs, and business actors who pursue instrumental goals (Keck & Sikkink, 1999). This thesis takes the position that actors from all spheres are driven by both interests and ideas (Sell & Prakash, 2004; Meckling, 2009), and these interests and ideas are shaped by both structural and agency-driven factors.

actors respond to a specific issue area or activist campaign and drive change forward through the channels demarcated by the particular industry structures in which the firm, and the actors within the firm, are embedded. An IOS model is mobilised and adapted for the new purpose of treating markets and firms as complex political environments within which business actors often take on leadership roles, in contrast to simply being reactionary entities.

This study builds upon the theoretical and empirical work done on business power in global environmental governance (e.g. Levy & Newell, 2005a; Clapp & Fuchs, 2009) and, even more closely related, recent studies within the business power literature that emphasise the process-channelling role of IOSs (Falkner, 2008, 2010a; Meckling, 2011). Additionally, there have been a limited number of studies focused predominantly on the contest between firms and NGOs outside of state institutions that have also utilised insights from the literature on social movements, concentrating on the direct targeting strategies of activist campaigns (Schurman, 2004).

This thesis differs in that the focus is flipped – the IOS model is applied to business actors instead of activists from civil society. The rationale is straightforward: the POS/IOS model was developed to investigate the ways in which the operating environment affected the ability of activists from social movements to gain political influence. Not unlike the activists in these organisations, during the political contests between NGOs and firms, business actors attempt to gain political influence in their interest areas. Therefore, complementing the work of scholars interested in the opportunities that enable and constraints that limit the political power of business, it seems appropriate to apply the IOS model to the political activities of business actors and investigate the ways in which their operating environment, especially features of the firm itself, affects their influence on the process of private institution-building.

Very few studies to date have focused on the relationship between industry structures and the power of business actors vis-à-vis civil society activists when constructing regulatory initiatives and, to my knowledge, none have attempted to understand how industry structures create and constrain opportunities for corporate political mobilisation. Activist campaigns help create the political space for latent institutional entrepreneurs within the private sector, but these institutional entrepreneurs are still faced with the opportunities and constraints that their operating environment subjects them to. Therefore, this approach also contributes to our understanding of the potential and limits of non-state regulation as the IOS approach helps delineate the parameters for business contributions to social and environmental regulation as the structural forces operating within markets restricts the political activities of actors working within them. However, the approach also shows how activists are able to manufacture opportunities, thereby expanding the parameters for business actors to contribute to private regulatory regimes.

The approach switches the focus from *drivers* of firm preference formation to the *opportunities* available for institutional entrepreneurs to mobilise firm resources for political purposes. It argues that firm responses can best be explained through the collaboration and contestation between agents from business and civil society. Activists play a role by expanding, and even creating, the opportunity structures through which business actors march the politically mobilised firm. Such an approach recognises that business actors are often able to maintain control of the private institution-building process, but this does not necessarily lead to weak regulation. Civil society actors are critical contributors to the process, but can rarely force business actors to give up autonomy or otherwise compromise their market goals. Therefore, the IOS approach recognises the fundamental role of business actors as agents of change, but emphasises the embedded nature of their agency and the enabling effect of civil society action against their industry.

## RESEARCH DESIGN

The study extends existing studies of business power and opportunity structures from the public to private regulatory realm, from industry-level analyses to the level of the firm, from firm-level to intra-firm dynamics, and from initial activist targeting through to the political contests that shape policy outcomes.

The study utilises both process-tracing and comparative case study methods to infer causality. It seeks to understand the causal mechanisms connecting industry structures to policy outcomes and so a process-tracing approach is the most appropriate method. On the one hand, this is a within case analysis of the US gold jewellery industry. On the other hand, the study utilises multiple cases to construct elements of this ‘complex causality’ (George & Bennett, 2005), undertaking a structured comparison between three jewellery retail categories at the firm-level.

### *Historical process-tracing*

This project adapts a model from the study of social movements and applies it to business actors, investigating how industry structures impact upon the emergence and development of corporate political mobilisation in a particular market. These structures are multi-dimensional, comprising both economic and institutional dimensions.<sup>11</sup> Strategies are pushed forward by agents, but channelled through structures. Therefore, historical process-tracing is the natural methodological choice as it lends itself to uncovering the layers of complex multi-causality present in social phenomena, including the organisational decision-making and

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<sup>11</sup> As implied in the preceding discussion of institutional structures, institutional dimensions are defined here as dimensions of the social, organizational, and political environment in which agents operate.

political action of corporate actors.<sup>12</sup> As Brint and Karabel (1991, p. 346) argue, '[a] key task of the institutional analyst is to specify [the power structures and opportunity field] faced by decision-makers and to show how they shape and constrain the pattern of development of organisations operating within a particular field. Since organisational forms develop over time, such an analysis will almost necessarily be historical in character.'

Furthermore, analyses of firm responses to civil society demands must not simply infer firm preferences and influence from a post hoc correlation between the observed outcomes and a preconceived notion of the firm's interests (Hacker & Pierson, 2002). Interests change with the evolution of institutions and policies, positions may be strategic rather than reflect actual preferences and, therefore, outcomes can end up anywhere along a continuum between their initial position and the negotiated result (Hacker & Pierson, 2002).

All social interaction is influenced by previous events, encounters, and interpretations; an historical approach is necessary to capture the interplay between economic and institutional opportunities, the effects of learning and the development of policies through trial and error, imitation and innovation (see, for example, Hobden, 1998).

By utilising historical process-tracing, the study avoids promoting an invariant approach to the analysis of structures by leaving conceptual room for actors to not only work within these structures, but also upon them. It is sensitive to structures changing over time and so escapes the trap of privileging and naturalising the current status quo, which is a danger when separating case from context.

Therefore, an appropriate approach to interpreting firm preference formation, decision-making, and influence must begin with an historical analysis that considers the history of the firm, its past interactions with political issues, and the evolution of its response

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<sup>12</sup> For in-depth analyses of the process tracing approach see Collier, 2011.

to the issue at hand. To overcome one of the major limitations of such as approach, the inability to make robust general claims across cases, this study also incorporates a comparative element in order to maximise the theoretical contribution without compromising context and nuance.

### *Levels of analysis*

Following from studies on market-based activist campaigns, industry-level analyses can explain how NGOs create leverage when targeting firms, which is where most studies stop. These studies have demonstrated the parameters of NGO action at the beginning of activist attention and have shown how this pressure affects the most vulnerable firms along the supply chain. However, to improve understandings of how firm structures impact upon firm responses to civil society pressure requires extending the investigation from the level of the commodity chain to the level of product markets, individual firms working within them, and even inside these firms – as, along with structural characteristics of the commodity chain and product market, the actions of agents operating within firms will also be channelled by the structural characteristics of the firm itself.

If there are clear patterns between firm preferences for engagement across the industry, we can be reasonably confident that there are structural elements at the industry-level that are channelling the engagement of firms. If there are no such patterns to firm engagement, then we can conclude that little can be gained from treating firms as unitary actors under these circumstances. Therefore, ‘the firm’ must be unpacked as there are clearly firm-level forces impacting upon firm engagement. These will be a mixture of economic and institutional considerations based on the particular type of firm’s business model and organisational characteristics. In other words, inconsistent engagement by firms operating in

the same market points to firm-specific, intra-organisational factors as key to explaining political strategy. The specific factors can only be delineated through close study, but we can look for patterns across firms for clues as to which factors have the most impact on strategies. As such, this study seeks to generate and refine an IOS model that can help account for the corporate political mobilisation of different types of firms, using the comparative case findings to test and refine the model itself.

## **CASE SELECTION**

There are a number of reasons this study concerns itself with only one industry and these go beyond simply the time and resource limitations of any research project. The goal is to collect empirical data to conduct the historical process-tracing and keep the potential explanatory variables to a minimum for the comparative element, including keeping the political issues of the market relatively constant. This will, in turn, help generate firm-level findings, against which we can evaluate the explanatory power of the indicator-based propositions of the IOS model.

As one of the first attempts to apply the business power perspective to non-state institution-building and to appropriate a model designed for social movements and apply it to firms, there is a need for significant groundwork before cross-industry comparisons can be carried out. The immediate need is to gather rich empirical data in order to identify and sort the mechanisms shaping firm actions and influence.

Focusing on the politics of private regulation formation in a single industry allows for a firm-to-firm comparison to be carried out under relatively controlled empirical conditions. A within-case analysis of the social and environmental politics of gold jewellery holds the

product, market, and commodity chain context constant. It also holds the political pressures within the market constant as this tends to vary with the commodity and consumer market targeted as well as with the strategies employed by activists and the resources they have at their disposal.

*Why focus on the industry and not the issue area?*

This study takes the industry as its empirical focus instead of focusing on an issue area, such as climate change, ozone depletion, or deforestation.<sup>13</sup> This conscious design decision offers a different set of research opportunities than cross-industry analyses that take one or more issue areas as their starting point. The advantages of such an approach rest on a number of theoretical propositions.

In addition to allowing for a more structured cross-firm comparison as mentioned above, it allows for an in-depth historical perspective on corporate political mobilisation, which offers a deeper understanding of its emergence and development across firms, but also across issues for each firm. It aids in developing a nuanced understanding of firm-specific differences that influence responses. Firms are interested in risk mitigation and marketing across issue areas. When confronted with a new political issue area, business actors build from past experiences and work from within, and upon, institutions developed from these experiences.

Institutions within their industry have substantial influence on business actors. This is their organisational field from where they take cues, appropriate models, and engage directly

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<sup>13</sup> Auld (2010b) offers a thoughtful analysis of the potential trade-offs of the movement from territorially-based governance to more parochial, issue-based governance (i.e. industry certifications), the limitations of which are reflected to some degree in studies that do not consider the effect of cross-issue strategy, learning, and institutional fit with firms and industries.



on a regular basis.<sup>14</sup> The social relations between colleagues, customers, competitors, and critics – as well as the formal and informal rules that govern these interactions – are the key to understanding business responses. It constitutes the permissive social environment in which these agents act and so a focus on both industry and, especially, firm-level social structures will allow for a better understanding of the semi-autonomous activities of the actors within.

### *Why the US market for gold jewellery?*

The jewellery industry makes for an interesting and important case for many reasons. As mentioned above, we can observe variation in firm responses to NGO pressure in most industries and the US market for gold jewellery offers a valuable mix of both firm types and corporate responses for our study. There is an active campaign, the *No Dirty Gold* (NDG) campaign, targeting the jewellery industry as the most branded node in the supply chain. This is because gold, and the processes required to meet the demand for it, is socially and environmentally significant on a global scale with vast and variable impacts – especially for developing countries and indigenous populations in areas that produce it. To battle the images put forth by activist groups of ‘dirty gold’ and ‘conflict gold’, the industry has responded with a number of proposals, including internal CSR initiatives and an active effort toward externally monitored social and environmental certification of the commodity. The evolving regulatory landscape of the gold sector demonstrates a strong industry focus on private regulation as they attempt to reconcile the mitigation of social and environmental issues with the requisites of industry structure and market strategy.

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<sup>14</sup> An organisational field is defined as ‘sets of organizations that, in the aggregate, constitute a recognized area of institutional life; key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products’ (DiMaggio & Powell, 1983, p. 148).

The US jewellery market has been chosen for the study as the NDG campaign, although global in the scope of its ultimate goal of mitigating the negative effects of mining worldwide, is based in the US, as are most of the jewellers it targets. In order to further focus the study and limit the variables in play, it was decided to limit cases to US companies and so keep the national institutional context of the firms constant.<sup>15</sup> The US market is the largest jewellery market in the world, accounting for over 40 per cent of the worldwide market by sales (IDEX, 2011). Therefore, the US context offers a greater number of the world's largest jewellers than any other jurisdiction, which allows for the selection of an appropriate range of business models.

#### *Why study lead firms?*

The three cases include firms from each of three basic categories of jewellers within the US jewellery market, with an emphasis on the lead firms from each. There are many benefits to focusing on lead firms across categories, specifically, the cases represent the full range of firm types within the industry, it allows for a focus on institutional entrepreneurs and controls for isomorphic effects, it provides an opportunity to analyse both the potential and limits of the mobilisation of various types of firms, and lends itself to testing and refining the IOS model against variation both across and within the different categories of firms present in the industry.

The first category is made up of the relatively small number of boutique, *ethical jewellers* that have entered the market in response to growing consumer demand for

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<sup>15</sup> In contrast to this approach, see Cashore & Vertinsky (2000) for a study on the effects of different governance systems on firm responses to external pressure.

responsibly sourced jewellery.<sup>16</sup> While they are clearly political actors, many less obviously engaged firms have also mobilised since the market became politicised. This includes those from each side of the greatest division in the jewellery industry, namely, that running between *specialty jewellers* and more *diversified jewellers*, the latter of which are firms that sell large quantities of gold jewellery along with many other, non-related items. While the household names synonymous with jewellery tend to fall into the specialty category, most of the world's largest sellers of gold jewellery fall into the diversified category. In fact, seven of the nine largest US-based jewellers are diversified retailers while the remaining two are specialty retailers (Hoovers, 2011).<sup>17</sup> Therefore, a representative firm from each of the three categories will command the focus of the study.

The responses of jewellers to the issue of 'dirty gold' have varied greatly, both across these divisions and, to a lesser extent, within each category. The study focuses on representative firms in each category in order to give a detailed and historically-informed account of actors and events that will allow for an in-depth, firm-to-firm comparison. The companies included in the study could all be considered leaders in their respective camps even though their response time and approach to political mobilisation differ markedly.

While referencing the similarities and differences within each category, focusing on lead firms – firms that are actively engaged in the politics of the sector – allows for the tracing of agency through the opportunity window that activist pressure has opened. Lead firms illustrate how institutional entrepreneurs within them push forward with collective

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<sup>16</sup> This thesis will adopt the term 'ethical jeweller' when referring to the boutique jewellers who have differentiated themselves based on their social and environmental commitments and the impacts of their business practices. The term is used for convenience and should not be taken to imply that jewellers who are not in this category are not ethical.

<sup>17</sup> This includes *Sterling Jewelers*, which places second to *Wal-Mart* with annual sales at about USD 2.557 (Hoovers, 2011). However, *Sterling* is actually the parent company of *Kay's*, *Jared's*, and ten additional store brands in the US. Its size is, therefore, a function of it representing twelve retail store brands. It is also a fully-owned subsidiary of *Signet Jewellers* in the UK, making it somewhat of a unique company and a less than perfect choice to represent US specialty jewellers.

action and, of equal significance, how these actions are shaped and constrained by the requisites of the industry. Past studies of direct-targeting campaigns in other industries have tended to treat firms as reactive actors acquiescing to activist demands. Such studies offer a general idea of why some firms comply, but they underplay the role of business leaders in the design and implementation of these initiatives and do not indicate what the limits to corporate political activity in markets are, nor do they suggest that such limits exist. While campaign pressure usually forces even would-be laggards in the targeted industry to at least recognise the potential link between its business practices and the social and environmental issues highlighted by activists, of significant concern for this study is to identify the limits faced by policy leaders in accordance with the IOSs particular to their firm category. Demarcating the outer edge of the opportunity window available to corporate actors and identifying the limits to corporate political mobilisation requires tracing the political process from the perspective of lead firms and the actors who drive them.

An additional reason to focus on lead firm is to control for imitation. Organisational sociology scholars have shown how many firms will imitate the policies of lead firms, especially under conditions of uncertainty – such as the politicisation of markets by activists (see, for example, DiMaggio & Powell, 1983, 1991). In fact, it is this uncertainty that makes the guidance of institutional elements, such as corporate culture and leadership, so important once activists have opened the opportunity window by leveraging a threat. In these circumstances, there are no clearly ‘correct’ responses when it comes to political mobilisation, so while firm-level structures demarcate the field of possibility, it is the policy leaders within their respective categories that find the limits of corporate political mobilisation while many of the late-movers simply follow.<sup>18</sup> By focusing on lead firms, we

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<sup>18</sup> Early adopters of organisational innovations may do so to improve performance or mitigate risk, but these new processes may become infused with value that goes beyond the technical requirements and strategic motivations behind the task at hand (Selznick, 1957, p. 17; DiMaggio & Powell, 1991, p. 65). As organisational

hold these processes constant and instead concentrate on those institutional entrepreneurs who manage to mobilise the resources of their firm in line with the opportunity windows activists open.

Additionally, we can leverage the findings from a small-n, qualitative study by focusing on lead firms from each category as it allows for comparison both across and within categories of firms operating within the same market. When it comes time to analyse the observed variation in corporate political mobilisation amongst firms from the US jewellery market – firms from the same industry, occupying the same position in the production chain, and operating in the same national market – one must consider two types of variation. The first type of variation refers to what we might expect across different categories of firms. In other words, we might expect some variation in how firms respond to activist contestation across firms that have different business models and market strategies. The second type of variation refers to variation within each category of firm. In other words, we might expect some variation across like-firms in their speed and depth of engagement with political issues. Choosing representative firms from each category will allow for both types of variation to be explored.

During the case chapters, the approach could be described as theory-guided process tracing that focuses on the lead firms, but involves some comparison between firms within each category with a certain amount of comparison between the different categories as we gather information. During the cross-case comparison in chapter seven, the findings from the case chapters will be compared in a more structured manner to distil and expand on the

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sociologists have shown, innovation that may have originally been adopted for strategic reasons may spread to other firms who then adopt these innovations not for strategic reasons, but because adoption provides legitimacy or a normatively sanctioned model they can copy in the face of uncertainty (Meyer & Rowan, 1977; DiMaggio & Powell, 1991, p. 65). Or, from a more economic perspective, other firms may follow once they benchmark best practices and run a cost-benefit evaluation of their options based on the responses of their competitors (Porter, 1996; Dobbin & Baum, 2005).

findings from the cases. The first goal of this chapter will be to further evaluate and refine the propositions of the IOS model against the observed *differences* across the three firm categories. The second goal will be to further explain how the lead firms came to be so engaged through the observed *similarities* between them. Clearly, in addition to the benefits listed here, there are also some sacrifices involved in choosing such an approach, which will be discussed in the section on generalizability below.

### *Why Brilliant Earth, Tiffany & Co., and Wal-Mart?*

*Brilliant Earth* is a small, private company specialising in ethical jewellery. The company was officially launched after the NDG campaign was initiated and ‘dirty gold’ became a political issue that the industry was just beginning to deal with. The company was formed as a direct response to the severity of the issues related to the jewellery supply chain and the lack of certified ethical jewellers in the marketplace. The NDG campaign created the opportunity window for the private sector to mobilise and the *Brilliant Earth* founders drove their idea through this opening. Self-proclaimed, ethical jewellers represent the most obvious form of corporate political mobilisation and constitute a more recently established, but politically significant division within the jewellery retail sector. In many different industries, these boutique manufacturers and retailers constitute an important response from the private sector to the politicisation of their market. As a firm overtly attempting to shape the political landscape of the jewellery supply chain, *Brilliant Earth* is an interesting counterbalance to the other two cases; instead of struggling to reform their supply chain to bring it in line with the requisites of responsible gold sourcing, the company has designed its supply chain to exceed these standards from its inception, which allows us to contrast this form of corporate political mobilisation with those of its larger rivals and to investigate the potential and limits of such

an approach. While certainly constituting a niche market, there have been a number of similarly small, private jewellers emerging to fill the ‘ethical’ gap in the market.

The specialty jeweller category includes those household names we normally associate with fine jewellery and fashion.<sup>19</sup> As we will find, these jewellers have been generally proactive through the creation of an industry group and ‘responsible’ labelling to counter activist claims. *Tiffany* is a very interesting case as the company seems to have taken on-board the suggestions of the campaigners and gone even further than expected. By actually lobbying for increased regulation they have arguably reached the pinnacle of CSR; by pushing to make standards legally binding they have acted counter to the expectations of those who argue that corporations embrace CSR and other forms of non-state regulation to avoid hard regulation by the state (see, for example, Rowe, 2005). The company was certainly a first-mover within its category so it will be important to ask not only why specialty jewellers have been quite active in their political mobilisation but, also, why *Tiffany* seems to have led the pack and what this can tell us about the sources and limits of this engagement.

We will see that diversified jewellers have shown slightly more varied responses as a group, but the general trajectory seems to be toward a weaker, more individualised political mobilisation. *Wal-Mart* is a company that initially ignored campaign pressure, but has since become one of the most actively engaged diversified retailers. There are potentially many lessons to learn from studying the company’s response as we attempt to identify the tipping point and reasons it came to be involved in the politics of gold as well as the development of its approach and impact. The company has signed on to the NDG campaign’s general standards, the *Golden Rules*, but opted for in-house, private labelling. *Wal-Mart* makes an

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<sup>19</sup> While there are many thousands of independent designers and retailers of jewellery in the US market, they have not been targeted directly by activists and have generally been much less involved in the politics of gold.

excellent case for a couple of reasons. First, they are one of the largest companies in the world and the largest gold jewellery retailer in the US market by sales (GFMS, 2010) and, therefore, their political mobilisation within any market is significant. Second, they represent a diversified retailer that many analysts did not expect to become engaged in the politics of gold and so offer a chance to investigate why they have become involved, how they have become involved, and what such a large and diversified retailer can contribute to the regulatory architecture of the gold commodity chain.

## DATA COLLECTION AND ANALYSIS

Data sources for the corporate cases were gathered from industry grey literature, including CSR statements, annual reports, financial statements, and other investor reports while validation and additional information has been gathered through interviews with top managers, analysts, and consultants. This information has been verified against official documents, press releases, and interviews with relevant NGOs and campaigners. Publications of and discussions with industry groups working on these issues were also valuable sources of information, as were discussions that took place at the *International Jewellery London* trade show. The *British Library of Political and Economic Science* at the *London School of Economics*, the *Business and IP Centre* at the *British Library*, and the *Thomas J. Long Business Library* at *Haas Business School* at *UC Berkeley* have proven to hold a wealth of information on the jewellery industry through their catalogues, industry guides, and databases.

The vast majority of primary source data has been obtained from key informants in industry, civil society, and government. A total of 44 semi-structured, elite interviews were conducted, averaging about 90 minutes each. Most of these interviews were conducted in



person in London, New York City, Washington DC, San Francisco and Bentonville, Arkansas while phone and email interviews were used for additional locations. The interviewees were asked similar questions from a topic sheet, but were also encouraged to recount events and motivations from their own perspective. As interviews progressed, accounts were corroborated amongst informants. Most in-person interviews were documented through audio recordings and later transcribed for coding. The coding for interview transcription was based on the IOS framework (developed in chapter two), paying special attention to both economic and institutional elements present in the process while piecing together the critical events, characters, and considerations that led to decisions and actions being taken.

Added to these formal interviews were dozens of email correspondence with industry actors and various stakeholders that did not result in personal interviews, but still informed the study by supplying insights into why various actors and organisations were either not able or not willing to participate in the study. Scarce time and resources were often cited, but so were risks to personal job security or the reputational risks faced by the firms. Some simply claimed that becoming involved in politics or academic studies was not the way they did business. Naturally, there were many dozens of unreturned calls, voicemails, and email inquiries on top of this.

Such is the sensitivity of industry information and reputations, especially in the notoriously secretive jewellery industry, some informants participated on the condition that the information they offered not be attributed to either them or their organisation in the final copy of the thesis. While this was the second-best option, the information collected under these conditions was used as background information and for the corroboration of events. As an additional safeguard for the participants, the author has decided to simply cite by

organisation or generic position in the published text.<sup>20</sup> For the purpose of the PhD degree being sought, the examiners will be given a full list of sources in confidence.

### *Interviewee sampling method*

The goal of the elite-level interviewing undertaken for this project was to speak with the actors who actually participated in the events under investigation. These actors could speak to the informal processes and deliberations that preceded the outcomes and are often omitted from official accounts, which made non-probability sampling the most appropriate method (see, for example, Tansey 2007).

Non-probability sampling is a type of purposive sampling where key informants who played a role in the event are selected based on positional criteria. The sampling for this study was conducted in three ways: informants were chosen based on their position in the industry or civil society organisation and the nature of the position they held, by their familiarity with the issues involved, and by their direct participation and influence on the series of events documented within this text. This was, of course, restricted by availability of informants and their willingness to participate. Identifying high-value informants, especially in the early stages, was achieved by trawling grey literature: industry journals and guides, organisations' websites and publications, mainstream media articles, and workshop participation lists. Additionally, once interviewing commenced, a 'snowball sampling' technique based on reputational criteria could be used by which informants identified other potential interviewees and, in some cases, referred the interviewer to them (Biernacki & Waldorf, 1981; Atkinson & Flint, 2001).

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<sup>20</sup> Interviews are cited by organisation in most cases, but by generic position for very small organisations and when requested by the interviewee.

### *Generalizability*

One of the major concerns with non-probability and snowball sampling is that they can introduce selection bias. This selection bias leads to an inability to make robust generalisations about a larger population. It is important to note that the interviewees were not chosen by random sampling or some other form of representative sampling as the goal is not to generalise about a wider population of actors in these positions so much as it is to reconstruct a series of events, corroborate information, and establish what participants thought about the processes and events as well as how they proceeded to participate in the process. So while both non-probability and snowball sampling have their drawbacks, they allow for control over the selection process and access to key actors to ensure they are included in the analysis and first-hand data can be obtained. Crucially, the goal of process tracing – and this study in particular – is to reconstruct highly specific events and make judgments about the processes and mechanisms connecting actors, actions, and outcomes (see Tansey, 2007 for a lengthier discussion on this point). Therefore, if the researcher's claims remain within these parameters, non-probability sampling is a highly effective method.

In addition to the potential for selection bias inherent in these sampling methods, the generalizability of this study is limited by many of the limiting factors that have been included in the case selection criteria in order to reduce the variables for a firm-level investigation. This is a within-case analysis with an in-depth comparative case dimension involving a small number of cases. It represents only one industry, and – although the campaign has a global focus, the corporations have global reach, and the effects of the governance initiatives have global implications – the protagonist organisations all hail from one country, which quite obviously limits the extent to which the findings can be generalized across institutional settings. However, this preliminary small-n study could set up a theory-testing project through a large-N analysis with cases chosen to vary the explanatory variables

across industries and firms at a later time, which could allow for stronger causal inferences on the individual variables themselves.<sup>21</sup>

The focus on lead firms also constitutes a potential source of bias. It will naturally skew results toward an emphasis on proactive firms and away from intransigent firms. The jewellery industry includes a number of laggards and while their disinterest is documented and explored, there are inherent difficulties in including these firms in a more comprehensive manner. One problem is that there often is not much activity (by definition) to report on and, even though this apparent intransigence may be of interest to analysts, business actors that do not engage in these issues also tend not to engage in research attempting to explain why this might be the case. However, the patterns of firm commitments the study will uncover within each category of firm will show significant similarities between the commitments of like-firms. This suggests that either the responses of lead firms, though they tended to be first-movers and engage more deeply with the issues, are either appropriate representations of like-firms or, alternatively, that they influenced their peers to the point of imitation. Either way, with the goals of the study in mind and the necessity of investigating only a very small number of firms to conduct the historical process tracing, a focus on lead firms remains appropriate.

The elephant in the room when it comes to the ability to generalise from these findings of course stems from the historical process-tracing approach. The major benefits of historical process-tracing are also its main weaknesses when it comes to social scientific approaches, namely, its context specificity and room for agency-based explanations. While the previous discussion has listed the many benefits of an approach that recognises the significance of the autonomous activities of agents, it also leads to an 'inability to make

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<sup>21</sup> An additional option for testing could involve a small-n analysis that included a larger number of cases chosen within narrower parameters to further limit the number of variables.

general claims about what agents do with the autonomy they possess' (Lake & McCubbins, 2006, p. 344). In other words, historical analysis of this kind does not lend itself to producing widely generalizable and parsimonious theories (Checkel, 2006, 2008). Nor does it attempt to; it does not attempt to identify single and independent causal variables as necessary or sufficient (see for example, King, Keohane, & Verba, 1994), but instead produces causal narratives that fall somewhere in between generalizable laws and thick description (Elster, 1998; see also Meckling, 2009).

By using this approach, this thesis accepts this trade-off in order to capture the 'complex causality' of the social events under investigation, which are recognised to be a product of multiple causal factors and overlapping conditions (George & Bennett, 2004). However, this thesis does attempt to leverage its findings by incorporating a comparative approach within the controlled environment of the single case study. By comparing across different types of firms, this study attempts to overcome some of the limitations of historical process-tracing, generating findings and identifying patterns that can contribute to the development of a more generalizable theory from the particulars of the case, namely, the firm-level opportunities that structure business actor agency when responding to civil society contestation.

## **THESIS ORGANISATION**

The contents of the thesis are divided into eight chapters – an introduction, a conceptual framework, a background chapter on the political economy of gold, three in-depth case studies, a cross-case comparison of findings, and the conclusion.

Chapter two builds the conceptual framework for the study. It draws on three literatures, namely, those focused on business power, social movements, and organisational sociology. It begins by reviewing the major theoretical divisions in the business power literature before finding some room for conciliation between the neo-pluralist and neo-Marxist traditions, both of which emphasise a privileged, but qualified, position for business actors in public policymaking. From this vantage point, the chapter discusses the dimensions of business power, both structural and instrumental as well as economic and institutional, before transferring the findings from studies focused on the state to the political role for business actors in non-state institution-building. It mobilises a framework from the study of social movements and adapts it for the study of business actors. Drawing from the social movements literature and incorporating findings from the study of business power and organisational sociology, it builds a model of embedded agency that considers both economic and institutional dimensions to the operational environment of private sector institutional entrepreneurs that channel the emergence, development, and impact of corporate political mobilisation.

Chapter three begins the empirical portion of the thesis from an industry-level perspective of the global gold commodity chain. It demonstrates how the structure of commodity chains affects the power dynamics between actors along the chain, including its aspiring regulators. Globe-spanning production chains create new challenges, but also new opportunities, for policy interventions (Levy, 2008). It suggests that the regulation of commodity chains requires a deep knowledge of their economic geography and exhibits where opportunities for political action exist along the gold commodity chain. The civil society groups targeting firms along these chains find the weak link at the retail node and rely on market-driven responses to ripple upstream to the mining companies. This politicises the industry, fracturing the structural forces that maintain the status quo by introducing conflict

into the equation. Although the chapter finds that the complexity of the industry means the activist threat to business interests is extremely intangible, jewellers have still mobilised to meet the challenge. The findings suggest that industry-level analyses are effective in answering why, where, and how direct targeting can lead to changes in industry practice, but cannot account for variation in how targeted firms respond to the pressure or in their contributions to the non-state institution-building process.

Chapters four, five, and six undertake case studies in order to better understand how firms form preferences for institutions and how successful they are at implementing these preferences. These chapters trace the ‘structured agency’ of corporate political mobilisation as firms exert their instrumental power to fill the political space created by activists and to (re)establish their position by realigning their interests with the structural forces of the market. Chapter four is a study of the ethical jewellers and focuses in on *Brilliant Earth*. Chapter five investigates the specialty jewellers and focuses on *Tiffany*. Chapter six focuses on the diversified retailers of jewellery and uses *Wal-Mart* as the representative case. Each case chapter traces the key phases of the private institution-building process from the perspective of the firm, following the same basic model.

The first section of each case chapter begins by establishing the expectations the IOS model would suggest for that type of firm’s level of engagement and commitments and compares it to a snapshot of responses within the category of jeweller. Once these patterns are explained, the chapters then establish the context within which the lead companies confronted the challenge of ‘dirty gold’ and offer an historical perspective to the analysis. It begins with brief company profiles before outlining the history of each firm with civil society contestation in general and with ‘dirty gold’ in particular. It shows how each firm has responded to the challenge in very different ways and attributes their initial responses to the lessons they have learned from previous conflicts. It shows that analysts would be unable to

make sense of the particular position each firm has taken and the ways in which they have mobilised politically without a clear understanding of their recent past and experiences with politics not directly related to gold.

The second section of each case chapter focuses in on the firm's level of engagement and strength of commitments, utilising the case-specific findings to evaluate the theoretical propositions of the IOS model. The model outlines the complex interplay between the economic and institutional conditions within which key decision-makers are embedded. While institutional entrepreneurs demonstrate cautious deference toward the needs of their business model, corporate culture and leadership play influential roles in their responses.

The final section of each case chapter analyses the ways in which the firms are influencing processes not only within their organisations and along their supply chains, but also how they are actively shaping the emerging institutions external to the firm. It investigates how each firm mobilizes its resources to reposition itself within the new market reality. It finds that business actors use a number of strategies to realign practices both internal and external to the firm and project their instrumental power upstream from the retail node of the supply chain. Internally, each firm (re)builds institutions to re-establish their structural power vis-à-vis competitors in markets and challengers from civil society while, importantly, protecting the firm from the punishing effect of markets. Externally, each firm wields its instrumental power to mould outcomes into those that are aligned with its perceived organisational needs. They do so by choosing between rival institutions, supporting those they approve of by either joining them, lending their vocal support for them, consulting with them, offering preferential purchasing to them, or contributing to the cost of their formation. Institutions and organisations that firms do not approve of are ignored, publically criticised, or boycotted.



Chapter seven brings the three cases together for the first time to commence a more structured cross-case comparison, tracing the emergence, development, and impact of each type of firm's political mobilisation. It summarises and analyses the ways in which firms formed their preferences for how they mobilised politically and the institutions they chose to create or support, the coalition partners they selected, and the ways in which they tightened control of their supply chains. It explores the different ways in which they led non-state governance initiatives, noting the differences between the forms of political leadership mobilised amongst the cases. It evaluates the contribution each type of firm has been willing and able to make from the initial politicisation of the market to the institutionalisation of their evolving preferences.

Chapter eight concludes the study by reflecting on findings and the analytical model itself. It consolidates our understanding of the ways in which civil society contestation and corporate political mobilisation have combined to drive the process of non-state institution-building in the US jewellery industry and the implications of these findings for future work in this area. It concludes by suggesting some potential directions for future research.

## CHAPTER 2 – CONCEPTUAL FRAMEWORK

### INTRODUCTION

This chapter lays out the conceptual framework for the thesis. It begins by offering a brief critique of existing approaches to corporate political strategy from an IPE perspective, laying out the correctives that the conceptual model for this study must incorporate. It then revisits theories of business power, positioning itself along the continuum of business power perspectives. The approach undertaken here falls firmly within the neo-pluralist camp, but also finds much common ground with neo-Marxist scholars. Building from this theoretical foundation, it begins constructing the analytical framework by differentiating between the dimensions of business power, the ways in which it is mobilised politically both inside and outside state institutions, and the countervailing forces that limit the political influence of business actors. Notably, it adds the structural force of the market as a key restraint on firm action, including its political mobilisation by internal institutional entrepreneurs, to those recognised by past studies, which have focused on the countervailing forces of the state, civil society, and divisions within the business community.

It argues that activists create political space for business actors to influence public policy, but the opportunity windows for political action vary according to the operating environment faced by latent institutional entrepreneurs within the business community. Drawing on the analytical model of ‘political opportunity structures’ (POSs) from the study of social movements, the remainder of the chapter is dedicated to adapting this model for the purpose of tracing the opportunities for and limits to corporate political engagement and leverage that will be applied to the corporate cases to follow. The parameters of the model are

defined by the economic and institutional structures within which business actors are embedded.

## **AN IPE APPROACH TO CORPORATE POLITICAL STRATEGY**

Levy and Egan (2003, p. 804) have pointed out that most of the existing literature on corporate political strategy ‘does not account well for the multiple forms of industry responses to societal pressure nor for the dynamics of conflict and accommodation by which contentious issues evolve.’ This thesis seeks to bring an IPE lens to the study of corporate political strategy, emphasising a multi-dimensional conception of power that considers the economic and institutional structures within which strategic agents from the private sector are embedded. It builds off the work of Levy and Egan (2003), but deviates from their approach in a number of ways. Most clearly, this thesis focuses on the behaviour of firms engaged in non-state institution-building as opposed to firm strategies in state or interstate negotiations. At least equally significant a difference, this thesis utilises a neo-pluralist as opposed to a neo-Gramscian approach. However, as the following section argues, when it comes to business power, these perspectives can be seen as more complementary than is generally recognised. Beyond these rather fundamental differences, Levy and Egan’s study serves as a wonderful referent for any contribution seeking to bring an IPE approach to the study of firm behaviour. The contributions of such an approach can be summed up as an emphasis on multi-dimensional power, a consideration of both economic and institutional constraints, and a more sophisticated analysis of the embedded agents that drive corporate strategy.

The majority of the work focused on corporate political strategy, especially that originating from the field of management, equates corporate political activity with efforts by

firms to influence official government policy.<sup>22</sup> This narrow focus highlights arguably the main weakness of the literature, namely, that it reinforces the false distinction between market and non-market strategies while ignoring the larger political and economic forces that structure actor interactions. Likewise, Levy and Newell (2005b, p. 4) argue that the examination of firms as political actors needs to go beyond the traditional activities of lobbying and donations to include ‘more market-oriented corporate activities’, which can also be viewed as political due to the integrated nature of market and political strategies as well as their repercussions for society. As Lindblom (1977) has famously argued, private sector actors enjoy immense discretionary power when devising policy, due to their privileged position in larger socio-political structures, and this policy often has significant effects on societal interests. Markets are inherently political places. Industry practices are embedded in larger social, political, and economic structures. Firm strategies are informed and channelled by these structural forces while also influencing them. Therefore, in the words of Levy and Egan (2003, p. 812), the fundamentally interrelated nature of business and society means ‘the traditional distinction between political and market strategies is unsustainable.’

There are well-developed theories of business power being discussed in the fields of political science and IPE. The concepts developed in these fields go far beyond the tendency in conventional business and management studies to equate business power with financial power leveraged to influence either markets or politics. Therefore, any model that hopes to explain the emergence and influence of corporate political engagement in non-state institution-building must begin with a more comprehensive and nuanced understanding of business power.

The approach this thesis takes to studying non-state institution-building involves studying agency at work within economic and institutional structures that shape and constrain

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<sup>22</sup> See, for example, Hillman, Keim & Schuler (2004) for a comprehensive review of the literature.

this agency. The opportunities for and constraints upon business actors implementing political strategies are both economic and institutional in character. As such, the framework suggested in this thesis, in the form of the IOS model, also rejects those approaches from economics or economic sociology that privilege either the economic or cultural drivers of corporate political strategy, respectively. Both categories are considered for analytical clarity, but the division between them is purely analytical as the two are inextricably intertwined in practice.

As with Levy and Egan's approach, this thesis posits that political strategy takes place 'in the space between structural determinism and unconstrained agency' (Levy & Egan, p. 812). By offering an account of embedded or structured agency, this thesis tackles one of the central problems of institutional theory, which is how to incorporate a theory of action and explanations for change into an approach built to explain continuity (DiMaggio and Powell, 1991; Fligstein, 1997, 1999, 2001). Institutional theory is a powerful approach, but one that has been rightly criticised for emphasizing structure over agency and, therefore, it struggles to explain change. As Levy and Egan (2003, p. 811) have put it, '[h]ow institutional entrepreneurs escape the rules, routines, and norms of institutional fields is unclear.'

The explanation put forward by the IOS model constructed here is two-fold: activists create enabling conditions by creating a business case for engaging in non-state institution-building while institutional entrepreneurs, armed with this rationale, champion the process using the resources of the firm. Therefore, this thesis rejects the exclusivity of explanatory power that has been created in institutional theory between exogenous and endogenous drivers of change. While earlier theories emphasised exogenous shocks or crises as the key to institutional change (Selznick, 1949, 1957), latter theories sought to explain change through endogenous agents, or 'institutional entrepreneurs' (DiMaggio, 1988; Fligstein, 1997, 1999,

2001, 2002; Beckert, 1999, 2003; Leca, Battilana & Boxenbaum, 2006, 2008).<sup>23</sup> There is little reason to think these forces need be mutually exclusive. In fact, it is the confluence of exogenous and endogenous factors that explain corporate political mobilisation.

Therefore, the approach taken here considers both; exogenous agents create the political space while endogenous agents fill this space. In fact, the exogenous agents in civil society may do more than simply expand the parameters for endogenous agents from the private sector; through collaboration and contestation, they are capable of creating the conditions for endogenous action, including the encouragement for internal agents to transcend pre-existing institutional barriers by providing the seeds of change when conditions are ripe (Larana, Johnston & Gusfield, 1994; Levy & Egan, 2003, p. 811).

The remainder of this chapter follows this line of argument while building a conceptual model that exposes the causes and consequences of variation in political engagement by business actors in response to civil society contestation. It mobilises insights from the study of business power within IPE to incorporate a comprehensive perspective that includes not only firm resources, but the structural forces that discipline embedded agents. It revisits theories of corporate political behaviour and incorporates aspects from both economic and institutional perspectives. It then adapts a model built for the study of social movements, one that also treats political actors as embedded agents. When applied to business actors, such an approach posits that the reason some firms become political leaders, and more generally why there is variation amongst different firms occupying the same position in the supply chain, is a product of the collaboration and contestation between business actors and activists whereby activists create the political space and business actors drive change through it. As such, it argues that latent institutional entrepreneurs exist in the private sector, but without

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<sup>23</sup> In addition to Leca et al. (2006, 2008), see also Garud, Hardy & Maguire (2007) for a comprehensive reviews of the 'institutional entrepreneur' literature.

these contextual opportunities, firm resources will most likely not be mobilised for political purposes.

## **THEORIES OF BUSINESS POWER**

Most existing studies of business power have focused on the political power of business vis-à-vis national governments (Dahl, 1961, 2005; Dahl & Lindblom, 1976; Lindblom, 1977, 1982; Vogel, 1983, 1990, 1996) with some recent studies focusing on business power in international environmental governance (Levy & Newell, 2005a; Falkner, 2008, 2010a; Clapp & Fuchs, 2009; Meckling, 2011). For the most part, the focus has been on the ability of different interest groups, including business and civil society actors, to influence the policies of states and intergovernmental organisations. Clearly, the ability of business actors to influence the creation of private regulation is a different matter.

However, there are many common goals shared between these intellectual endeavours. Just as pluralists and their critics have focused on the relationship between the power of business and the structure of national political systems (Lindblom, 1977) or the power of business and changing economic climates (Vogel, 1990), this study concerns itself with the relationship between the power of business actors and the industrial structures that constitute the political field upon which private regulation is negotiated. So while the focus shifts from state-led regulation to non-state regulation, the question of what makes business actors more or less powerful when devising policy remains the same.

The interest of political economists in business power has a long history. While studies are vast and varied in their approaches and focus, the most prominent divide can be said to run between pluralists and Marxists. Pluralists maintain that business operates as an

interest group like any other in domestic politics and, as such, enjoys approximately the same political influence as any other interest group (see, for example, Lipset, 1959; Dahl, 1961). Marxists have tended to view business elites as representing an international capitalist class imposing its interests on society through the capitalist state, which is obviously a far cry from being simply another interest group (see, for example, Mills, 1956; Miliband, 1969; Jessop, 1982).

The rudimentary sketches of the positions above represent the distant ends of what could actually be viewed as a continuum of perspectives on business political influence. Naturally, there is significant divergence within each camp and splitting theoretical positions into instrumentalist and more structural perspectives helps locate areas of overlap in the field (Hacker & Pierson, 2002). The two poles are comprised of instrumentalist accounts that emphasise, yet disagree over, the relative financial power and lobbying activities of business interests vis-à-vis other interest groups and the ability of business elites to penetrate the ranks of government and ensure business interests are looked after.

In the mid to late 1970s, some scholars working within the pluralist and Marxist traditions, respectively, sought models of business power that would better match the observed reality that features a variety of business interests, variable government policies in relation to these interests, a lack of evidence of consistent penetration of governments by business-friendly elites, and yet policies that seemed to systematically favour business interests. From the Marxist camp, Fred Block argued convincingly of a structural power enjoyed by business where policymakers were inclined to pass favourable policies for business interests to maintain 'business confidence', which encouraged investment, led to full employment, and secured their government jobs (Block, 1977). From the pluralist camp, Charles Lindblom was making similar arguments – albeit using different language – about



the structural power of business that ensured a 'privileged position' for business interests within policymaking circles (Lindblom, 1977).

While there are obviously normative differences between theorists from either tradition and the terminology they use differs, there are similarities to these approaches that allow for a nuanced perspective on business power. Both perspectives hinge on the presence of structural forces that offer business a privileged position within state institutions by inducing policymakers to maintain a regulatory environment conducive to business interests. Business does directly influence state institutions as well, but there is little need for recourse to conscious or direct forms of power (nor to class consciousness for that matter) to understand business's privileged position. This is because, according to theorists of structural power from both intellectual traditions, policy decisions tend to be made to attract investment. The incentive for this is the maintenance of full employment and the overall economic health of the society. This could be due to instrumental incentives for policymakers, such as re-election or personal job security, but could also simply be selfless acts by those charged with the responsibility of public office – either way, the results are the same. The key point is that private investment decisions are made based in part on how policies affect the aggregate of individual investor interests. These individual investment decisions are not made based on the short- or long-term interests of a monolithic business community or capitalist class. They are made based on individual investor interests. There are powerful incentives for policymakers to maximise the aggregate value of these individual investment decisions and this explains how business enjoys a privileged position within policymaking circles.

Both perspectives are compatible with the recognition that there are times in which the state acts against capitalist interests (see also Hacker & Pierson, 2002).<sup>24</sup> They are also compatible with observations that business is not a monolithic entity, but there are indeed divisive interests across industries and amongst firms. Policy decisions will not always favour business interests, and most policies will favour some firms or industries to the detriment of others but, overall, the privileged position of business in market democracies is maintained through the structural power that the aggregate effect of individual investment decisions affords it.

As with much of the work conducted during the 1970s and 1980s on business power, the discussion thus far has taken place at a fairly abstract level of analysis. While any analysis must start by laying out the theoretical dimensions of business power, the crucial task now is to identify and operationalize key concepts to facilitate a nuanced, empirical investigation. Earlier accounts of business power have been further elaborated by more recent empirical studies of specific issue areas in international politics.<sup>25</sup> These studies have drawn upon various theories of power and influence to sketch out multidimensional perspectives on business power, which is the next step in building the analytical model.

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<sup>24</sup> For just one such example, the case of US President Roosevelt acting against the interests of the very powerful utilities companies in the 1930s (see, for example, *New York Times*, 26 November 1934).

<sup>25</sup> See, for example: Clapp and Fuchs (2009), Fuchs & Kalfagianni (2010), and Fuchs et al. (2011) on global agrifood governance; Dauvergne (1998a, 1998b, 2005) and Dauvergne & Lister (2011) on forestry governance; Falkner (2005) on the global ozone regime; Newell & Paterson (1998; 2010), Newell (2006, 2008), Falkner (2008), and Meckling (2011) on climate governance.

## DIMENSIONS OF BUSINESS POWER

	Economic	Institutional
<b>Instrumental</b>	<ul style="list-style-type: none"> <li>- Donations</li> <li>- Strategic investments</li> <li>- Buying power and preferential procurement</li> <li>- Translating regulations into actionable practices</li> <li>- Paying membership fees</li> </ul>	<ul style="list-style-type: none"> <li>- Lobbying, advocacy, and issue framing</li> <li>- Creation and maintenance of institutions internal and external to the firm</li> <li>- Acting as a role model for others to benchmark</li> </ul>
<b>Structural</b>	<ul style="list-style-type: none"> <li>- Aggregate effect of investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>- Deep-seated notions of efficiency, growth, fiduciary responsibility, and profit-maximisation</li> <li>- Taken for granted practices and routines</li> </ul>

Table 1: Dimensions of business power in non-state institution-building

Delineating the dimensions of business power is an important first step toward building a conceptual framework that accounts for both the instrumental power that is mobilised by business actors to create and shape private regulation and, importantly, one that also includes the structural dimensions that encourage or discourage the use of this instrumental power. There have been numerous productive debates on the dimensions of power in political science as well as IR/IPE and these have led to a proliferation of typologies. However, while there has been significant agreement amongst scholars that a multidimensional approach is appropriate, and there is substantial overlap between the typologies produced, the dimensions

remain contested.<sup>26</sup> This thesis offers a simple matrix containing four dimensions of power, based on differentiating between economic and institutional forms of both instrumental and structural power. However, it should be noted that different dimensions of power are not competing but, rather, there are connections running between them (see also, Barnett & Duvall, 2005a, 2005b on this point). The separation between instrumental and structural power serves simply to draw the analyst's attention to not only ways in which power is wielded, but also to the conditions under which agents form identities and interests and the structures that channel their actions.<sup>27</sup> Likewise, the distinction between economic and institutional dimensions ensures that analysts go beyond measuring financial resources, a common practice in studies of market power, and also consider discursive and organisational forms of business power.

## **INSTRUMENTAL POWER**

Instrumental power is a function of an actor's resources and capabilities. Often this is exercised vis-à-vis other actors in the system as in Dahl's (1957, p. 203) classic definition, namely, 'A has power over B to the extent that he can get B to do something that B wouldn't otherwise do.' However, it can also be used to build institutions as well as define and

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<sup>26</sup> The 'faces of power' debate amongst scholars within the fields of political science and sociology is perhaps the best known with Dahl (1957) perhaps the best example of the first face of power, which was behavioural in approach and was limited to observable and, therefore, measurable, instrumental forms of power. Bachrach & Baratz (1962, 1963, 1970) added a second face of power, which took into account the power over agenda-setting and the role of non-decisions in power relations that could suppress conflict and bias debate in favour of those wielding this power. This second face of power straddles the division between instrumental and structural power as laid out in this thesis. The third face of power was added by Lukes (1974, p. 11) who argued for a structural form of power – similar to what Barnett & Duvall (2005a, 2005b) call 'productive power' – one which could 'prevent people, to whatever degree, from forming grievances by shaping their perceptions, cognitions and preferences in such a way that they accept their role in the existing order of things.'

<sup>27</sup> In this way, structural power as defined here is similar to Gill and Law's (1988, p. 73) concept referring to 'material and normative aspects, such that patterns of incentives and constraints are systematically created'. In contrast, instrumental power involves 'agents' decisions and non-decisions in pursuing their interests' (see Guzzini, 1993, p. 463 on the implicit differentiating criterion in Gill and Law, 1988).

operationalize ways in which to do things, indirectly influencing others.<sup>28</sup> It is a function of the underlying resources, economic and institutional, of an identifiable actor or group of actors. Therefore, the key difference between structural power and instrumental power is that structural power is not controlled by specific actors. In order to avoid conflating the dimensions of power, a rule of thumb is that if it is wielded by an actor, it is instrumental power. One of the key features of instrumental power from the social scientist's perspective, and the core reason why it has been the privileged dimension of power throughout mainstream political science and IR/IPE analyses, is that it can be more easily observed and measured than its structural counterpart. Instrumental power itself can be unpacked into economic and institutional variants.<sup>29</sup>

#### *Economic dimensions of instrumental power*

The ways in which business actors exert their instrumental power by way of their economic resources is multifaceted. Firms are able to leverage their financial power into political power within the state through activities such as lobbying governments for favourable policies, funding political parties sympathetic to their regulatory needs, and making strategic investments in jurisdictions governed by favoured or fortunate policymakers.

In markets, firms mobilise the economic dimensions of instrumental power when they leverage their buying power to influence suppliers upstream or their control over production to manipulate consumers downstream. Firms also wield their power when they implement

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<sup>28</sup> Naturally, unintentional effects could be seen as approaching the analytical territory of structural power, which they enter once these unintentional effects become deep-rooted and systematically influence expectations (see also Strange, 1988; and Guzzini, 1993).

<sup>29</sup> Barnett & Duvall (2005a, 2005b) have created a useful typology that includes structural power, but they consider compulsory, institutional, and productive power as categories in their own right. While this is a useful exercise for clarifying certain analytical distinctions, the authors create divisions that are ultimately unnecessary for the study at hand and may confuse the division between instrumental and structural power and their economic and institutional manifestations as defined in this thesis.

official, public policy by translating regulations into actionable practices (Scholte, 2000; Falkner, 2008). While policymakers may define the rules of the game in many cases, it is firms that ultimately mobilise their informational and financial resources to innovate and implement the technological and managerial fixes necessary to meet the demands of these rules (see also Lindblom, 1977).

Especially significant for this study, firms exert their instrumental power by directly engaging in institution-building through negotiation and funding, as well as supporting their preferred initiatives indirectly, through purchasing priorities, or directly, through their membership fees.

#### *Institutional dimensions of instrumental power*

The institutional dimension of instrumental power is especially significant as the starting point for this thesis is how business actors are increasingly engaging in the creation of non-official, public policy through the self-regulation of industries, CSR activities, and collaboration with NGOs to develop standards and certification regimes (Scholte, 2000; Falkner, 2008). This is clearly part of the institutional aspect of instrumental power, which can be used to channel the structural force of markets and align the interests of the firm with the interests of investors.<sup>30</sup> In addition to negotiating with their peers and activist groups as to the appropriate structure and function regulatory institutions, they also often vocally advocate for or against different initiatives or simply act as role models, setting the standard for best practice and demonstrating ways in which business might engage with the issues at hand.

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<sup>30</sup> To avoid any confusion between categories, institutional creation and maintenance are considered instrumental power. Only the partly autonomous and unintentional effects of deep-seated institutions, in the broadest sense of the concept, are considered structural in nature.

This serves as a reminder that despite the automatic and impersonal nature of structural forces operating in markets, it is important not to naturalise the institutions that entrench them. Markets contain myriad institutions, both formal and informal, which establish the rules of the game and act as instruments through which structural forces shape incentives. Utilising instrumental power, firms working within markets often exert their influence to shape these institutions in their favour. At other times, firms will simply adapt to existing institutions by building institutions at the firm-level to fit those of the market. The point is that markets are political spaces where power is wielded to shift the ways in which structural forces channel the expectations of agents working within them. Once institutions are in place, unless acted upon with sufficient force, they privilege certain actors and actions while suppressing others. Thankfully for the social scientist, the ways in which actors mobilise their instrumental power directly to maintain or realign themselves with these structural forces are more visible to the observer and will be investigated in the case study chapters.

Another key strategy of the institutional dimension of instrumental power is discursive power, which refers to an actor's ability to influence norms, frame issues and, with reference to isomorphic activities (DiMaggio & Powell, 1983), influence how other actors engage with these issues and institutionalize these norms.<sup>31</sup> Discursive power is an especially useful concept when studying non-state actors in the global realm who often rely predominantly on the power emanating from norm creation and persuasive framing (see, for example, McAdam, McCarthy & Zald, 1996; Klandermans, 1997; Keck & Sikkink, 1998; Khagram, Riker & Sikkink, 2002).

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<sup>31</sup> While some studies consider discursive power as a category of power in its own right (see, for example, Barnett & Duvall, 2005a, 2005b; Fuchs, 2005, 2007; Falkner, 2008; Clapp & Fuchs, 2009; Meckling, 2011), this study considers it a particular form of instrumental power when it is deployed by identifiable actors to exert their influence over others and structural when it is deeply entrenched and accepted as appropriate by those actors it affects, similar to the idea of a 'logic of consequences' giving way to a 'logic of appropriateness' (March & Olsen, 1996).

Often referred to as framing, discursive power sheds light on the ability of groups to not only influence other actors through coercion and incentive, but to also frame issues in ways that redefine those actors' interpretations of their interests. Often referred to as 'strategic social construction' (Klandermans, 1997; Khagram, Riker & Sikkink, 2002), groups are able to create meaning and spur action through issue framing, which equates to 'the *strategic efforts* by groups of people to fashion shared understandings of the world and of themselves that legitimate and motivate collective action' (McAdam, McCarthy & Zald, 1996, 6, emphasis added). In other words, framing is a way of presenting ideas in order to persuade others to get onside.

In state institutions, the discursive power of business is exerted on policymakers when they voice their needs and demands to policymakers and the public, implicitly – and sometimes explicitly – leveraging the threat of poor performance or divestment from the territory (see also Lindblom, 1977, p. 178). When focusing on firm-NGO interaction, framing and meaning construction are mobilised by both sides in a contest to define the issues and outline a framework for appropriate action in response to these issues.

Including the concept of framing in the analytical model accomplishes two tasks: First, it clears conceptual room for sociological drivers that may affect the power and preferences of non-state actors. Second, it recognises that actors working within industry structures are not only influenced by these structures, but also maintain the ability to shape and even create these structures themselves.



## STRUCTURAL POWER

Structural power is different from instrumental power in that it is almost automatic and apolitical in nature (Lindblom, 1982; Hacker & Pierson, 2002). It is deep-seated and widespread in any given system, but the key to the definition offered here is that it functions automatically and appears apolitical in the sense that there is no distinct and identifiable actor or group of actors that wield this power. Instead it is created and maintained by the aggregate of myriad individual decisions or, what we can refer to as, structural forces. So while structural forces often benefit, or privilege, some agents, groups, or beliefs to the detriment of others, they are not controlled by these actors.<sup>32</sup>

### *Economic dimensions of structural power*

The structural power enjoyed by business within state institutions is sometimes difficult to discern, but is generated through the central role business plays in the economy by way of the multitude of individual firm investment decisions. Generally speaking, policymakers recognise the immense contribution to society that the private sector makes and this contribution is no more obvious than in the business community's creation of and control over employment. The aggregate effect of private sector decision-making is a structural force that lubricates the cogs of business-friendly decision-making in policy circles across the globe, but most obviously in market-oriented economies. While structural forces are generally conservative in nature, they are not insurmountable. They channel interests but, as we have seen, agents can also shape these structures by exercising their instrumental power. These structures will shift with changing conditions and changing expectations. The

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<sup>32</sup> Therefore, it can be thought of as a kind of impersonal power (see Ward, 1987).

mechanisms by which structural forces function in markets similarly favour some policies over others; however, in a market environment, the policymakers are the business actors themselves.

Lindblom (1977) has famously pointed out the immense discretionary power enjoyed by business actors when making strategic decisions within the market, and how these decisions often have tangible implications for the public good (see also, Levy & Newell, 2005b). As discussed above, market-based structural forces, as they exist relative to state agencies, drive the expectation that policymakers will be disciplined by their supervisors or voters if they create a business climate unfavourable to investors. Structural forces in markets operate in much the same way, as markets punish actors who create conditions unfavourable to investors – the key difference being the main policymakers in markets are the managers of firms.

### *Institutional dimensions of structural power*

There is certainly an overlap between the discursive power already discussed and the more sociological elements of structure, such as institutional logic and institutionalised language. The difference can be captured using the concept of framing versus frame. As a verb it constitutes strategy while as a noun it is a structure. When discursive power is wielded, it is instrumental and when it becomes accepted and institutionalised, it is structural. Naturally, these concepts are intimately related; for example, if there is a fit between the dominant logic operating in a system and the goals and interests of a particular group, this would increase that group's latent discursive power.<sup>33</sup>

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<sup>33</sup> The structural variant of discursive power is similar to Barnett & Duvall's (2005a, 2005b) category of productive power; however, their concept of productive power is distinct from their concept of structural

To be clear, structural power, as defined in this thesis, is the latent or passive power enjoyed by agents, either individuals or organisations, by virtue of the alignment of their interests with the forces emanating from a system's structures. In other words, structural forces produce structural power for certain actors in a given system. The forces work for those actors whose interests and goals are aligned with these forces and against those whose interests and goals are not aligned. Conventional understandings within IPE about the effect of the structural power of business in state institutions is that the market, through the aggregate effect of often uncoordinated investment decisions, will discipline policymakers who do not privilege business interests by maintaining 'business confidence' (see, for example, Block, 1977). Latent institutional entrepreneurs working within the private sector are also constrained by the structural forces operating within markets that, real or perceived, acts to sanction those that do not maintain this 'business confidence' or otherwise privilege the maintenance of a business-friendly environment.

Structural forces, therefore, create the economic and institutional constraints on the actions of agents working within a given system, and are reflected and reinforced by the system's institutions. When civil society activists shift these structural forces, they create room for institutional entrepreneurs to leverage the resources of their organisation to build institutions that will align or realign the interests and goals of the firm with the structural forces of the market.

Therefore, despite the shift from a focus on government officials to a focus on business actors, the defining features of structural forces and structural power remain the same. Structural power is not wielded by any actor, although certain actors will benefit from

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power in that it refers to a prior constitutive step of identity and interest formation. Instead of creating a productive power category, this thesis analytically separates productive, or discursive, forms of power into instrumental and structural variants. While 'framing' is the instrumental use of discursive power, a taken-for-granted cultural or ideational 'frame' is the structural variant.

the structural power that the alignment of their interests with structural forces grants them. Structural forces reside in the institutions, mechanisms, and logic of a system's structures – in this case, the market.<sup>34</sup> They function automatically. They appear apolitical. In markets, they are the aggregate effect of individual decision-making by investors – investors who will punish actions that run contrary to their perceived interests. If the goals and operations of a firm are a fit with the institutions, mechanisms, and logic of the market within which they operate, then the structural forces of markets will protect the firm. If there is a mismatch, these same structural forces will discipline the firm, and eventually, the managers themselves.

The next section outlines the countervailing forces that restrict and channel the power of business actors. Existing approaches tend to focus on the role of specific actors in mitigating the political power of business, namely, the countervailing force posed by the state, civil society, and firms with divergent interests. In contrast, this thesis argues that during the non-state institution-building process, the state obviously plays a diminished role. Divisions within the business community certainly limit the ability of the business community from mobilising a united front, which does contribute to an explanation of divergent responses. However, the key to variation in corporate responses to activist contestation is found in the confluence of market forces and civil society contestation, whereby market forces constrain and civil society actors enable the participation of business actors in shaping private regulation.

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<sup>34</sup> The market itself, of course, could also be considered an institution, but again, it is not created or maintained by a discreet and identifiable group of actors; therefore, the force of the myriad decisions made by independent agents acting within it is considered a structural force. Likewise, one could argue that there is a capitalist class or group of elites that maintain these structural forces, but this is where the difference between the theoretical underpinnings of the 'elite' theories – especially those of conventional Marxist thought – and the position of this thesis become clear.

## VARIATION IN BUSINESS POWER FROM AN IOS PERSPECTIVE

Corporate political mobilisation is the act of mobilising firm resources for political purposes. Different firms possess different combinations of these resources and business actors within firms have different opportunities to mobilise these resources in response to activist contestation. These opportunities are a function of the economic and institutional structures of the firm and its environment, within which these business actors are embedded. Activists operating outside the firm play an enabling role by freeing up these resources for political mobilisation, but it is the task of institutional entrepreneurs within the private sector to actually implement the strategies and mobilise the instrumental power of their firms for the task.

In a somewhat counterintuitive proposition then, this thesis posits that the political influence of business actors on non-state policymaking may be positively correlated with the amount of pressure countervailing forces can bring to bear on their firm's business interests. When the firm's economic interests and organisational routine are threatened, latent institutional entrepreneurs receive an expanded mandate from the market to mobilise politically to influence its internal and external environments. This perspective is consistent with the neo-pluralist conception of limits to business power; it simply emphasises the additional effect of the structural constraints imposed by market forces on the political power of business actors in a non-state context. The following section sketches out four major countervailing forces to business power, namely, government regulators, divisions within the business community, the structural forces operating within markets, and civil society contestation. It then turns to the literatures on social movements and organisational sociology to construct a model to explain variation in business political strategy and influence in the non-state institution-building process.

There are many countervailing forces that prevent unbridled business power and authority. Governments, as representatives exercising their sovereign rule within states, often regulate to limit the power of individual firms and industries when they deem this to be in the greater public interest, the structural power of business notwithstanding. Naturally, this will be less of a concern for the cases to follow as the focus of the study is the political power of business actors in non-state institution-building, which has controlled for the immediate national regulatory system by focusing on the US market for gold jewellery.

Furthermore, divisions within the business community – whether these are due to divergent market positions, competitiveness, location in the supply chain, or business models – prevents the business community from forming a collective front to counter these limiting forces.<sup>35</sup> Sharing similarities with studies operationalizing a ‘business conflict model’ (Skidmore-Hess, 1996) or a ‘corporate conflict approach’ (Mugge, 2008) to business power, one of the key insights offered by the neo-pluralist camp is that particular market structures will offer political space for policy interventions by political activists as firms are unable to mount a cohesive counter-strategy and some may even break ranks and form coalitions with civil society groups (Falkner, 2008, 2010a). Relatedly, this thesis contends that different market structures will also offer political space for policy interventions by business actors; that is, political opportunities for business influence will vary with the structural characteristics of the industry and firm.

As mentioned earlier, a main component of the argument is that the structural forces within markets themselves can constrain the political power of business actors. If firm managers are not maximising profits or, for publicly traded companies, not maximising shareholder value, they can expect to be punished by the market. Investors may deny them

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<sup>35</sup> Studies emphasising the divergent policy preferences of different types of firms have been prevalent in the IPE literature and include Rogowski, 1987, Freiden, 1988, Milner, 1988, Hiscox, 2002, and Falkner, 2008, 2010a.

access to capital and threaten the job security of managers. Over-compliance and the concomitant use of firm resources could lead to a competitive disadvantage in the market as these costs become reflected in price. Unless the firm can differentiate itself to the extent that it can charge a price premium, it will almost certainly lose market share as consumers substitute their purchases for competitor products with lower prices. Simply the expectation of this, and the expected reaction of investors, is usually enough to dissuade managers from implementing such policies, and this is how the structural forces within markets constrain and channel the political power and policies of business actors.

The role of civil society has been well-documented here and elsewhere. NGOs and social movements increase the societal expectations for business's social responsibility, lobby governments for increased regulatory standards, monitor and scrutinise the actions of firms, and directly target culpable firms with shaming tactics designed to negatively affect the firm's economic interests. However, by focusing on the structural forces operating in markets and the requisites of business actors' industrial environments, the proposition put forward here is that civil society actors not only constrain business power, but they also create conditions under which latent institutional entrepreneurs within the industry may mobilise their firm's resources for political purposes. To put it differently, civil society actors may also increase the public policymaking power of business actors.

The magnitude of power individual business actors possess, the ways in which they deploy this power, and the effects of this deployment on regulatory outcomes depends on the characteristics of the firm and industry. To understand these processes requires an empirical investigation and this will be carried out utilising a framework developed for the study of social movements. However, instead of applying this model to explain the emergence, development, and impact of these movements, this study applies the IOS model to explain the emergence, development, and impact of corporate political mobilisation.

To summarise, *business interests* occupy a privileged position when creating non-state institutions in a market context. Structural forces in markets constrain and channel the efforts of private sector institutional entrepreneurs by systematically reinforcing and rewarding conformity to the perceived business interests of the firm. As the perception of these business interests varies, so too do the opportunities available for institutional entrepreneurs to mobilise the resources of the firm. Therefore, the ability for institutional entrepreneurs to shape or create institutions, inside and outside the firm, is a function of both the firm's resources and their ability to leverage them. The different political strategies are a reflection of the ways in which the instrumental power of the firm can be mobilised to build non-state institutions within the parameters defined by the structural constraints of the market and the opportunities created through civil society contestation. In other words, institutional entrepreneurs, empowered by civil society contestation, mobilise the instrumental power of the firm to 'impose the institutional change they promote' (Leca et al., 2008, p. 11). In order to understand the precise nature of the opportunity structures actors from the private sector face when mobilising firm resources for political purposes, we now turn to the work undertaken by social movement scholars emphasising the structural constraints and opportunities faced by political activists. The remainder of this conceptual framework will review, adapt, and operationalize this model for the study of business actors and their opportunities for political leverage.

## **OPPORTUNITIES MODEL FOR CORPORATE POLITICAL MOBILISATION**

One of the core approaches within the social movement literature stems from the concept of 'political opportunity structures' (POSS) and their effects on the traction and results that



activists are able to achieve.<sup>36</sup> POSs are those dimensions of the political environment that provide incentives for or place constraints upon actors undertaking collective action (Tarrow, 1998). Campbell (2005, p. 44) offers one of the clearest definitions of a POS as ‘a set of formal and informal political conditions that encourage, discourage, channel, and otherwise affect movement activity.’ The POS model has been most often used to show how conditions external to the movement itself can provide activists with resources for leverage and spaces for access within formal political institutions (Khagram, Riker & Sikkink, 2002).

While the concept originated in studies focused on national political institutions and the opportunities these institutional structures offered domestic social movements (see, for example, Kitschelt, 1986), the concept has since been usefully transferred to the international realm by scholars interested in explaining transnational activism operating in international forums (Tarrow, 1994; Keck & Sikkink, 1998; Khagram, Riker & Sikkink, 2002). The concept has been further extended to studies taking markets as their political field of analysis and, more specifically, to disaggregate industrial supply chains to reveal industry opportunities for activist leverage (Schurman, 2004).

The insights from such an approach include which stage in production is generally targeted by market-based activist campaigns, which types of industries are likely to be targeted successfully, and what the results of such campaigns might look like (Bartley, 2003; Sasser, 2003; Schurman, 2004). These studies can be said to fall within a narrower category of ‘corporate campaign’ literature, the main assertion of this approach is that the capacity of activist movements to affect outcomes depends on the structure of the relevant industries.

This study mobilises the IOS model in a firm-to-firm comparison of the US market for gold jewellery. It contends that an empirical investigation utilising the IOS model can

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<sup>36</sup> See, for example, Eisinger, 1973; Tarrow, 1994, 1996, 1998; McAdam, 1996; McAdam, McCarthy & Zald, 1996; Meyer, 2003, 2004.

contribute nuance to the debate over the promise and peril of the rise in private regulatory initiatives by exposing and explaining variation in the causes and consequences of corporate involvement in non-state institution-building. The essential insight of a political opportunities perspective, and one that the IOS model developed in this thesis shares, is that the context in which political mobilisation emerges influences its development and potential impact, to paraphrase David Meyer (2004, p. 125). This is because political actors face different opportunities and constraints for political action based on the operating environment within which they are embedded. So in the case of corporate political mobilisation spurred forward by internal institutional entrepreneurs, their political strategies and potential leverage will vary with the type of firm and industry in which they are embedded. And this, I argue, is why different firms at the same position of the supply chain implement different political strategies and impact these non-state political processes in different ways.

To reiterate, the concept of POSs/IOSs has been applied to NGO-firm collective action, but only insofar as it identifies openings for activist pressure against firms. The concept can be usefully extended to explain opportunities for corporate political action. Instead of applying the model to explain social movement action, the model is applied to the business actors themselves in an attempt to offer a nuanced account of the political strategies they choose and the political leverage they can achieve in non-state institution-building.

In the literature on social movements, the concept of POSs came from recognition amongst scholars that the political leverage of social movements is affected by ‘a shifting constellation of factors exogenous to the movement itself’ (Meyer & Staggenborg, 1996, p. 1633). While applications of the POS approach have varied in practice, conventional understandings perceive it as standing in contrast to the resource mobilisation perspective (see, for example, McCarthy & Zald, 1977a, 1977b), which draws its explanatory power from agents, their strategies, and resources internal to the organisations themselves (see also

Gamson, 1975). In the approach adopted here, for the purposes of studying variation in firm strategies and impact in the non-state institution-building process, factors internal to the firm clearly remain important. The IOS model focuses on firm-level opportunities for business actors to act as institutional entrepreneurs. Therefore, both the structures of the firm and the agents within it play integral parts in the analysis. However, the key point is that this is an embedded agency. Approaches that privilege agency, without emphasising its embedded nature, change the level of analysis from the firm-level to one that seeks explanatory power from one or more of individual managerial strategies, characteristics, or orientations. Even more significantly for the study at hand, such an approach would miss the structural forces that channel this embedded agency and, therefore, be hard-pressed to explain the patterned variation and impacts of corporate political mobilisation that will be observed in the cases to follow. So agency remains a critical factor but, as Koopmans (1999, p. 102) has explained it, '[w]hen we say "opportunity structure," we just say that not all of opportunity is agency, but that some of it is structured' (Koopmans, 1999, p. 102). However, the approach is not without its critics.

While some critics have accused such approaches as being structural to the point of being invariant (see, for example, Goodwin & Jasper, 1999), others have countered that the approach does not preclude agency, but rather qualifies approaches that use agency as their primary explanatory variable.

'The idea of political opportunity structure involves not more (and not less) than the claim that not all of the variation in levels and forms of collective action is due to the strategic wit, courage, imagination, or plain luck (or the lack of those) of the different actors involved in conflict situations, but that an important part of it is shaped by the structural characteristics of the political context in which social movements, willingly or unwillingly, have to act. The relative extent to which

structure and agency contribute to the explanation of such variation will undoubtedly vary from case to case and is, again, a matter for empirical investigation' (Koopmans 1999, p. 100).

Critics of the POS model either misunderstand how it is operationalized or, perhaps more likely, take issue with the term and the connotation that 'it overemphasises the structural aspects of political opportunities while ignoring agency' (Sell & Prakash, 2004, p. 147). In practice, the emphasis on structure is core to the model, but it most certainly does not ignore agency. Rather it recognises that patterns visible in social phenomena are indicative of the channelling potential of the structural context.

Studies have shown that these structures, by definition, condition the development and effectiveness of social movements (Shadlen, 2007); however, it is important to note that these structures are not only taken advantage of by social movements, but are also often created by activists themselves (Khagram, Riker & Sikkink, 2002). In other words, individual and collective actors are capable of becoming active agents in shaping their opportunities and creating their own openings for political intervention.

Complementary findings have been reported from the field of organisational sociology, which tells us that we can view organisational elites as 'constrained entrepreneurs' (see, for example, Brint & Karabel, 1991, p. 346). They are constrained in that they must act within the structures of power and the spaces of opportunity provided by their industry and their firm. This leaves room for semi-autonomous activity by organisational leaders. Not all elites will make the same assessment of interest in any given situation (Scott, 1991), but one can determine organisational interests with a high degree of probability from the power

structures and opportunity field faced by decision-makers (Brint & Karabel, 1991, p. 346).<sup>37</sup>

Therefore, the task is to elucidate the organisational field within which a focused, empirical investigation can take place and the roles of economic and institutional variables can be evaluated.

POS scholars have recognised that opportunity structures are multi-layered as political opportunities at the domestic and transnational levels interact (Khagram, Riker & Sikkink, 2002; see also Meckling, 2009). Likewise, when the IOS model is transported to interpret corporate political mobilisation, it must be understood at both the industry and firm levels to encompass the totality of factors shaping firm engagement. This is because firms operate within the structures of the industry – which includes their suppliers and competitors – while agents within firms also act within the structures of the firms themselves. Therefore, a comprehensive understanding of corporate political mobilisation can only come from a model that incorporates both levels of analysis.

To summarise, in contrast to purely structural or purely agency-driven theories, this study offers a neo-pluralist reading of ‘structured agency’ (Falkner, 2010b; Cerny, 2010) in which industry characteristics shape the power and channel the preferences of non-state actors en route to the creation of private governance. The literature utilising the concept of political opportunities contains a diverse range of approaches and so, while uniformity is not the goal, it is important to be explicit about the type of model one is using (Meyer & Minkoff, 2004). To reiterate, the opportunity structures envisioned in this study are at the firm-level, shaping and channelling the efforts of institutional entrepreneurs within the firm. While there is always a danger of ‘conceptual stretching’ when building new models from existing concepts or attempting to include both structural and non-structural factors in an analytical

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<sup>37</sup> Likewise, principle-agent theorists have adopted a similar perspective that views agents as operating semi-autonomously within an ‘authorising environment’ (Chwieroth, 2008a, p. 484, 2008b) or ‘outer structural constraint’ (Woods, 2006, p. 4).

model (Goodwin & Jasper, 1999), it is equally important to design models of inquiry with the conceptual space to recognise the interplay between these explanatory elements.

## **CORPORATE POLITICAL ENGAGEMENT IN INSTITUTION-BUILDING**

There are studies in the social movements literature focused on movements and counter-movements, where resistance to the goals of social movement organisations will take the form of opposition coalitions who will make contrary claims to those of the social movement activists (see, for example, Meyer & Staggenborg, 1996). In the political battles waged in markets, especially when the firms targeted are downstream from the contentious practices that the activists are indirectly targeting, referring to these power relationships as simply movements and counter-movements can be limiting. Especially once the market has been politicised, there tends to be significant crossover between the goals of industry and civil society groups as firms attempt to realign their operations with the new expectations of the market. These shared goals and the coalitions that result would be lost in an analysis framed as an oppositional dichotomy. In fact, it often seems that both civil society and business actors go to great lengths to avoid framing the issue as movement and counter-movement, especially during the implementation stage when both groups are vying for the political capital necessary to set the rules for the emerging institutions.

Having said this, during the initial stages of corporate political mobilisation, firm responses could conceivably be construed as akin to a countermovement in some cases as there are certainly reactionary elements present in any industry that will resist challenges to their established position. Some firms will struggle to hold fast to their slipping autonomy and initiate reforms to their practices only when such actions appear inevitable. It is, in fact,

the introduction of this initial conflict that exposes the companies to risk and compromises the structural power that the market initially offered them. It is only when the company is at risk of falling victim to these very same structural forces that once protected their position that managers are empowered to act.

After this initial conflict, firms enter a new phase of corporate political mobilisation, which involves coalition- and institution-building. The activist campaigns have created space for firms to become proactive political actors capable of shaping political outcomes. The form this mobilisation takes will fit the opportunities available to the particular type of firm as managers navigate the political channels of the industry while avoiding actions that would see them punished by the market.

During the contestation and coalition-building stage of private institution-building, activists dangle the carrots of reconciliation and compromise, which hold the promise of ending the conflict that fractured the structural power of industry in the first place.<sup>38</sup> Activists avoid portraying themselves as anti-industry and industry attempts to characterise their operations as responsible practices. While framing this as movement and counter-movement is therefore misleading, there can be no doubt that this remains a power struggle over agenda-setting and rule-making authority as both groups attempt to control the process.

The main ways in which business actors attempt to control the process is by (1) forming coalitions with groups that suit their needs; and, (2) forming industry-led initiatives to shape their institutional membership, form, and regulatory content. Jonas Meckling (2009, 2011) has convincingly argued that this proactive coalition-building is a way for business to identify and consolidate their new position by negotiating, pooling resources, and signalling the legitimacy of their new practices. The institution-building phase is a mechanism to

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<sup>38</sup> And this holds the promise of re-establishing the third dimension of power, denying the very existence of conflict (Lukes, 1974).

entrench their new position and re-establish the structural power they enjoyed pre-campaign. While perhaps implicit in Meckling's typology, there is a third driver that warrants its own brief discussion, and that is to create a forum to negotiate resolutions to the issue at hand.

Activists often know more about the complexities of the contentious socio-economic and ecological impacts of an industry than they do about the internal workings of the industry itself. Managers of firms often know more about the economic and technological complexities of the industry than they do about its multifaceted impacts. While there is certainly the potential benefit that comes from pooling informational resources when these groups come together, there is also an element of negotiation at play as the various groups discuss possible changes to industry practices. This cooperation and contestation is not limited to those between firms and NGOs either; divisions within the industry itself will create conflicting interests amongst firms and so firm-to-firm consultations will also take place. Therefore, a third and crucial driver to non-state coalition-building is to facilitate dialogue over the nature and implementation of industry reforms.

This third driver points to an additional and important strategy business actors implement to reinstate or increase their political power in markets, namely, institution-building. Firms will utilise their instrumental power to spearhead or at least participate in institution-building, allowing themselves an opportunity to influence the institutional membership, form, and regulatory content. Firms engage in institution-building both internally and externally to the firm, driven by the desire to re-establish their structural power by reducing their exposure to risk and safeguarding their position within the market.

Institutions help firms to avoid direct-targeting by civil society groups and possibly even evade more stringent regulation through the state (see, for example, Lipschutz & Rowe, 2005). Additionally, if these institutional rules, norms, and practices are made to also apply to



a firm's competition, then the institution also helps the firm avoid suffering a competitive disadvantage vis-à-vis its rivals who would also be subject to any extra costs of compliance.

Firms attempt to solidify their power and position by diffusing norms and practices both internally and externally. Internally, preferences are institutionalised throughout an organisation via a process of mainstreaming, or embedding, norms and practices while ensuring operations are compliant through a system of monitoring and evaluation. Externally, firm preferences are diffused instrumentally through market power, institution-building, and discursive influence. Lead firms, who scout and establish the limits of political mobilisation, will be especially engaged in creating institutions to solidify their position. As previously mentioned, instrumental power is often exercised to reinforce the structural power of leading organisations.<sup>39</sup>

## A TYPOLOGY OF PRIVATE INSTITUTIONS

Corporate political mobilisation and private-institution-building can take many forms, both internally and externally. At either end in what should be thought of as a continuum of corporate responses is the option to actively resist the claims of activists or to simply do nothing at all in response to activist demands and, on the other end, join the activists in building private regulatory institutions or even lobby for increased regulation of the industry by government agencies. While the case studies will demonstrate a wide-range of corporate political activities, it will be worth differentiating between the types of private regulation that

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<sup>39</sup> As argued in the introductory chapter, these findings resonate with those of regime theorists concerned with the strategies of leading states within the state system (see, for example, Keohane, 1984; Hasenclever, Mayer & Rittberger, 1997).

commonly emerge through the collaboration and contestation between business and civil society actors.

The literature generally breaks private institutions down into three types, namely, first-party, second-party, and third-party initiatives (see, for example, Gereffi et al., 2001; Sasser, 2003).<sup>40</sup> As Philipp Pattberg (2006, p. 243) has pointed out, there are multiple ways by which to categorise private regulation based on who develops the standards, the focus of the standards, and how these standards are verified and enforced. First, we might make a distinction based on whether the rules originated from the public or private sector or, more relevant to a study focused on private regulation, whether the standards were developed by industry, civil society, or through a multi-stakeholder process including broad representation from both groups. Second, we might distinguish between regulation that industry groups have traditionally been associated with, such as that focused on quality, health, and safety issues of the product itself versus the increasingly common regulation based on the process by which a product comes to market, accounting for management practices that impact upon the social and environmental externalities of the industry. Third, we might make a distinction based on who monitors and enforces the rules and, specifically, if this is done by the firm itself, an industry group representing multiple firms, or by an independent, third-party auditor.

With these options in mind, the typology used here is focused on private, process-oriented regulatory initiatives, but is based on both who sets the rules as well as who verifies compliance. First-party initiatives are commitments made by an organisation that, regardless of who developed these standards, have no official monitoring or compliance mechanisms.

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<sup>40</sup> There is also a fourth-party certification, which is also voluntary in nature, but not included in the framework as it involves state institutions so is, by definition, not strictly private. Fourth-party certification involves government or intergovernmental organisations in rule-setting and sometimes monitoring and enforcement. If fourth-party certification were to become mandatory, it would lose its voluntary nature and simply constitute binding regulation in a traditional, top-down sense. In practice, however, fourth-party certification, by definition, falls short of binding regulation by offering usually vague prescriptions and self-reporting mechanisms. A good example is the UN's Global Compact, to which many mining companies subscribe.

Second-party initiatives are those developed by an industry-organisation in which the group maintains control over standards development as well as control over the results from audits and enforcement mechanisms, regardless of whether these audits were conducted by a contracted third-party or not. This reserves the third-party classification for those initiatives in which the standards were developed through a multi-stakeholder process and are verified by independent, third-party auditors. This preserves the distinction between those initiatives that may offer robust outputs, but lack the input, or procedural, legitimacy that can only be garnered from a process that is transparent as to what is included as well as what is excluded from these standards.<sup>41</sup> It will be worthwhile to briefly outline each of these options in a little more detail.

First-party initiatives are the most widespread as they generally refer to a single firm's internal codes of conducts. It is the weakest form of private regulation as it amounts to a firm developing its own rules, or adopting outside rules, and undertaking the monitoring and enforcement itself. For most industries, this will often take the form of CSR commitments in annual reports and on the company's website. To both devise and increase the legitimacy of these CSR commitments, firms will often partner with more mainstream NGOs whose staff can both provide expertise on the issues at hand while, importantly, adding credibility to the commitments through their social and environmental credentials.

Second-party initiatives are usually invoked by an industry association that develops an industry-wide code of conduct, in consultation with its members, and either monitors or

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<sup>41</sup> Regulatory systems gain this legitimacy through the perceived effectiveness of their procedures and results. Building from Scharpf's (1999) input-oriented and output-oriented dimensions of democratic legitimacy, input legitimacy is a procedural element that refers to how well the regulatory process incorporates the preferences of its stakeholders. It is about the perceived legitimacy of the regulatory process. In contrast, output legitimacy considers the functional elements of a regulatory system and is based on the effectiveness of the outcomes or, as Scharpf (1997:19) has put it, 'achieving the goals that citizens collectively care about.' See also Mattli & Woods (2009) for the distinction between the 'proceduralist' and 'idealist' school of legitimacy, which roughly parallels the input-output distinction. Additionally, Beisheim & Dingwerth (2008) link the success of non-state regulatory initiatives to procedural legitimacy based on a case study of the *Global Reporting Initiative* (GRI).

requires reports by member firms. Firms that are most at risk are the most likely to bear the costs of devising and implementing this type of institution. While the costs of building the organisation and the associated membership fees can be significant, many firms will opt for this option as it allows the industry to control the membership, rules, verification, and enforcement. History has shown second-party initiatives to be implemented proactively, in the case of the *Responsible Care* certification for the chemicals industry, and reactively, in the case of the many national agency/industry certifications that have been devised to challenge the leading third-party certification in forestry (see, for example, Cashore et al., 2004, Humphreys, 2006; Bloomfield, 2012). A recent development has seen these initiatives improve their perceived legitimacy by requiring third-party audits against their standards, while maintaining control over the rule-setting, reporting, and enforcement mechanisms.

Third-party initiatives are the most robust form of private regulation as they require both multi-stakeholder rule-setting and third-party monitoring. There are a very limited number of these initiatives to date, usually the result of activists successfully pressuring industry to accept these stricter standards and acquiesce a certain amount of operational autonomy. By offering a multi-stakeholder decision-making process and independent verification through which members are more easily held to their commitments, these initiatives tend to carry more legitimacy. The FSC is the most prominent example of a third-party initiative in forestry while the FLO and Fairtrade USA labels cover multiple industries and could also be considered third-party initiatives.

These distinctions have significant implications for how private regulation is viewed in the macro-level debates outlined in the introductory chapter. First- and second-party initiatives constitute what is known generically as CSR while third-party initiatives exemplify a more institutionalised form of private regulation, although some second-party initiatives are closing this gap as they ratchet-up their standards in response to external criticism (see, for

example, Cashore et al., 2007; Overdevest, 2010; Bloomfield, 2012). While third-party initiatives have enjoyed comparatively widespread support by activists and academics alike, CSR has increasingly come under attack (see, for example, Christian Aid, 2004). Many argue that corporations self-regulate to avoid the more cumbersome legal restrictions imposed by the state (Rowe, 2005). They view CSR as simply an effective business strategy. Ronnie Lipschutz and James Rowe argue that we have seen corporations use this strategy in the past ‘to stall the regulatory impulse integral to previous liberal societies’ and that if these social investments were ever substantial, the legitimacy crises of corporations would not continue to occur (Lipschutz & Rowe, 2005, p. 124).

The counterargument put forward by advocates of CSR is that such initiatives make it far more effective to condemn a company when they are not adhering to their own stated codes of conduct than to hold them to account for failing to follow some externally defined norm (Shaw, 1999; Schurman, 2004). Furthermore, activists hope these admittedly weaker forms of regulation will eventually lead to binding regulation as information is disseminated and best practices are defined (Smith, 2003; Rowe, 2005). John Ruggie contends that while effective government action may be desirable, voluntary initiatives are not merely second best (Ruggie, 2002). What he describes as a ‘learning network approach’ to global governance allows for consensus to be formed around environmental and social concepts, such as the precautionary principle or corporate complicity in human rights abuses, which is a necessary precursor to viable codes of conduct and the advent of legally binding rules (Ruggie, 2002, p. 32). With the astounding pace of change in the contemporary global economy, concurrently shifting norms of acceptable behaviour must be defined before regulation is devised.

## ECONOMIC AND SOCIOLOGICAL PERSPECTIVES ON FIRM BEHAVIOUR

But how do these different types of corporate political mobilisation emerge? An IOS approach to the political mobilisation of firms can account for variation in firm strategies and influence through the channelling effects of industry structures, deepening our understanding of the ways in which firms mobilise politically and the political leverage they are able to achieve. The most coherent way of understanding how firms conceive of and operationalize their interests in any given situation is an analysis that considers both economic and institutional opportunities.

Economic factors are usually privileged by scholars working from a rationalist perspective, taking interests as given and deducing preferences from cost-benefit analyses based on the competitive position of industries, firms, and managers. Agents within firms will conduct these analyses based on strategic factors, such as, transaction costs and risk mitigation. IPE scholars have mobilised such models to great effect, with the competitive position of firms within domestic and world markets often portrayed as the major determinant of corporate political strategy (see, for example, Rogowski, 1987; Frieden, 1988; Milner, 1988a, 1988b). Differences in preferences amongst firms materialise based on their competitiveness in world markets, their ability to adapt technologically, and their flexibility relative to buyers and suppliers along their supply chain (Falkner, 2008). This is the approach favoured by the majority of economists as it deduces outcomes from a simplified model based on the firm as a rational, unitary actor working to maximise profits and operating with full information.

The sociological perspective on firm preference formation emphasises that firms are themselves social institutions that are embedded within complex layers of social institutions through which their economic interests are defined. In other words, their interests are not

defined *a priori* and, even once defined, the path that leads toward achieving them is not always clear and often in dispute. Markets are political fields of contestation and compromise. Firms do not react mindlessly or perfectly to price signals and so a model that conceives of markets as the driving force for change is incomplete at best. As the sociological perspective on market organization suggests, markets are social constructions, rife with systems of power that stem from public agencies as well as private actors (Campbell, 2007). Powerful actors may change the rules of the game and, therefore, social interaction plays an important role in the evolution of markets. As Fligstein (1990, p. 302) argues, managers are neither omnipotent nor irrelevant, as economists suggest with their theories.

Naturally, economists recognize that many of the assumptions they make obscure some nuance of a complex reality; they simply argue that their models offer the best option for making predictions about firm actions and market change. So economists take economic forces as their starting point while sociologists begin with social interaction. The reality is, and probably the majority of analysts across disciplines would agree, that a mix of economic forces and social interaction drives change. Any comprehensive evaluation must consider both dynamics when deciphering firm responses to societal demands. Economic reality is not a given, but instead must be interpreted through the cognitive frames provided by social and institutional contexts. Additionally, even in markets where business actors have a strong interest in and incentive to maximise profits, any approach that fails ‘to consider the ways in which everyone’s interests are multiple, conflicting, and of different kinds’ will miss important drivers of social action (Lukes, 2005, p. 13). So while economic analysis is central to firm decision-making, Simone Pulver explains that firms may form different preferences and mobilise conflicting strategies based on ‘divergent understandings prevalent in the particular economic, political, and socioideological networks in which individual firm managers are embedded (Pulver, 2007, p. 4). However, this by no way means that economic

forces are insignificant. As Robert Falkner has succinctly put it, '[e]conomic incentives and pressures are major drivers of business responses to emerging global political issues, but the social, organizational and political environment in which firms operate define how they perceive of their interest... [i]t is in the interaction between them that corporate preferences are formed' (Falkner, 2008, p. 37). Therefore, the model constructed in the next section will consider both economic and institutional structures.

## **IOS MODEL FOR CHANNELING CORPORATE POLITICAL MOBILISATION**

Past studies adapting the POS model to the development and efficacy of activist campaigns that target firms directly have identified economic, organisational, and cultural variables – along with characteristics of the commodity itself – as affecting the campaign outcomes (Schurman, 2004). While the characteristics of the commodity itself will be considered during the background chapter looking at the campaign action (chapter three), this is held constant during the firm-to-firm comparisons to follow (chapters four, five, and six). This leaves three classes of variables – economic, organisational, and cultural – from which to build the IOS model for corporate political mobilisation.

The model can be further simplified as the organisational class of variables is subsumed by the economic and cultural – or, using the slightly more expansive concept – institutional ones. This is because the organisational dimension really channels political mobilisation in two ways, one economic and one institutional. Through an economic lens, organisational factors will affect the speed and cost of compliance as elements like the firm's sourcing strategy and its business model will facilitate or inhibit its mobilisation. Through an institutional lens, organisational factors will also affect the ways in which the firm mobilises politically as CSR departments, strategies, and expertise have the capacity to change the



company culture while the amount of discretion the organisation offers managers will stifle or amplify the effects of leadership. Therefore, the IOS model applied to the political mobilisation of firm resources will be constructed from two classes of variables, economic and institutional, both of which contain organisational dimensions.

The major economic opportunity for mobilisation is clearly how the activist campaigns expose companies to risk. Campaigns have not necessarily affected the sales of the firms they target; what they have done is create risk. Exposure to risk may be punished by markets and firms attempting to reduce their economic exposure drive the process forward. However, just as different firms face different levels of exposure, they also face different costs of compliance based on their organisational model. Therefore, their economic interests are a function of both their exposure to risk and the cost of compliance.

Likewise, institutional structures at the firm-level refer to both the culture of the firm and the opportunities for political leadership within it, both of which are intimately related. Corporate culture shapes leadership and *vice versa*. Likewise, the capacity for agents within the firm to act as political leaders depends on the organisational model of the firm. Therefore, the institutional character of the firm is a function of both the corporate culture and organisational capacity for leadership.

Economic elements create opportunities and constraints for corporate political mobilisation while institutional elements dictate the ways in which firms respond to the opportunities within these constraints. The specific form the political mobilisation takes is, therefore, a function of both the economic and institutional structures business actors face when politically mobilising the firm. The dimensions of the opportunity window will be shaped by the firm's economic interests – its exposure to risk and its organisational capacity to comply with activist demands. How business actors fill this policy window will be a

function of its institutional character – its corporate culture and its organisational leadership. While useful as guidelines, these classes of variables do not yet hold enough precision from which to build a robust explanatory model that can be imported for a firm-to-firm comparison, a task which is undertaken below.

Economic dimensions	Institutional dimensions
Exposure to risk	Corporate culture
Cost of compliance	Leadership structure

Table 2: Economic and cultural dimensions of IOS model

### *Economic dimensions*

The central argument of this thesis is that the structural forces emanating from the existing equilibrium in markets curtails the public policy-making power of would-be institutional entrepreneurs from the private sector. Activist campaigns targeting firms create an opportunity window for these latent leaders in which they may expend organisational resources to pursue political goals without being disciplined by the market. Direct-targeting campaigns create this window by threatening the reputation of the firm. This is accomplished by connecting the firm's brand to the product it sells which, in turn, is connected to the practices the activists are opposed to. This exposes the firm to risk, and risk is punished by markets through the individual decisions of investors, who tend to be risk averse. This opens the firm's opportunity window for political mobilisation as managers will be expected to

leverage the firm's resources to enact policies to reduce its exposure. The exposure of the firm will depend on various elements, which will include its investment in its brand and its reliance on the product itself.

The response of a firm to social and environmental demands will be influenced by the cost of not complying with these demands which, when we are dealing with non-state pressure, depends in large part on the firm's market strategy. Even within the same industry firms will have different market strategies (e.g. customer base and line of products and services) and these will be affected differently by non-state, political pressure. As the cost of noncompliance increases, more resources may be allocated to cover the costs of cooperation, expanding the opportunity window for political actions. The cost of compliance will be based largely on the cost of eradicating the offensive products out of its supply chain, and the ability to either absorb these costs or to pass them on to the consumer.

To summarise, the suggestion here is that variation in firm responses to societal demands within the same industry is influenced by the extent to which the core market interests of the firm are threatened and the relative cost at which compliance can be achieved. In other words, it is a cost-benefit analysis in which the cost of compliance is measured against the benefits of risk mitigation. Ways in which to measure the level of threat a firm faces from activist campaigns include its reliance on reputation and the diversification of its business interests while the cost of compliance will be a function of the complexity and flexibility of its supply chain and the price sensitivity of its core customer base.<sup>42</sup> We will

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<sup>42</sup> While economic-based explanations of corporate political behaviour have also stressed factors such as the size of the firm (Schuler & Rehbein, 1997; Cook & Fox, 2000), its organisational slack (Bourgeois, III 1981; Meznar & Nigh, 1995), and its capital structure (Rubin & Barnea, 2005), these factors tend to find their explanatory power in measuring unsolicited corporate political behaviour and instances of over-compliance in social or environmental issue areas (see Hillman et al., 2004 for an in-depth review). The contention here is that the *risk-cost ratio* is of primary concern when responding to external threats and this relationship is more directly related to and observable through the specific costs of risk mitigation for each type of firm; indicators related to the general availability of resources for political activity would constitute secondary indicators.

look at these indicators in slightly more detail before moving on to the institutional dimensions of the IOS model.

One way that firms mitigate rivalry and the threat of new entrants is through product differentiation. Brand name and exclusive rights to designs are two of the main ways of differentiating products and creating brand loyalty. Naturally, firms differ in the extent to which they rely on branding. While we understand branded nodes of the supply chain are more susceptible to NGO pressure, we can also differentiate between the level and type of branding within a sector. Individual firm branding has two potential impacts on variation in firm responses, namely, heavily-branded firms should be more susceptible to NGO pressure and should also be more likely to respond individually rather than collectively.<sup>43</sup> The first expectation is rather obvious, while the second is related to the industry level of analysis in that more branded firms have a larger cumulative investment in their *individual* reputation and are thus more likely to respond proactively regardless of the response of others in the industry (Sasser, 2003). Therefore, the more a firm relies on its brand image as part of its marketing strategy, the more likely they are to respond proactively to non-state political pressure.

The extent to which a firm relies on a particular product will decrease as the diversification of its products and services increases. Larger companies operating at scale also reduce the threat of rivalry through the sheer diversity of their retail products. They are less invested in any one product type and may walk away from deals when they are not

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<sup>43</sup> Hillman, Keim & Schuler (2004) have shown that firm age has been used for a proxy in many studies for 'visibility of firm' (Hansen & Mitchell, 2000), 'reputation' (Baron, 1995; Boddewyn & Brewer, 1994; Keim & Baysinger, 1988), and 'experience' or 'credibility' (Hillman, 2003; Hillman & Hitt, 1999), which could all conceivably be linked to the susceptibility of the firm to NGO pressure, and certainly to its potential political impact; however, the level of branding is a more direct indicator of the firm's exposure to risk as branding is a purposive strategy to differentiate the firm, create intangible value and, therefore, constitutes a conscious and often costly element of the firm's business model and market strategy. In contrast, there are many old and established firms that remain insulated from reputational threats, especially those that are not consumer facing.

perceived to be in their favour. This drastically reduces the power of suppliers upstream and buyers downstream, making the companies much more immune to leverage exerted through supply chains, including that by would-be regulators, as the less dependent the firm will be on any particular product or supply chain and the more easily it should be able to shift its interests away from contentious areas of business (see also Schurman, 2004, p. 249). In addition, the more diversified a firm's business interests, the more diverse its internal interests across departments. Shaffer and Hillman (2000) have argued that the greater the diversification within a firm, the greater the likelihood of intra-firm conflict and the greater the costs of coordinating political strategy. Taken together, the more diversified the firm is the less likely it is to engage proactively in response to civil society contestation.

Relatedly, the cost of eradicating the offensive product from the firm's supply chain depends on its sourcing strategy. Some firms opt for a fully integrated supply chain so as to maintain control of the quality and price of its supply while also reaping the financial benefits of any value-adding activities upstream. Others will opt to source using arms-length, short-term contracts from varied suppliers, giving them the freedom to source the best products available at the best price available. Much of this depends on the industry, but much depends on an individual firm's market strategy as well. Clearly the vertically integrated firm will have an easier time maintaining standards, tracing products, and controlling processes along the supply chain. However, arm's length sourcing could potentially offer the advantage of flexibility in switching suppliers or, in some cases, passing the cost of compliance on to suppliers if the buyer holds sufficient market power.<sup>44</sup> Therefore, the sourcing strategy of individual firms is an important factor as the complexity and flexibility of their supply chain will influence their ability to respond to political risk in a timely fashion. However,

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<sup>44</sup> This would be akin to Gereffi's (1994, 2001) 'buyer-driven' commodity chain model.

explaining precisely how the elements of complexity and flexibility influence a firm's political mobilisation is a task for empirical investigation.

The ability to absorb the cost of compliance or to pass these costs on to the consumer will depend on the margins at which the firm operates and the price sensitivity of its customers. Large retail companies, especially the discount-superstores, compete largely on price. They leverage suppliers and squeeze margins by utilizing their scale economies. Rivalry and the threat of new entrants are diminished as smaller retailers will find it difficult to compete based on price. Additionally, the price sensitivity of a firm's clientele will also affect its ability to mobilise politically. Absorbing the initial costs of (over) compliance is difficult for many firms, especially those with low profit margins. The ability to pass a portion of these costs on to the consumer is dictated by how price sensitive these consumers are. The smaller the margins and the greater the price sensitivity of the firm's clientele, the less opportunity there will be for business actors to mobilise the resources of the firm for political purposes.

### *Institutional dimensions*

We have just established the main economic elements shaping the opportunity window available for business actors to mobilise their firms politically. However, this window only represents an opening for political activity. Whether and in which ways a firm takes advantage of this opening is less an economic issue and more an institutional one.

The corporate culture of the firm will affect how firms respond to activist pressure as managers interpret issues – for example, the concept of 'dirty gold' – through the institutional lens of the firm and initiate a response based on this interpretation. Not only will managers

systematise solutions as they push possibilities through the filter of their organization's culture, but their ability to spearhead policy innovations will be affected by the management structure of the firm and the position of would-be institutional entrepreneurs within it. Some insights from organisational sociology will assist us in expanding on these ideas.

Firms constitute a specific form of organisation, but otherwise demonstrate many of the characteristics common to all forms of social organization. Powell and DiMaggio (1991, 27-28) note that 'organizational environments are composed of cultural elements, that is, taken for granted beliefs and widely promulgated rules that serve as templates for organizing'. In the case of a corporation, this culture is referred to as the corporate culture of the firm. This corporate culture is sometimes formal, such as the official values and goals stated in company documents and referenced or amended in stakeholder meetings. But it also includes informal cultural elements that develop and evolve over time and repetition of the firm's operations. Whether formal or informal, elements of corporate culture will be closely aligned with the business model and marketing strategy of the firm as these characteristics will develop, and be developed, simultaneously.

Edgar Schein has written arguably the most influential works on the subject of organisational culture and leadership from a management perspective (see, for example, Schein, 2010). He explains that leadership and culture are intertwined (Schein, 2010). Leaders are the main architects of culture and founders of a firm often act as norm entrepreneurs in establishing the culture of the firm. Once culture is established it guides and constrains behaviour, to the point of influencing what kind of leadership is even possible for the firm. Cultures evolve and as they mature they become increasingly stable as they develop from shared learning experiences that lead to shared, taken-for-granted basic assumptions held by the members of the group or organisation (Schein, 2010, p. 21).

However, there are mechanisms to change elements of a culture within an organisation. If elements of a culture become dysfunctional, it is up to leaders to speed up this cultural evolution by intervening with managed culture programs (Schein, 2010, p. 3). Cultures become dysfunctional when they no longer lead to appropriate actions in any given situation and will usually be dislodged and reformed when a firm faces a ‘crisis’ situation that threatens their core operations, which are intertwined with the culture of the firm. So leaders ultimately create, embed, and manipulate corporate culture to meet the operational necessities of the firm. In the words of Schein (2010, p. 3) ‘[t]hese dynamic processes of culture creation and management are the essence of leadership and make you realise that leadership and culture are two sides of the same coin.’

So how does corporate culture influence corporate political mobilisation? Corporate culture is drawn upon, explicitly or implicitly, by agents of the firm when interpreting alternative courses of action the firm may take under any given circumstance and, more often than not, make decisions that will orient the firm accordingly. Rules of conduct and standard operating procedures will be aligned to these cultural elements and, even if they are not specified, these cultural elements act as a simplifying model, or guide, for organizing firm activities. As Ann Swidler explains, ‘culture represents a tool kit from which people select both institutionalized ends and the strategies for their pursuit’ (1986, p. 28).<sup>45</sup> The main point is that managers regularly rely on the cultural structures to help them orient their actions taken in the name of the firm. It is also worth remembering that one can expect the level of impact of corporate culture on decision-making to be greatest when uncertainty is high and

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<sup>45</sup> We can consider a corporation to be a type of formal institution and corporate culture to be an institutional framework of sorts. An institutional framework is a social construct that allows an organization to, as Scott says, ‘define the ends and shape the means by which interests are determined and pursued’ (1991, 164 cited in Powell & DiMaggio, 1991, p. 28). Powell and DiMaggio concur: ‘Cultural frames thus establish approved means and define desired outcomes...’ (1991, p. 28).



there are multiple possibilities for action and reaction (DiMaggio & Powell, 1983; Powell & DiMaggio, 1991).

Schein (2010) has provided a succinct framework with which to understand and analyse the interdependent roles of culture and leadership in shaping firm decision-making. According to Schein, organisational culture can be understood as existing on three levels, namely, as artefacts, espoused beliefs and values, and basic underlying assumptions (Schein, 2010). The first two levels are utilised in the framework as they lend themselves to empirical analysis while the third level, basic underlying assumptions, can only really be deduced from gathering evidence at the other levels.<sup>46</sup>

Artefacts are those elements of culture that are the most visible to the observer and are demonstrated by actions and processes. In other words, they constitute observed behaviour, which is easily viewed but difficult to decipher. The role of the researcher is to interpret what agents of the firm do and hypothesise reasons for it, which can be accomplished by looking at how they do things in other areas and drawing parallels with their actions in the area under investigation. In this case, it consists of looking for similarities between how the firm is approaching and operationalizing its response to 'dirty gold' with its responses to issues it faced in the past or issues it faces in other areas.

Espoused beliefs and values refer to the ideals, values, goals, and aspirations of the firm. Corporations will often have a set of written goals and ideologies that form the foundation of the rationalizations agents will give for various actions when asked. It is

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<sup>46</sup> Basic underlying assumptions are the unconscious, or taken for granted, beliefs and values that will inform the other two aspects of culture and so ultimately determine behaviour, perception, thought and feeling of the agents within the firm. This is the most deep-seated of the three elements of culture and roughly correlates with the idea of the worldview of the agents within an organisation. As such, this is probably the most difficult to measure, but for the analysis at hand it is simply a matter of interpreting the combination of artefacts along with espoused beliefs and values. There are no neat lines drawn between these levels in the real world, but it will be important to keep these analytical categories in mind as we attempt to interpret the role that corporate culture plays in influencing firm responses.

important to note that these stated goals and ideologies may or may not be congruent with actual behaviour and other artefacts. In the case of 'dirty gold', these espoused beliefs and values will be available in the form of CSR strategic goals in company documents as well as verbal rationalizations given in media interviews and personal communications with the researcher.

Additionally, the management structure of a firm will affect the ability of internal champions of policy innovations to drive initiatives forward. The main factors affecting the ability for latent institutional entrepreneurs to mobilise the firm will be its ownership structure and the position within the firm of those tasked with responding to the issue at hand.

As mentioned earlier, whether a firm is publicly traded or privately owned should affect the ability for managers to mobilise company resources for political activities. Owner operators will naturally have more leeway in that they are not accountable to shareholders in financial markets or the Board of Directors overseeing company management. Policy decisions and firm expenditures can affect share values and managers must gain approval for significant policy shifts and use of company resources from the Board. These accountability mechanisms are conservative structures that rein in institutional entrepreneurs and temper the effects of agency on the political mobilisation of the firm.

A second defining feature of management structure that can affect corporate political mobilisation is the position of power within the company of those in charge of responding to the political issues introduced by activists. In other words, who is in charge of spearheading the initiative and what type of power do they have within the firm. Are CSR initiatives handled by a Marketing and Public Relations Department or is there an established political arm developing and implementing policy? Do CSR representatives have power in the boardroom, or are they employed to attend workshops while decisions are made without their

input? Naturally, these are difficult questions to answer, but investigating who is tasked with driving corporate responses to the issues at hand and the decision-making process through the phases of corporate political mobilisation is clearly of critical importance. Once again, an historical process-tracing approach is appropriate, especially as past crises will almost certainly affect both the power of CSR departments and the embeddedness of CSR norms within the industry and firm.

<b>Economic dimensions</b>	<b>Institutional dimensions</b>
<b>Exposure to risk</b> <ul style="list-style-type: none"> <li>- Level of branding</li> <li>- Reliance on product</li> </ul>	<b>Corporate culture</b> <ul style="list-style-type: none"> <li>- Artefacts</li> <li>- Espoused beliefs</li> </ul>
<b>Cost of compliance</b> <ul style="list-style-type: none"> <li>- Sourcing strategy</li> <li>- Price sensitivity of consumers</li> </ul>	<b>Leadership structure</b> <ul style="list-style-type: none"> <li>- Ownership structure</li> <li>- Position of institutional entrepreneurs</li> </ul>

Table 3: Economic and cultural dimensions of IOS model - extended version with indicators

## CONCLUSION

Industry opportunity structures for corporate political mobilisation are defined as, to adapt Sidney Tarrow's (1994, p. 18) now classic definition of POSs, dimensions of the industry environment which either encourage or discourage business actors from using the resources of the firm for political action, of which there are four, namely, the level of risk that activists expose the company to, the relative cost of complying with activist demands, the normative fit with the existing corporate culture, and the position of institutional entrepreneurs within

the leadership structure of the organisation.<sup>47</sup> This IOS model offers a number of fairly intuitive propositions to carry forward into the case studies that will guide the investigation into the impact of firm-level structures upon the political mobilisation of firms as well as help us evaluate the model itself through the empirical findings, namely:

- 1) As the exposure to risk *increases*, the level of firm engagement with the issues and the strength of the commitments they make are likely to *increase*
  - a. The *higher* level of product branding, the *higher* the exposure to risk
  - b. The *higher* the reliance on the targeted product category, the *higher* the exposure to risk
  
- 2) As the relative cost of compliance with activist demands *increases*, the level of firm engagement with the issues and the strength of the commitments they make are likely to *decrease*
  - a. The *higher* the level of complexity in the supply chain, the *higher* the cost of compliance
  - b. The *higher* the price sensitivity of the customer base, the *higher* the cost of compliance
  
- 3) As the embeddedness of social responsibility in corporate culture *increases*, the level of firm engagement with the issues and the strength of the commitments they make are likely to *increase*
  - a. The *higher* the prominence of social responsibility concerns in company materials, the more receptive the corporate culture

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<sup>47</sup> For reference, Tarrow (1994, p. 18) defines political opportunity structures as ‘dimensions of the political environment which either encourage or discourage people from using collective action’ of which he identifies four, namely, the degree of openness and closure of the polity, the stability or instability of political alignments, the presence or absence of allies and support groups, and division within the elite and its tolerance or intolerance of protests.



offering a nuanced perspective on the ways in which these initiatives emerge and their consequences moving forward. It does so with a model stressing structured agency in which civil society contestation plays an enabling role, offering embedded business actors opportunities to drive change forward.

The remainder of the thesis traces the political mobilisation of each type of firm from the initial politicisation of the market through to the creation of non-state, or private, institutions. Chapter three establishes the context through an analysis of the global political economy of gold and gold jewellery before turning to the individual cases in chapters four through six.

## CHAPTER 3 – THE POLITICAL ECONOMY OF GOLD

### INTRODUCTION

Mineral extraction, and especially the extraction of precious commodities, comes with a long history of violence, both social and environmental. While the issues associated with other production chains are significant, the stakes along the gold commodity chain are, arguably, much higher. Civil society actors have been attempting to make the link between gold jewellery demand and the practices deployed by a fairly insulated mining industry burdened with the baggage of its often cruel past.

This chapter paints a picture of the global political economy of gold extraction and consumption, representing the broad strokes of the analysis. It begins by explaining the global significance of the gold commodity chain and, specifically, its environmental and social impacts worldwide. It offers an explanation as to why negative practices persist by focusing on the major challenges of regulating gold mining through traditional state institutions. It then expands its perspective on regulating commodity chains by interpreting the evolving power relations running along these chains, particularly amongst business actors as well as between business actors and those that seek to regulate their practices.

It finds that the complexity of the global gold commodity chain and that of the market for gold products not only limits the ability to regulate through top-down, state-led initiatives, but it also limits the political leverage that activists targeting the end-use products are able to achieve. Despite these limitations, just the threat of activist attention seems to have been enough to spur many jewellers into action, creating a range of institutions through which to engage with these issues. However, the ways in which firms are mobilising politically and the types of initiatives that are emerging suggest that industry actors have maintained a high degree of policy autonomy, at least from the activists that target them.

## IMPACTS OF GOLD MINING

Gold mining is the source of both positive and negative impacts for many developed, but even more developing, countries. These impacts – environmental and social – are the driving force behind the demand for regulation. While the impacts of this industry may vary in theory and practice, all will agree that it represents a gigantic industry moving vast sums of rock, people, and money on a daily basis. Disagreements abound as to what the net effects of these movements are for the planet and those that inhabit it, but the potential impacts range from driving development and funding social programs to compelling human rights abuses and engaging in environmental destruction.

### *Environmental impacts*

The environmental impacts of gold mining vary with the industry practices employed and the ecosystems in which they take place. Practices differ from one legal jurisdiction to another, from one method of mining to another, and from one company to another. What can be said generally is that the ecological impacts of gold mining fit into two categories of ecological demand, that of sources and that of sinks.

Sources refer to the supply of resources these mining practices demand. The main focus is, of course, gold. But for every ounce of gold it is estimated that between 20 and 250 tonnes of rock must be dug and processed, depending on the mine (NDG, 2010; Larmer, 2009, p. 44). In fact, it has been noted that mining moves more earth per annum than does all of the Earth's rivers combined (UNEP, 2002). The fact that gold mining moves a lot of rock is generally agreed upon between miners and ecological activists. The disagreement between these groups is the effect of this massive excavation. Activists claim this waste rock constitutes a pollutant as many of the ores release toxins once they reach the surface. The



mining companies say the vast majority is just benign rock and precautions are taken to ensure toxic elements are contained.

Another demand mining places on the environment is the large amount of water used in the process, especially placer mining in which the ore is extracted with water pressure. Gold mining utilizes vast quantities of this vital resource and tensions run high in areas where water shortages and distributional conflicts are common.

The demand gold mining places on ecological sinks refers to the waste the industry relies on the ecosystem to absorb. The processing of ores involves huge quantities of rock and water, but where does this go afterwards? While technological innovations have allowed for increased efficiencies including the recycling of water for further processing, gold mining creates massive volumes of toxic materials that are not easily disposed of. In fact, the US EPA's Toxic Releases Inventory consistently shows metals mining to be the largest industrial polluter in the country (EPA, 2008). While the largest corporations that constitute the focus of this study do not use the mercury that small-scale artisanal mines often do, they do tend to use cyanide leaching to extract the ore in hard rock mining and the sludge left over from this process is then stored in enormous tailings ponds where it remains isolated from the ecosystem, barring accident. The threat of tailings dam collapse is an on-going liability for companies and the ecosystem for years.

In an industry riddled with scientific uncertainty and variable transparency, discrepancies between claims and counterclaims of interested parties are commonplace. The goal here is not to evaluate the environmental effects of gold mining in any great detail. The main point we can take from this is that gold mining has the potential to have very negative and large-scale impacts on the environment; the decisive factor deciding the extent of this impact is the type of practices employed when conducting these activities.

### *Social impacts*

There are many social impacts related to gold mining, positive and negative, with the results depending again on the practices involved. In addition to the potential for distributional conflicts arising from the industry's demand for water resources, gold mining also affects local and regional communities in other ways. The introduction of a gold mine into a rural community can be traumatic for existing socio-economic conditions, especially due to the majority of such projects being located where indigenous populations predominate. These effects can be summarized as shifts in local production patterns, relocation, and demographic change.

Local production patterns tend to change with the injection of a large project, such as a gold mine. Trade in commodities makes up a significant portion of world trade for both developed and developing countries, but this trade is depended on much more heavily by developing countries (Sapsford & Morgan, 1994, p. 5).<sup>48</sup> Reliance on primary commodity production is fraught with risk. Quantities of primary commodities traded tend to grow less rapidly than other goods; therefore, the value of a region's commodities is more dependent on price movements than anything else (Sapsford & Morgan, 1994, p. 5). Thus, the determinants of commodity prices – and price volatility – as well as the terms of trade for commodities versus manufactured goods are of the utmost importance to countries reliant on primary commodity exports.

An additional social impact shared by natural resource-reliant regions is the so-called 'Dutch-disease' whereby natural resource exploitation negatively affects the development of the manufacturing sector by reducing its competitiveness in global markets, part of the resource curse, first introduced by Richard Auty and later expanded upon by Jeffrey Sachs

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<sup>48</sup> For an industry study specific gold see WGC, 2012d.

and Andrew Warner among others, the effects of which are well documented elsewhere (see, for example, Auty, 1993; Sachs & Warner, 1995, 1999, 2001).

Perhaps more significant at a local level is that often the opening of a mine will shift economies from generations-old agricultural practices to shorter-term work associated with the mine. While the initial injection of money may lead to improved living conditions and general well-being of the community, it has the potential to simply lead to an influx of more skilled, migrant male workers – resulting in increased rates of alcoholism and prostitution.<sup>49</sup> Forced relocations are possible, mass relocations are common, and reallocation of land from its traditional uses is almost guaranteed.

Additionally, gold mining has been implicated in the controversy surrounding ‘conflict minerals’, which are minerals mined in the Democratic Republic of Congo (DRC) that have been shown to be fuelling the on-going and violent conflict in the region. The minerals implicated in the conflict include the so-called ‘3Ts’ of tin, tantalum, and tungsten – as well as gold – all of which are used extensively in the electronics industry.<sup>50</sup> Most of the gold from this region is mined by the artisanal, small-scale mining (ASM) sector, as opposed to the industrial, large-scale mining (LSM) sector, and projects taking place there are not only, allegedly, funding the fighting factions, but forced labour and rape are common occurrences in and around mine sites in the country. The newly passed *Dodd-Frank Bill*, Section 1502 of President Obama’s larger *Wall Street Reform Act*, plans to introduce legislation forbidding the sourcing of these minerals from the region. Although most applaud the initiative, many groups are now concerned that this law may have the perverse effect of denying an important livelihood strategy to thousands of miners in the DRC and surrounding areas (see, for example, Aronson, 2011). It furthers the narrative of illegality and violence

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<sup>49</sup> See, for example, CASM, 2011; Hinton, Veiga & Beinhoff, 2003; Mong, 2010; Mercier, 2011.

<sup>50</sup> See, for example, the campaigns against ‘conflict minerals’ including MakeITFair (makeitfair.org) and the Enough Project (enoughproject.org). Also see Nest, 2011 for an engaging look at coltan, short for columbo-tantalite, which is a form of tantalum used to make resistors in cell phones and other electronics products.

surrounding policy discussions of ASM, an industry that accounts for an estimated 10-15% of gold value (WGC, 2012a) but perhaps as much as 85-90% of gold mining employment worldwide (Ethical Jeweller, personal communication, August 1, 2011).

Whether originating from the LSM or ASM sector, much of the environmental and social impacts of gold mining will depend on the quality of regulation in the region. It is to issues of regulating the gold mining sector we now turn.

## **REGULATING TRANSNATIONAL PRODUCTION**

The freeing of global trade and loosening of restrictions on capital mobility have increased the options for production and investment. This has opened the door for market actors to organize production on a truly global scale, often disaggregating the production process and spreading it among multiple firms operating in multiple jurisdictions. This has created new challenges for global governance as the complexity of these systems requires an unprecedented depth of knowledge and breadth of coordination to be effectively regulated (see, for example, Reinicke et al., 2000). Additionally, increased capital mobility has the potential to tip the balance of power toward markets and away from their state regulators (Strange, 1996; Leys, 2001).

On the one hand, technological innovations in communication and transportation have enabled long-distance production patterns and have opened up new markets by decreasing costs (see, for example, Thun, 2008). On the other hand, the large fixed costs of some new technologies have acted as incentive to increase international trade as firms attempt to reach the economies of scale necessary to recoup their initial investment (Kobrin, 2002, p. 43). These policy changes have facilitated an exponential rise in the power of transnational finance as, for example, daily foreign exchange trading increased from USD 15 billion in

1973 to almost USD 1,900 billion by 2004 (Helleiner, 2008, p. 225). They have also led to a proliferation of transnational corporations (TNCs) and foreign subsidiaries, which are approximated to be in the range of 82 000 TNCs, 820 000 subsidiaries, with millions of suppliers and distributors worldwide (UNCTAD, 2010, p. xviii). These market actors have organized production on a truly global scale, disaggregating the production process between multiple firms operating in multiple jurisdictions.

As Laura Reynolds has argued in her study of the institutionalization of flexibility in the Latin American agricultural sector, building on the work of earlier scholars (for example Piore & Sabel, 1984), 'All firms, whether they be subsidiaries of very large transnational corporations or modest firms established by entrepreneurial capitalists of domestic or foreign origin, have had to cut costs and institutionalize flexible production systems in order to remain competitive under changing world economic conditions' (Reynolds, 1994, p. 145). This applies to the extractives sector as well. With the innumerable uses of the many forest products harvested and the myriad minerals and metals mined, extraction becomes a node in the vast array of commodity chains spinning complex webs of industrial networks. While many firms in the extractive industries, especially mining companies, remain traditionally organized, the numerous actors responsible for sourcing gold and the myriad intermediaries supplying the large retailers downstream certainly fit this model well. Thus, tracing the gold from mine to retail, a prerequisite for non-state approaches to governing the supply chain, will require a deep understanding of the global gold commodity chain.

To further understand this deepening trans-nationalisation of production, analysts may disaggregate these global networks into production chains originating from a single commodity. According to Gary Gereffi, commodity chains are 'sets of inter-organisational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy' (Gereffi & Korzeniewicz, 1994, p. 2; see

also Hopkins & Wallerstein, 1982). These chains consist of various nodes, each node corresponding to a stage in production. For example, the commodity chain for any given mineral or metal would include various interconnected nodes representing finance, extraction, primary and sometimes secondary processing, manufacturing of products, marketing, retailing, and advertising. In addition, the chain would include a multitude of related activities, such as transport and packaging, as well as legal and environmental services. Most nodes are part of multiple networks with trade and financing occurring at every stage of the production system. These nodes are increasingly widespread across the globe so that a commodity may cross many borders en route to final consumption and disposal. For extractive industries, this means that although the extraction phase must take place at a specific location, the entire production network may span the entire world.

This paints a much more complex picture than simply an increase in international trade involving the import and export of finished products. As Manuel Castells argues, the global networks formed by major corporations seem to transcend national boundaries, identities, and interests as multinational enterprises become networks embedded in external networks and each component of these networks, both internal and external, is embedded in a specific cultural/institutional environment (Castells, 1996, p. 208). The point is that when we cease to view resource extraction as a primitive industry and begin seeing it as both an input for and an intersection within a web of global commodity chains forming denationalized networks of production, consumption and distribution, we uncover a source of both new difficulties and also new opportunities for regulating global extractive industries.

Globe-spanning transactions and interactions forming commodity chains of production, consumption, and distribution requires, arguably, a new logic of governance that is not based on regulating territorial spaces, but based instead on regulating economic flows. Regulating economic flows requires the leveraging of incentives within these commodity

chains to induce socially and environmentally sustainable practices. Changing the incentives of actors at any node along the chain can result in feedback mechanisms that change other actors' incentives up and down the chain. This forces all of the actors involved to re-evaluate their practices instead of simply sourcing resources from locations with more amenable regulatory policies. Leveraging can come in either the form of legally-binding regulation through the state or through non-legalistic leveraging in the form of information provision and normative contestation, both of which can lead to the reevaluation of practices based on material and ideational incentives. Each commodity chain will, however, come equipped with its own unique set of opportunities and challenges.

In addition to the two mining industries operating side-by-side, ASM and LSM, the global gold commodity chain has many characteristics that make it exceedingly complex. Sites of extraction are geographically dispersed across the globe. Once mined, gold is valuable enough to be shipped great distances for refining and manufacturing. Along the way, the commodity is mixed with gold originating from other sources, including above ground sources. Additionally, the demand for gold originates from a number of sectors and a number of national markets within each sector, including financial markets. Even the US jewellery industry, the focus of this study, is itself highly fragmented. This complexity leads to difficulties for those attempting to regulate trade in the substance, both from within state institutions and outside of them. This is in large part because this complexity reduces the leverage would-be regulators can obtain over the producers, traders, and consumers. This, in turn, leads to a very complex governance landscape evolving from the cooperation and contestation between business actors and those who seek to regulate them. The following analysis will review the problems specific to regulating the gold commodity chain through the territorial state before shifting focus to the non-state regulatory directives that are the focus of this study.

## REGULATION THROUGH THE STATE

Governments face many challenges when attempting to regulate gold mining to maximise its positive impacts on their citizens. Host countries, where the mining takes place, face different challenges than home countries, where the mining company headquarters are based. Therefore, we will look at each in turn.

Host governments often lack both the will and capacity to effectively govern mining operations within their borders. Countries may hesitate to impose restrictions on large-scale mining (LSM) as there is heavy competition for capital in the contemporary global economy and states would be remiss to not attempt to attract it. The fear for policymakers is that implementing onerous regulations on an industry will dissuade companies from investing in their country and perhaps even chase away investors already operating there. While one would be hard-pressed to find an enterprise less mobile than a mine, the immensity of investment decisions made by the LSM sector – in terms of direct and indirect employment, procurement, and tax revenues (see, for example, WGC, 2012d) – supplies the industry with an abundance of structural power in policy discussions.

It is difficult to say for certain how real this threat of capital flight, divestment, or regulatory arbitrage may be in a given situation. The idea that business shops around for the lowest regulations and the lowest wages certainly needs to be qualified. The ‘race to the bottom’ hypothesis, as the phenomenon is commonly referred to as, makes a number of assumptions and generalisations that, in fact, differ between industries and locales (see, for example, Mosely, 2005). Capital is not perfectly mobile and so exit costs for capital can be substantial. In capital intensive industries, such as mining, there are sunk costs in fixed infrastructure that are a significant disincentive for firms to pack-up and leave due to regulatory costs. Even if we assume that firms are endowed with complete information, the costs of social and environmental regulation in the mining industry are only one factor in a



cost-benefit calculation that will include available locations for the resource, the market price of the commodity, the geology and therefore cost of extraction, the political stability of the host state, the local infrastructure available, the level of inflation in the immediate vicinity, the proximity to markets, and the human capital available with which to assemble a workforce (Government of Canada, personal communication, March 31, 2009). These factors will have different values in different localities. Developed countries may be able to tax and regulate at higher levels as they tend to offer many of these benefits, such as, close proximity to markets, high-grade infrastructure, highly skilled workers, and political stability just to name a few. Developing countries often lack these tangibles and so specialize in low-skilled, low-wage nodes in the commodity chain. They may, therefore, be more susceptible to pressures to reduce costs at the margins than the developed countries that have been at the centre of most studies looking at national economic competition (see, for example, Krugman, 1996; Wolf, 2004; Hay, 2008). However, it must be noted that factors such as the price of wage labour only represent a significant proportion of costs for labour intensive industries, such as textiles, and do not rank as highly on the balance sheets of the capital intensive, LSM industry. Despite the inconclusiveness of empirical findings, the perception of risk in regulating continues and this perception alone increases the structural power of industry and may, in fact, be enough to alter the ability of governments to regulate effectively.

Another explanation for a lack of state-led regulation is that the vast majority of both ASM and LSM projects take place on indigenous peoples' land or the land of otherwise marginalised communities who are under-represented at the national level. Additionally, in many countries, especially developing countries and especially when dealing with the extractive sector, corruption can rear its ugly head and regulatory obligations can be avoided while money is diverted.

Even when courageous and well-meaning governments enact laws protecting miners and mining communities, a lack of capacity can render regulation useless. Impact assessments are expensive to carry out and, even when these costs are transferred to industry as is usually the case, the administrative capacity to follow-up may not be up to the task. Even more of a potential problem is the cost of monitoring and enforcement. Often developing countries simply do not have the resources to keep tabs on the many remote projects taking place in their territory. All of these issues are exacerbated when there are a multitude of ASM sites with many operating outside of the formal economy.

As for transnationally-active LSM companies, home governments are confronted with many incentives to not regulate their companies operating abroad. They fear reducing the competitiveness of companies that face competition from unregulated rivals. Home governments certainly do not want to lose the tax revenues, jobs, and spending power of these companies at home and strong corporate lobbies are careful to remind policymakers of these regulatory risks.<sup>51</sup> Even if home countries were willing to regulate companies operating abroad, issues of sovereignty and jurisdiction come into play when it comes to enforcing such regulations.

While sometimes exaggerated, home states do face significant challenges when attempting to regulate their companies abroad. The logistics of governing actors working within increasingly complex global commodity chains that cross and re-cross national boundaries are indeed daunting. Gaining support for regulation is made even more difficult as the negative impacts of supply and demand are often hidden from the view of its citizens and

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<sup>51</sup> See, for example, the recently defeated Canadian Bill-300, which proposed linking federal assistance to Canadian companies, such as financial and political support via trade commissioners, Foreign Affairs, Export Development Canada and the Canadian Pension Plan, to their corporate social responsibility record overseas. Such a law tiptoes around issues like jurisdiction and sovereignty and allows third-parties to bring complaints against companies while acknowledging the government's role in facilitating the companies' operations and, thus, arguable complicity in their actions. However, Bill-300 was defeated in parliament by a slim margin thanks to the ruling Conservative Party and heavy industry pressure amid fears of a loss in competitiveness and threats of moving the companies out of Canada (Koven, 2009).

consumers. This can result in policy discussions that are heavily skewed toward the industry perspective, as a critical mass of dissenting, citizen voices are stifled by a lack of information about the issues.

The concepts of ‘distancing’ (Princen, 1997, 2002; Clapp, 2002) and ‘shadowing’ (Dauvergne, 1997, 2008) are useful in understanding the challenges faced when states and other interested actors attempt to garner the political will and resources necessary to govern global transactions and their effects.

One of the effects of complex, transnational commodity chains is to increase the distance between economic actors and the ecological and social feedback mechanisms that might otherwise limit socially and environmentally undesirable activities. As the commodity chains lengthen so too does the social and geographical distance between resource extraction decisions and the consumption choices up and down the commodity chain that drive the practice. The result is a lack of information and understanding about the effects of economic decisions and a lack of incentives to halt those practices that cause undue social and environmental degradation.

Distancing can take many forms in a globalised economy. Thomas Princen argues that distancing occurs along four dimensions: geography, culture, bargaining power, and agency (Princen, 2002, p. 116). While geographic distance is often increased with globalization, one could argue that spatial distance has always been a factor separating economic actors from the implications of their decisions. One need only think of the exploitation of commodities in far-off lands during the age of empire. It is the social dimensions of distancing that seem to have been most affected by the current stage of economic globalization. Cultural distancing refers to cross-cultural barriers that inhibit information, understanding, or identification. Multiple agency distancing demarcates the additional intermediaries that accompany trans-border commodity chains. Power-based distancing is used to describe the power-shift from

the production/extraction nodes to the financial and retail/marketing nodes in many commodity chains.

These constraints are exacerbated by the fact that both firms and states have incentives to externalize costs offered by jurisdictional discontinuity. Princen argues that firms and states have a ‘propensity to externalize costs through production processes that separate production and consumption decisions’ (Princen, 1997, p. 250). This is similar to Peter Dauvergne’s idea of shadowing – how political and economic processes displace the externalities of consumption onto the least powerful areas of society and nature (Dauvergne, 2008).

The concepts of distancing and shadowing, as implications of the growing complexity of transnational production processes, are useful correctives as they force us to pry our attention away from a one-dimensional focus on the site of extraction and to identify the host of economic decisions and power relations that ultimately drive resource use and its repercussions. Such a perspective requires practitioners and analysts alike to refocus on an emerging logic of regulation – one that is not based on regulating territorial spaces, but based instead on regulating flows.

## **EMERGENCE AND CHALLENGE OF NON-STATE GOVERNANCE**

With states facing multifaceted challenges to regulating the industry at home and abroad, there have been a number of alternative regulatory pressures being asserted from different social spheres of activity, attempting to establish a counterforce to the perceived structural power of global business. While processes of globalization have led to new constraints on the willingness and ability of states to regulate business activity, these same processes have also created new opportunities for global regulation. Civil society actors have located

opportunities for policy leverage within industrial networks, eroding the structural power of business actors along multiple supply chains.

Changes in policy, technology, and organizational logic have empowered civil society actors to adopt a larger role in regulating global industries (see, for example, Price, 2003). In an effort to trim down national bureaucracies, many states have outsourced service provisioning to NGOs, especially in the development field.<sup>52</sup> In addition to state funding, communication technologies have allowed NGOs direct access to donors, enabling them to acquire unprecedented levels of funding. These same technological advances facilitate communication between globally active organizations and local NGOs. The result has been the formation of dense advocacy networks connecting organizations that have diverse yet overlapping interests. This allows the various actors to coordinate their activities as well as learn from and support one another. As with globally active firms, NGOs have utilized the concomitant changes in technology and policy to their advantage by organizing their activities in horizontal and flexible networks (Castells, 1996).

These civil society actors have used their newfound powers to attempt to fill some of the perceived governance gaps at the global level. They typically exert their influence in one of four ways: lobbying governments and intergovernmental organizations; providing information to governments, the public, and corporations; monitoring development projects; and, direct action against practices they deem unacceptable.

The lobbying activities of NGOs have been well documented in the IR literature (see, for example, Keck & Sikkink, 1998; Florini, 2000). While NGOs have continued their close working relationship to governments, they have also expanded their role into more direct forms of regulation. These more direct forms of regulation, which include the information

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<sup>52</sup> This is not a new phenomenon. For example, by the 1980s, Canadian NGOs involved in development depended on the Canadian International Development Agency (CIDA) for approximately 40% of their operating budgets (Leys, 1996, p. 19).

provision, monitoring, and enforcement activities mentioned above, have been termed ‘private governance’ as they exert a form of authority and enjoy a level of legitimacy while remaining seemingly autonomous from state institutions (see, for example, Haufler, 1993, 1999, 2000, 2001; Clapp, 1998; Falkner, 2003).<sup>53</sup>

One prominent method of policy leverage that NGOs have discovered has been the market-based campaign, which targets the most branded and thus vulnerable firms within a commodity chain and attempts to shame them into demanding sustainable practices from their suppliers. In this way, NGOs have discovered a powerful gateway into global commodity chains that allows their influence to ripple outwards from the targeted node, incentivizing actors to change their practices throughout the network. As Peter Newell has argued, these campaigns can be said to constitute a form of governance as they induce behaviour that is rule-bound and socially regulated (Newell, 2000, 2001).

Targeted firms have responded in various ways, sometimes developing or signing on to a form of voluntary regulation and sometimes actually resorting to lobbying governments for increased regulation, presumably to protect them from activists in addition to leveling the playing field for their competitors and possibly even creating a barrier to entry for aspiring competitors in the market. These processes can be easily observed in the context of the gold jewellery supply chain.

*Earthworks*, a small environmental NGO, joined forces with *Oxfam America* to launch the *No Dirty Gold* (NDG) campaign aimed at targeting retailers of gold jewellery in an attempt to gain leverage in the supply chain that they hoped would eventually trickle upstream to the mining companies themselves, incentivising them to implement practices that the campaign deem to be responsible. The results have been mixed as companies have reacted in diverse ways, from proactive cooperation to an initial deafening silence – although

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<sup>53</sup> See also Cutler et al, 1999; Cutler, 1999, 2002, 2003, 2009, 2010; Hall & Biersteker, 2002; Webb, 2008 for a range of perspectives on the emergence of ‘private authority’ in the global economy.

the number of firms engaging with these initiatives continues to grow. Some have joined activists in publically calling for mining law reform and boycotting gold from certain mines while others have opted to resist involvement. Some have joined multi-sector or industry-led groups while others have opted to go it alone by devising CSR policies and ‘green’ product categories, developing their own criteria in consultation with more moderate NGOs.

The current regulatory architecture in the industry is a mixed-bag of policies with many divergent views on the effectiveness of any given initiative. While the industry-led certification is ploughing ahead despite dissenting voices questioning its input legitimacy (it only has firms as members and only allows NGOs to consult on standards), the multi-stakeholder initiative is facing problems achieving output legitimacy as it struggles to develop standards with both business and activist groups as members. Large-firm CSR policies and labelling are questioned at both the input and output dimensions, as criteria are formulated in-house, in consultation with only select NGOs. Some NGOs accuse these companies of ‘greenwashing’, insisting these policies are nothing more than marketing campaigns. The reality is that the actual impact of these initiatives and how they will eventually interface with one another remains unclear.

What is clear is that much of what unfolds depends on the characteristics of the commodity chain, the commodity itself, and the types of firms operating up and down the chain. The following section investigates the gold commodity chain in its entirety, detailing the complexity that has made both state and non-state regulation problematic. Ultimately, this has brought the activist spotlight onto the jewellery industry and so the chapter then introduces the initiatives emerging in this sector before turning to the case studies for an in-depth, firm-level investigation. The chapter finds that, although commodity chain and industry-level analyses can tell us a great deal about industry responses to activist

contestation, they cannot account for variation in responses amongst firms occupying the same position in the production chain within the same industry.

## **COMPLEXITY OF THE GLOBAL GOLD COMMODITY CHAIN**

This section focuses on the geographic dispersion of the gold supply chain that makes it problematic to regulate through the state, but makes it seemingly ripe for non-state governance. The chain is complex and, therefore, difficult to regulate on a global scale. Increased complexity confuses jurisdictional responsibility, confounds accountability, and obscures the impacts of processes along the chain.

Nevertheless, there are opportunities present for civil society actors to leverage their power to force change in business practices throughout the chain. By identifying the vulnerable node in the chain, civil society activists managed to fracture the structural power enjoyed by industry long enough to incentivise firms to change their practices and break the cycle of business as usual.

However, the complexity of the gold commodity chain also limits the ability of these activists to control the process of remaking the regulatory architecture; therefore, while firms have taken notice of activist efforts, they have managed to maintain their significant policy-making autonomy in spite of them. The section proceeds with an analysis of the complexity of the gold commodity chain in its entirety before focusing on the market for gold products, noting how these industry elements affect the power dynamics between actors in the organisational field of gold.

The premise is that power dynamics between actors along a commodity chain, as well as between these actors and their would-be regulators, depends in part on the complexity of the chain itself. The basic assumption here is that the more complex a chain, the more



coordination between diverse governing actors will be necessary to force change along the chain. In other words, traditional top-down regulation through the state is less likely, industry and civil society participation is more likely, and the chances for self-regulation by industry – along with other forms of non-state regulation – increases with this complexity. The dimensions considered include the number of jurisdictions and the mix of socio-economic environments involved along with the number of intermediaries and stages in the production process.

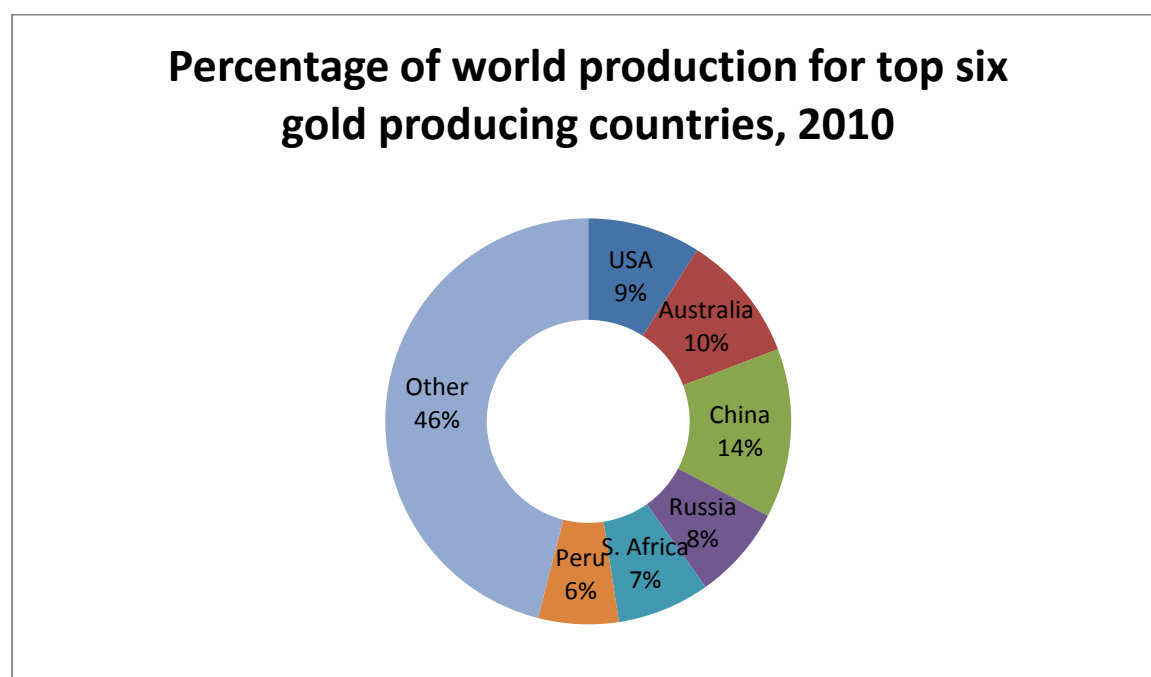
The number of jurisdictions will naturally affect which type of governance approach is utilised as the larger number of jurisdictions increases the need for coordination between the various actors. Governing bodies, especially the territorially-defined state, are limited in their reach. An obvious example is the international norm of state sovereignty, which often limits the willingness and ability of home governments to regulate their firms operating abroad.

Supply of gold comes from all corners of the world. Gold has been mined for thousands of years and today is mined on every continent save Antarctica, where there is an international moratorium on the practice (CRB, 2009). This offers the mining industry a certain amount of flexibility in choosing where to locate their operations, increasing their structural power relative to policy-makers.

Recall, there are two mining industries existing side by side, the often informal, ASM sector and the formal, LSM sector. The former includes mostly small, local operations, which will factor less prominently in this study, while the latter includes some of the largest corporations in the world. When Toronto-based Barrick Gold acquired Vancouver-based Placer Dome in early 2006 it became far and away the largest gold mining company in the world. In 2008, Barrick produced 238.3 tonnes of the stuff, with Nevada-based Newmont

Mining (161.8t) and London-based Anglo American (155.0t) a distant second and third, respectively (GFMS, 2009).

Geographically speaking, in 2010, China was the largest producer of gold with approximately 13.5% of the global total, compared to 10.2% for Australia, 9.0% from the US, 7.5% coming from Russia, South Africa being responsible for 7.3%, and Peru rounds out the top producers with 6.4% (US Geological Survey, 2012). The geographic dispersion of this precious metal is demonstrated by the fact that every continent is represented here (minus Antarctica). Together these top six producers account for about 54% of gold production; however, note that these countries account for about 35% of the world's landmass (CIA, 2012), which suggests that gold is not necessarily as concentrated within these countries as those figures initially seem to indicate.<sup>54</sup>



**Figure 1: Percentage of world production for top six gold producing countries, 2010 (data from US Geological Survey, Mineral Commodity Summaries, January 2012)**

<sup>54</sup> This correlation between gold production and landmass suggests gold is fairly evenly distributed around the globe, an observation strengthened by the fact that Indonesia and Canada are the next largest producers as well as two of the most geographically massive nations (US Geological Survey, 2012; CIA, 2012). This wide distribution makes gold largely immune to short-term shocks due to geo-political or weather driven supply risks often associated with other commodities (WGC, 2011, p.5).

Once the gold concentrate is separated from its environment at the mine, initial processing is usually done onsite or in close proximity to the source. The concentrate is cast into gold doré, a bar of approximately 90% purity with the remaining 10% being other metals, usually copper or silver. The gold doré moves from the mines to refiners and from the refiners to a metals exchange, bullion bank, bullion dealer, or straight to manufacturers. The chain can be quite simple or very complex, but usually extremely difficult to trace. Gold used in US jewellery is not necessarily mined in the US or even refined regionally. It is a truly global supply chain as the commodity is valuable enough to be shipped across multiple continents before reaching the end-user. Additionally, information on gold transport is very difficult to come by as it constitutes a severe security threat, not unlike shipping large amounts of cash (WGC, personal communication, July 18, 2012). The majority of jewellery fabrication takes place in East Asia and the Indian Sub-Continent (2008 figures show 579t and 557t, respectively) with lesser but significant industries in the Middle East, Turkey, Italy, other parts of Europe, North America, and throughout the world (GFMS, 2009).

So while mining operations are dispersed widely around the globe, the LSM industry is dominated by large, transnational corporations whose operations span the world and are not always regulated by their home or host governments. Additionally, the fabrication stages tend to be undertaken in regions with a wealth of affordable labour, but ones that are not known for their strict labour and environmental laws or their transparency regarding processes and working conditions.

The supply chain is further complicated by the many above ground sources. As a nearly indestructible metal, all the gold that has ever been mined still exists in various forms. This means the gold used in the manufacture of a gold ring could just as easily come from the gold mined by the ancient Egyptians as from a currently operating mine (WGC, 2011, p. 6). As of 2010, the *World Gold Council* (WGC) estimates that above ground stocks, the total

amount of gold that has been mined over the course of human history, is approximately 168,300 tonnes, 50% of which exists as jewellery (WGC, 2011, p. 7).

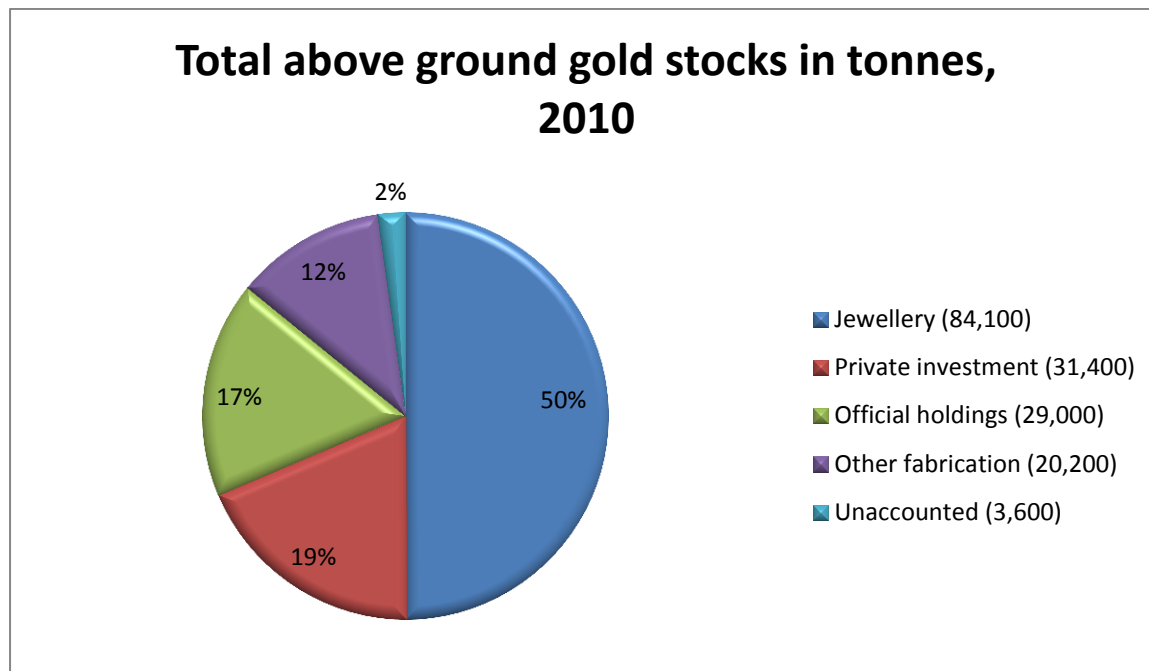


Figure 2: Total above ground gold stocks, 2010: 168,300 tonnes (estimates are from the World Gold Council and based on data from GFMS. Figure adapted from WGC, 2011, p. 7)

Jewellery, representing the dominant retail node in the global gold supply chain and accounting for a significant proportion of the demand for gold, is the focus of market-based NGO campaigns attempting to change practices along the chain. Therefore, the jewellery supply chain is the strand we are most interested in here.

Even when analytically isolated, the jewellery supply chain is geographically dispersed and extremely complex. While mining takes place in a fixed territorial location, the creation of a gold ring, for example, is the product of an international affair. The gold may be mined by a Canadian company in South Africa, where the ore is then shipped to a refiner in Dubai, after which the gold bullion is sold by a bullion bank to a gold dealer through the Shanghai Gold Exchange, who then ships it to a manufacturer in Thailand, where

it is converted to 18K, made into a ring in accordance with a standing order, and shipped to a gold retailer in the US (example adapted from Solomon & Nicholls, 2010, p. 6). Therefore, it is an industry that appears predisposed to the emergence of non-state regulation.

As the number of intermediaries increases so too does the social distance between production, consumption, and regulatory decisions up and down the chain. The fewer the intermediaries the more potential there should be for traditional, state-led regulation. Large numbers of intermediaries complicate the options available for regulation, which reinforces the need to locate the leverage points along the chain and introduce regulatory mechanisms strategically. By targeting the rule-setting node of a chain (e.g. key buyers in a buyer-driven chain), governing agents can change the incentives of the complex mélange of market actors up and down the entire chain. Therefore, to evaluate the potential for non-state regulation, we must examine the market for gold products in more detail.

## **CHARACTERISTICS OF THE MARKET FOR GOLD PRODUCTS**

The relative power between the industry actors along a commodity chain and the civil society actors who target them is influenced by the characteristics of the commodity itself as well as by the market for it. The vulnerability of an industry to non-state demands for increased social and environmental standards depends on more than simply targeting the retail node of a supply chain, but also varies with a number of product-specific factors, the most significant among them being the level of branding in the sector, the homogeneity and visibility of the end-use products, and the malleability of consumer demand.

*Level of branding in sector*

In order to leverage consumer pressure for increased social and environmental standards in an industry, civil society groups target the most branded node in the supply chain. Erika Sasser (2003), for example, posits that the more branded a firm is, the more likely it will be to accept some form of certification as it is more susceptible to shame tactics while also in a better position to reap the competitive benefits of product differentiation.<sup>55</sup> The existence of a branded node and where this node is located along the supply chain is unique to each industry, but naturally tends to be the consumer-facing product retailer. The level of branding along the majority of the gold supply chain is not high; consumers cannot distinguish between products. As a commodity, gold is judged by its purity and not by the brand name of its supplier. Although companies engaged in the extraction of gold are of a formidable size, they do not sell directly to the public and so do not have recognisable brands for their product. Therefore, with the exception of gaining local access to new deposits, mining companies do not need to be as concerned about their public image. However, they must still be concerned with the consumption choices of their clients downstream. End-use consumers may not be able to distinguish between products, but they can distinguish between sellers. As such, the level of branding at the retail end of the supply chain is, in fact, very high. As was the case in forestry, retailers are very concerned with their public image and, where possible and profitable, would like to source their products only from suppliers utilising best practices.

The market power of jewellers, and the potential political leverage available to activists that this represents, is limited by the unique characteristics of the market for gold.

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<sup>55</sup> Sasser determines that there are three significant variables in play in her study of certification evolution, namely, the concentration of the market for end-use products, the extent to which reputation amongst these firms is individual or shared, and the level of threat a firm faces from the NGOs that target them (Sasser, 2003). While the last element is more like our dependent variable here, the concentration of the market for end-use products is discussed in its own section below. A further hypothesis put forward by Sasser is that industries in which reputation is shared amongst competitors is more likely to opt for an industry-wide certification solution while an industry consisting of individual reputations should be expected to opt for individual forms of certification.

Gold differs from most goods as it does not necessarily operate according to conventional rules of supply and demand. In fact, it acts more like a currency than a regular commodity and the demand for gold as an investment instrument impacts the dynamics of the gold commodity chain in significant ways.

From driving imperial expansion to underpinning global finance, gold continually makes appearances throughout world history.<sup>56</sup> Considered a safe asset, gold remains a very popular investment asset in global financial markets. It first took on a formal monetary role in 1792 when the US adopted a bimetallic standard (along with silver) and continued to play a huge role in the global financial system until the US went off the formal gold standard in 1971 (CRB, 2009, p. 103). While gold no longer officially underpins the world's major currencies, states and other large institutional traders continue to hoard vast sums as a secure store of value. Gold's role as an important investment asset impacts upon the power dynamics amongst business actors and between business actors and outside regulators.

Gold is sold and held as bullion in some cases (usually by governments), but more often it is sold through futures and other financial instruments. By far the largest Over-The-Counter (OTC) market for gold is the London bullion market, overseen by the London Bullion Market Association (LBMA), which is itself overseen by the Bank of England. This is where central banks, miners, refiners, fabricators and other major players trade gold wholesale between one another. While London has been a significant trading centre for gold bullion since the 17<sup>th</sup> Century, it wasn't until the 1980s brought a rising gold price and a concomitant growth in the number and types of traders that the LBMA was formed in 1987 (LBMA, 2012).

Gold futures are sold across the globe with the biggest exchanges being in New York and Tokyo, on the New York Metals Exchange (NYMEX) and the Tokyo Commodity

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<sup>56</sup> For an enthralling history of the substance, see Bernstein, 2000.

Exchange (TOCOM), respectively. Other large exchanges include the Bolsa de Mercadorias (BM&F), the Chicago Mercantile Exchange (CME) Group, the Intercontinental Exchange (ICE), the Shanghai Futures Exchange (SHF), China's Dalian Commodity Exchange (DCE), the London Metals Exchange (LME), the Multi Commodity Exchange of India (MCX), and the Korea Futures Exchange (KOFEX) (CRB, 2009, p. 103; WGC, 2011, p. 8). Gold mining companies will often invest in futures to hedge against future price drops while some speculators will trade shares in gold mining companies as an alternative to futures contracts (Levinson, 2009).

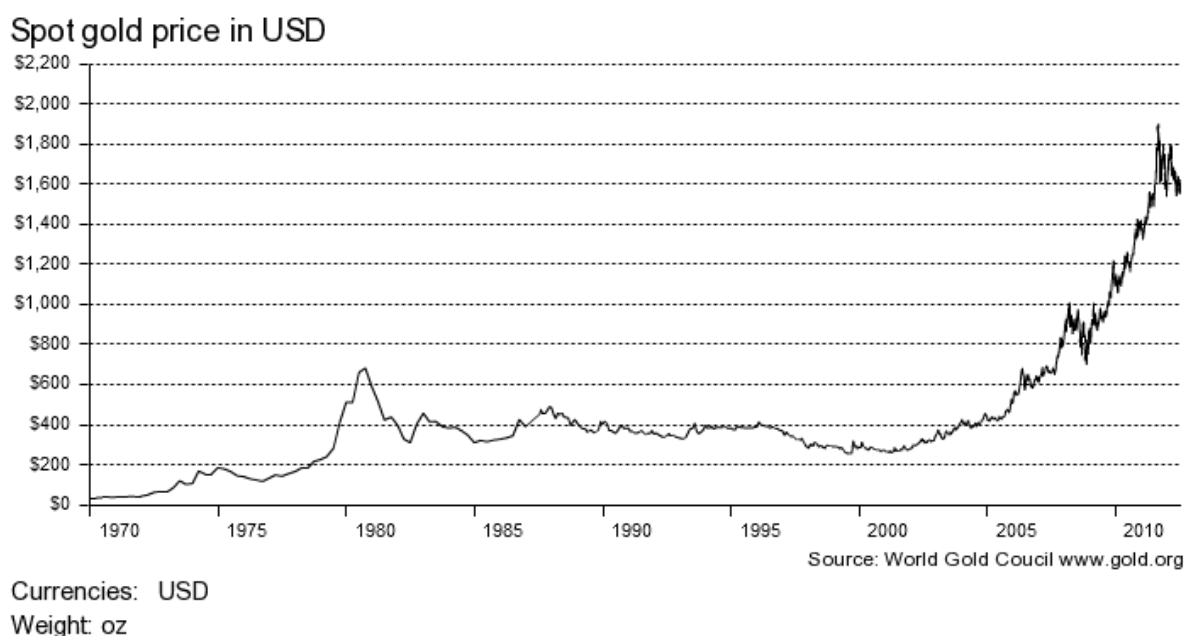


Figure 3: Graph showing spot price of gold from 1970 to present (World Gold Council website)

With the recent financial downturn, the gold price has reached record highs. While it was not that long ago when the US dollar was pegged to gold at USD 35 per ounce, the price has been hovering well above USD 1700 per ounce for some time now. This has had an effect on the flow of gold through the supply chain. The high price of gold from growing investment



demand, along with the negative impact the economic downturn has had on consumer spending, has led to a slump in fabrication demand and a surge in the scrap supply (GFMS, 2009, p. 7). This will be revisited throughout the analysis of the competitive forces driving market strategy in the jewellery industry.

### *Homogeneity and visibility of the end-use product*

Previous studies focused on direct-targeting campaigns have shown that the ability of civil society to exert pressure on corporate targets increases if this pressure is applied to the major users and most visible products at the most branded node of the supply chain, usually the retail node as it is consumer facing.<sup>57</sup> The unique characteristics of each industry will dictate to what extent this is possible. The more concentrated the market and the more visible the product, the easier it will be to focus the pressure for change (Sasser, 2003).

It seems that gold jewellery fits both of these criteria very well. While estimating the quantities and value of gold demanded by jewellery is difficult due to the fragmented and diffuse character of the industry, according to claims made by activists and echoed by media, the sector accounts for over 70% of newly-mined gold (NDG, n.d.), using approximately USD 82 billion worth of gold for jewellery fabrication in 2010 (DeMarco, 2011). So while demand is also geographically varied, it is largely concentrated in one product category: jewellery. Jewellery and the arts account for just over 70% of end-use gold demand while around 20% is destined for various industrial uses with electronics being the most prominent, and slightly less than 10% is earmarked for dentistry (NDG, 2012). This would make it incredibly efficient for civil society campaigns to target gold jewellers as they wield significant leverage within the gold supply chain.

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<sup>57</sup> See, for example, Klein, 1999; Gereffi et al., 2001; Bartley, 2003; Sasser, 2003; Schurman, 2004; Conroy, 2007.

However, these figures leave out the significant demand for gold as an investment asset. If we include demand for physical bars, coins, ETFs<sup>58</sup>, and official sector purchases, then jewellery accounts for less than half of worldwide demand for gold. It should be noted that investment in gold relative to other drivers of demand has increased as of late due to world economic instability and the attendant rise in the price of gold, which is obviously self-fulfilling. Despite shifting relative demand and the quantification of this demand, however one chooses to measure it, jewellery remains the single most significant driver and by far the most significant end use product category.

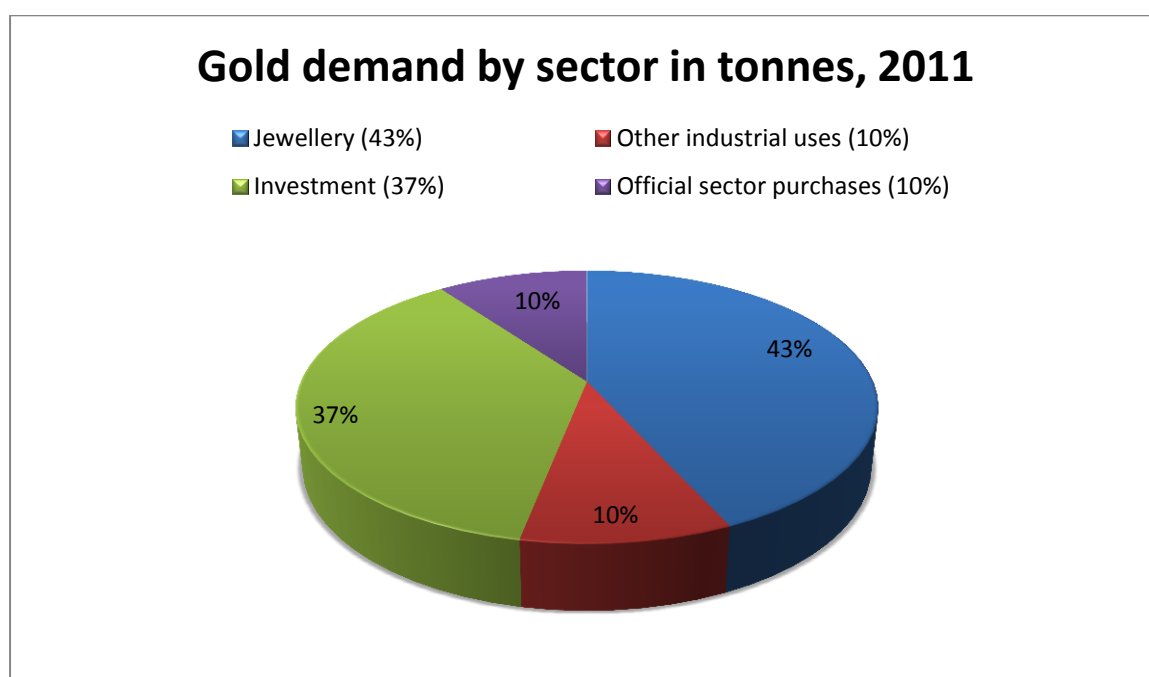


Figure 4: Gold demand by sector in tonnes, 2011 (based on data from LBMA, Thomson Reuters GFMS, and World Gold Council)

<sup>58</sup> ETF stands for 'exchange-traded fund' and is an investment asset linked to stocks, bonds or commodities – in this case, gold. These are also sometimes referred to as ETCs (exchange-traded commodities) and are backed by either physical reserves of the commodity or by commodity futures. Gold has been traded in the form of ETFs on the London Bullion Market since 2003 (LBMA, 2012).

	2010	2011
Jewellery	2,016.8	1,972.9
Other industrial	465.6	452.7
Investment	1,577.8	1,686.4
Official sector purchases	77.3	456.4
Total gold demand	4,137.5	4,568.5
London PM fix (USD/oz)	1,224.5	1,571.5

Table 4: Gold demand by sector in tonnes, 2010-2011 (data from LBMA, Thomson Reuters GFMS, and World Gold Council. Table adapted from WGC, 2012c)

Naturally, the gold in gold jewellery is a highly visible input as there are few products more visible than adornment. In comparison, the gold employed in the circuits of electronic equipment constitutes a much smaller share of the market for gold and is much less visible to consumers. Additionally, gold jewellery, especially engagement rings, are socially endowed with an emotive element, making the product category exceedingly vulnerable to shaming tactics. Therefore, it is a far more potent tactic to target gold jewellery retailers than it is to target the electronics industry.

However, the jewellery industry itself is highly fragmented, with the US market alone composed of about 28,000 specialty stores, although the top 50 chains account for almost half of sales and consolidation of large retailers appears to be increasing (Hoovers, 2011). The thousands of small, independently operated designers or retailers are not directly targeted by the NDG campaign and are generally far less active in the politics of gold. Additionally, there are multiple categories of jewellery with diamond jewellery accounting for the greatest portion of the over USD 60 billion in sales for the US market, leaving the karot gold category

with just under 10% of this figure (IDEX, 2011). Despite the fragmented nature of the industry, gold jewellery remains a potent leverage point for activist campaigns.

### *Malleability of consumer demand*

A prerequisite for creating credible consumer pressure on an industry is the ability to alter consumer demand, which means there must be substitutes available that consumers are willing and able to switch their purchasing decisions toward. Cashore and Bernstein (2000) identified the malleability of consumer demand as one of three variables that determine the ability of international campaigns to influence domestic public policy (see also Wilson 2003).<sup>59</sup> As discussed, gold is a popular investment commodity with investment largely done by buying stakes in existing gold reserves or sometimes in mining companies themselves. So while a huge proportion of newly-mined gold is destined for jewellery, its status as a safe financial asset can be expected to prop up its value to investors regardless of image and end-use consumer preference

There are competing products for this newly mined gold in the form of recycled gold or other precious metals, platinum for example, which some environmentally conscious consumers have opted for (Johnson, 2006). However, gold maintains a fairly solid foundation as a cultural item in most parts of the world (Larmer, 2009) so we can expect its market to be more robust than many other luxury items, such as fur and diamonds. In addition to recycled gold – of which there is a limited supply – the market for gold jewellery remains susceptible if consumers can substitute responsibly sourced gold for ‘dirty gold’, which is possible if competing companies can guarantee better practices along the supply chain. Note that this substitution strategy relies on both an ability to differentiate between sellers and an ability to

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<sup>59</sup> The remaining two variables are reliance on foreign markets and likelihood pressure can be maintained, the first of which is less relevant to our purposes here while the second is a function the industry characteristics laid out in this section and NGO resources.

substantiate the claims made by responsible jewellers, which depends on branding and traceability, respectively (more on this later).

Luxury goods, by definition, are non-essential items and are therefore very elastic. Their value to consumers is based on wants, not needs. Therefore, when we consider the market for gold jewellery, image is everything. This makes jewellers very reliant on people's perception of their product and they only need recall the results of sustained campaigns against fur products to remind themselves of the precarious position of luxury items. 'We wanted to confront issues in a proactive way,' explained Matthew Runci, president of *Jewelers of America*, 'We in the luxury goods sector have to work very hard at holding the public's trust because even though the things we sell are very desirable, they are, after all, not essential commodities for life... So we said, "Listen, before we've got fires burning all around us, let's sit down and try to sort this thing out"' (Patterson, 2006). This is a prime example of a specific cross-section of the gold commodity chain finding its structural power severely eroded and responding by applying their instrumental power, by rallying an industry-led response, to rectify the shift.

In addition to the availability of substitutes, the socio-economic and cultural environment in which the market is located will also have an effect on the policy leverage available. For gold, consumer leverage is located where the money is and so, for example, targeting commercial banks (e.g. the Rainforest Action Network's Global Finance Campaign) and retailers (e.g. the NDG campaign) in developed countries has proven far more effective than targeting developing country institutions. This is one of the reasons why consumer campaigns in the gold supply chain have focused not only on jewellery, but on the US jewellery market. However, while the US is the largest developed country market for jewellery, it is not the largest market for gold. In fact, the US and EU markets together appear

to only account for just under 10% of world demand for gold destined for jewellery (WGC, 2012c).

The cultural significance of the substance is high in all corners of the world, particularly so in India and China. In India, for example, gold passed down through families acts as an important financial security instrument, especially for women. So much so that major banks in the country accept jewellery as collateral for short-term loans, a practice that has been going on for generations, and a practice that some commercial banks were recently legislated to continue (Larmer, 2009, p. 58). The cultural differences between markets is significant as the three biggest markets – India (746t), China (400t), and the US (129t) – offer very different state and non-state regulatory environments, reflecting the political leverage available for operators and would-be regulators.

China and India are by far the two largest markets for gold jewellery and their combined buying power should reduce the market power of US jewellers and, in effect, the potential policy leverage of activists over mining practices. The Chinese market, for example, is very different than the US or EU markets in that the mark-ups for adornment are not there. In other words, the market for jewellery is less based on emotive marketing and more closely linked to investment. Jewellery is bought by the gram and prices reflect the quality and weight; there are much smaller mark-ups for design and branding (WGC, personal communication, July 18, 2012). This clearly translates into little chance for activist shaming tactics to work in Asian markets and a reduced leverage of the campaigns in the US and EU markets because of this safety valve for suppliers. However, the Chinese market is supplied in large part by Chinese firms, often owned at least in part by the Chinese Government, using variable environmental and social standards while remaining insulated from activist pressure outside its borders (WGC, personal communication, July 18, 2012). So while activist pressure may not have much of an effect on the mining practices within China, the consumer market

there may not reduce the leverage of transnational activists as much as it would have without this domestic Chinese supply.

When we consider the large and rising demand for gold jewellery in Asia, the observation that activist pressure appears to only really find traction in the US and EU markets, and the fact that jewellery accounts for a decreasing proportion of the world demand for gold, our estimation of the market leverage activists can manage through targeting jewellers must be tempered.

## **EMERGING NON-STATE GOVERNANCE LANDSCAPE OF GOLD**

Despite the very intangible nature of the leverage activists are able to bring to bear on the mining companies themselves, the reputational threat to jewellers has led the industry to respond. There are a number of emerging non-state institutions along the gold commodity chain that seek the legitimacy necessary to alter industry practices in line with their evolving standards. Competing or complementary, the jewellery industry has become awash with private codes and certifications emanating from activists, industry groups, and multi-stakeholder initiatives. A quick look at the governance initiatives pertaining to the jewellery industry makes this immediately apparent (see appendix A).

### *First-party initiatives*

Individual companies have their own sourcing strategies, whether it be only buying gold from certain certified sources or whether they achieve chain-of-custody assurances through vertical integration (e.g. *Bario Neal* only buys recycled gold while *Tiffany & Co.* only sources gold from the Bingham Canyon mine) (Solomon & Nicholls, 2010, p. 8). Some jewellery traders

have established their own label (e.g. *Open Source Minerals* and the *Jeweltree Foundation* administer the ‘Wishes Jewels’ label) while retailers are also getting in the act (e.g. *Leber Jeweler Inc.* has ‘Earthwise Jewelry’ and *Wal-Mart* now has its ‘Love, Earth’ line) (Solomon & Nicholls, 2010, p. 9).

Activists from the NDG campaign have provided a ready-made set of assurances that, for all intents and purposes, constitute an activist-endorsed first-party commitment for companies to sign on to. As we have seen, the NDG campaign targets corporations directly, using shame tactics in an attempt to persuade them to sign on to the *Golden Rules*, a set of voluntary standards that signatories agree to abide by.

### **The No Dirty Gold campaign’s Golden Rules**

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- Respect basic human rights as outlined in international conventions and laws;
- Obtain the free, prior and informed consent of impacted communities;
- Respect workers’ rights and labor standards including safety;
- Not operating in areas of armed or militarized conflict;
- Not forcing communities off their lands;
- Not using water bodies or streams for mine waste or tailings;
- Not operating in fragile ecosystems, protected areas, or other places of high conservation or ecological value;
- Not polluting water, soil or air with acid drainage or other toxic chemicals;
- Paying all costs of closure and reclamation of mine sites;
- Allowing independent verification audits.

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**Table 5: No Dirty Gold *Golden Rules* (adapted from the NDG website at [nodirtygold.org](http://nodirtygold.org))**



This initiative continues to gain the support, if sometimes grudgingly, of firms within the industry. As the relative weight of signatories versus non-signatories continues to increase (there are over 70 corporate signatories) and each signatory works toward streamlining their practices to match the expectation of the *Golden Rules*, an increasingly robust regime takes shape.

### *Second-party initiatives*

The *World Gold Council* (WGC) is the market development organisation for the gold industry, based in London, and representing the interests of LSM. It is an industry association with a membership boasting the world's leading gold mining companies. The WGC has taken the lead in developing the most comprehensive *Conflict-Free Gold Standard* to eradicate gold mined by armed groups in the DRC from the mainstream gold supply chain (WGC, 2012b). Although they have engaged with actors from all spheres of social activity, inviting feedback from governments, NGOs, business actors along the supply chain, investors, academics, and industry groups, it remains a second-party certification as the standards were not developed through a true multi-stakeholder initiative. However, despite lacking some input legitimacy, the standards appear quite comprehensive and are a significant advancement toward tracking gold along its supply chain. However, the WGC standard only traces the material from the mine source to the refiner's door. It is then that the product chains-of-custody take over and contribute to the gradually growing web-of-custody accounting for the metal at different stages in production. It is also important to note that this standard is to eradicate 'conflict gold' from the supply chain, it is not meant to account for environmental or social issues beyond that.

There are a few product specific certifications that take over from there. The *Global e-Sustainability Initiative* (GeSI) for the electronics industry and the *Responsible Jewellery Council* (RJC) for the jewellery industry are two of the most prominent examples. Both are industry associations that have taken on the task of tracing input material through their respective industry supply chains to account for not just ‘conflict’ minerals and metals, but to also provide assurances regarding wider environmental and social practices. While the GeSI initiative is another very interesting case, the focus here remains on gold jewellery.

The RJC is a not-for-profit organisation formed in 2005 by 14 members of the business community representing all stages of the jewellery supply chain. Its raison d’être is to counter the threat posed by increased scrutiny of industry practices and to differentiate its members from the less scrupulous competitors in the industry. The mission statement is: ‘To advance responsible ethical, social and environmental practices, which respect human rights, throughout the diamond, gold and platinum group metals jewellery supply chain, from mine to retail’ (RJC, 2012). RJC membership requires signatories to abide by the RJC ‘Code of Practices’, a general set of industry best practices covering business ethics, human rights, environmental performance, and management systems. With a membership of 360 and growing, the norms and rules enshrined in the ‘Code of Practices’ are quickly becoming the benchmark for the industry (RJC, 2012). While the RJC trains and accredits third-party audits to verify their members’ compliance with the standards, they are still considered a second-party certification here as they set their own rules and maintain control over the results of monitoring and compliance. In other words, they do have third-party audits by both accounting firms and environmental auditing firms, whom they certify themselves, but the results are handled internally and not published (Rio Tinto, personal communication, August 7, 2011). They have recently added a voluntary ‘Chain of Custody’ standard for its members, defining the requirements for systems to trace materials through the firm’s supply chain,

including systems for sourcing, segregating, and transferring eligible jewellery materials (RJC, 2012). Additionally, the RJC is continuously improving its transparency, is incorporating independent (non-industry) Directors into its Board and, reflecting these changes, has become a recognised standards-setting body by the ISEAL Alliance, a group that certifies certifiers (RJC, 2012; ISEAL, 2012). So there is a definite evolution taking place with the organisation as they ratchet-up their standards in the face of continuous scrutiny from both civil society and, especially, from the ethical jewellers who remain outside the RJC system. This will be explored in more detail in the next chapter.

### *Third-party initiatives*

The *Initiative for Responsible Mining Assurance* (IRMA) is a true multi-stakeholder initiative spawned from a 2006 Vancouver meeting involving key players from industry and civil society that produced the ‘Framework for Responsible Mining’, pledging to work toward a third-party certification for mines. The original steering committee included representatives from mining companies, from civil society (including *Earthworks*), and from jewellery retailers (including *Wal-Mart*, the RJC, and *Tiffany*). The mission is ‘[t]o develop a multi-stakeholder generated and supported assurance program for environmentally and socially responsible mining that:

- is independently verifiable;
- ensures the fair and equitable distribution of benefits to communities (including First Nations and indigenous people), while respecting and protecting their rights;
- responds effectively to potentially negative impacts to the environment, health, safety, and culture;

- enhances shareholder value<sup>60</sup>

IRMA is not yet up and running and it seems that many in the industry had given up on it. However, as a multi-stakeholder initiative seeking wide representation at every stage of development, IRMA is proving to be a complex, sometimes tedious and, hopefully, worthwhile endeavour. From the very beginning, the architects of the initiative have consulted with the experienced contributors to existing third-party certifications in other industries, such as, the FSC; in fact, they were told to expect it to take about ten years before it would be operational (NDG, personal communication, April 24, 2012). They are currently at the six year mark and, therefore, right on schedule.

There are also third-party certified options currently available in the form of *Fairtrade Fairmined Gold* (FT/FM), although the quantities being supplied at this point can only really supply a niche market. Developed by the *Alliance for Responsible Mining* (ARM) and *Fairtrade International* (FLO)<sup>61</sup>, the FT/FM certification ensures high environmental and social standards, benefitting ASM miners by guaranteeing a minimum price and a premium paid to contribute to the development of the mining community from which the gold originated. The standards relate to the elimination of child labour, respect for women miners' rights, worker safety and environmental practices, formal organisation of miners, and living conditions in the community – all of which are monitored through audits by *Flo-Cert*, the certifying arm of FLO (Fraser, 2011). As it applies only to ASM mining, and only those communities that have applied for and been granted the right to use the label, the supply of FT/FM labelled gold is very small and constitutes probably less than 1% of the gold supplied for jewellery (Industry analyst, personal communication, November 22, 2011). However, it is

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<sup>60</sup> More information about IRMA is available at [responsiblemining.net](http://responsiblemining.net). You can also view part of the framework draft developed in Vancouver at the International Mining (n.d.) website : <http://corporate.im-mining.com/Articles/TheInitiativeforResponsibleMiningAssurance.asp>

<sup>61</sup> *Fairtrade International* was formerly the *Fair Labour Organisation*.

an important and growing initiative that benefits the local mining community and environment directly, making it a first-rate, third-party standard.

Although we can't know at this point how these systems will develop and if they will compete for credibility or somehow fit together and complement one another, we can be fairly certain of two things – the building of an environmental and social responsibility regime for the jewellery industry (and, by extension, the gold industry) will continue its movement toward formalising explicit rules and norms as they evolve; and, the political mobilisation of individual firms will play a large role in this evolution.

## CONCLUSION

This chapter marked the beginning to the empirical portion of the thesis and serves as an introduction to the global political economy of gold production and consumption. It began by outlining the importance of gold mining and its legacy, both positive and negative. The environmental impacts of gold mining are particularly impactful as it demands the use of large amounts of resources, both sources and sinks. On the social front, it is also difficult to overstate its impact. The industry plays a lead role in development and, many would argue, underdevelopment. No matter which way one looks at it, the stakes are very high. The impacts, both environmental and social, depend in large part on the practices employed which, in turn, often reflect the quality of regulation in place.

Global commodity chains, such as that of gold, are notoriously difficult to regulate. The chapter detailed the ways in which the structure of commodity chains affects the power dynamics between actors along the chain, both amongst industry practitioners and between these practitioners and regulators. The global scope of the gold commodity chain creates new

challenges, but also new opportunities, for regulatory interventions. But, to grasp the opportunities for and limitations of different regulatory initiatives requires a deep knowledge of the economic geography of the chain.

The activists from civil society who are interested in changing practices at the extraction node of these chains find the weak link at the retail node and rely on market-driven responses to ripple upstream to the mining companies. While the complexity of the commodity chain and that of the market for gold products limits the leverage of gold jewellers, activists have still managed to politicise the industry, fracturing the structural forces that maintained the status quo by introducing conflict into the equation. While this crisis created by activists has resulted in the political mobilisation of jewellers, the private initiatives that have emerged are quite diverse. While industry-level analyses are effective in answering why, where, and how direct-targeting can lead to changes in industry practice, they cannot account for differences in how targeted firms respond to the pressure or what the consequences of their various responses might be. This requires a firm-level examination, which is undertaken in the following three case chapters focused on ethical, specialty, and diversified jewellers, respectively.

## CHAPTER 4 – ETHICAL JEWELLERS

### INTRODUCTION

It seems appropriate to begin the case analysis portion of the thesis with those companies that practice the most overt form of political mobilisation in markets, the ethical jewellers. As with the jewellery industry as a whole, the ethical jewellery market is fairly fragmented. However, the case of the ethical jewellers stands out from the other cases in that their business models were built to become political entities operating within markets. While some existed pre-campaign, others were created afterwards, but all can be seen as colonising the political spaces created from the crisis that activists triggered. Therefore, the opportunities and constraints self-proclaimed ethical jewellers face are significantly different from those of specialist and diversified retailers, who were operating conventional company models in the pre-politicized market. However, as we attempt to explain the causes and consequences of variation in the responses of business actors to civil society contestation, what better way to start than with ‘the gold standard’ of politically active firms along the gold commodity chain, the ethical jeweller.

The chapter begins by revisiting the expectations of the IOS model regarding the response of ethical jewellers to the politicisation of the market. After a quick evaluation of these expectations against the patterns of firm responses within the ethical firm category, the chapter focuses in on *Brilliant Earth* as perhaps the most prominent ethical jeweller in the US market. Because the ways in which firms mobilise politically will certainly be informed by past experience and institutional learning, the chapter starts by offering a brief profile of the company and then traces the historical pattern of the firm’s interaction with civil society across issue areas. This is followed by an analysis of the on-going interaction of the firm and the activists concentrating on the issue of ‘dirty gold’, beginning with the initial crisis

moment when the market becomes politicised and tracing this history through the firm's multidimensional response. While this particular company was launched around the same time as the NDG campaign itself, its early efforts seem to be informed more by the 'conflict diamonds' controversy than 'dirty gold'.

The chapter continues with a close up look at the opportunities these institutional entrepreneurs faced when mobilising politically, evaluating the IOS model's ability to account for the firm's response. The results empirically demonstrate the ways in which firm political power and political strategies vary according to economic and institutional structures within which decision-makers are embedded. It shows how business actors from *Brilliant Earth* and other ethical jewellers filled the gap that activists created, aligning the interests of their firms with the new direction of market forces. The final section focuses on the ability of business actors to shape their institutional landscape both inside and outside the firm, mobilising the instrumental power of the firm for the task. It seems that the more politicised the market becomes, through the combined actions of the activists and the ethical jewellers themselves, the more the opportunity window for future political mobilisation expands.

## IOS PROFILE AND EXPECTATIONS FOR ETHICAL JEWELLERS

Economic dimensions	Institutional dimensions
<p><b>Exposure to risk</b></p> <p>Level of branding – <i>High</i> Reliance on product – <i>High</i></p>	<p><b>Corporate culture</b></p> <p>CSR artefacts – <i>Strong</i> CSR espoused beliefs – <i>Strong</i></p>
<p><b>Cost of compliance</b></p> <p>Complexity of supply – <i>Low</i> Price sensitivity of consumers – <i>Low</i></p>	<p><b>Leadership structure</b></p> <p>Ownership structure – <i>Private</i> Position of institutional entrepreneurs – <i>Owners</i></p>

Table 6: IOS profile for ethical jewellers



Almost by definition, the generic ethical jeweller profile suggests that these jewellers should opt for the highest standards available, which are generally third-party initiatives. While this would hardly be surprising, the ethical jewellery case offers a great example of proactive political action originating in the private sector. Clearly the exposure to risk element works a little differently for these jewellers, as instead of signifying an opportunity to mobilise politically, it acts as more of an opportunity to stay mobilised – and to implement the highest standards available. The risk for these jewellers really emanates from the possibility that mainstream jewellers would implement the same standards and erode their product differentiation, an event that most of these political actors would none-the-less probably welcome. Overall, we should expect to see active engagement with the issues surrounding ‘dirty gold’ and cooperation with civil society actors in advocacy and institution-building.

**EXPECTATION: HIGH LEVEL OF ENGAGEMENT AND VERY STRONG COMMITMENTS**

	No Dirty Gold (NDG)	Second-party (RJC)	Third-party (FT/FM)
Bario Neal	✓	✗	✗
Brilliant Earth	✓	✗	✓
Cred (UK)	✓	✗	✓
Fifi Bijoux (UK)	✓	✗	✓
Leber	✓	✗	✓
Reflective Images	✓	✗	✓

Table 7: Profile of non-state initiatives for ethical jewellers

While it is a very small sample size, the ethical jewellers unsurprisingly meet our expectations of adhering to the most robust private regulatory initiatives. The only outlier in this group is Philadelphia’s *Bario Neal*, but only to the extent that they utilise 100% recycled

metals and have not incorporated the very new, third-party sources.<sup>62</sup> Interestingly, but perhaps also not surprisingly, none of the ethical jewellers have opted for the industry-led RJC certification. This is because, from those I have spoken with, they either feel it is too weak or because they would like to maintain their product differentiation, or both.<sup>63</sup> Instead of signing onto the RJC certification, ethical jewellers claim their place atop the ethical jewellery pyramid through sourcing only recycled or, increasingly, FT/FM-certified ASM gold. They uphold the seemingly highest standards for sourcing and, in fact, one could argue that this market demands that there are ‘less-ethical’ jewellers in existence for their business model to effectively differentiate themselves from. The details will be investigated during an in-depth look at one of the largest US-based ethical firms, *Brilliant Earth*.

## COMPANY PROFILE – BRILLIANT EARTH

*Brilliant Earth* is a small, specialty jeweller focused on providing ethical jewellery and operating primarily in the US market. They are a ‘for-profit, social enterprise’ in that they were founded with a social mission, donate a percentage of their resources and proceeds to fund this mission, but are otherwise run as a profit-making entity (Yee, 2007). Their offerings include coloured gemstone, diamond, sapphire, and pearl jewellery in the form of engagement rings, earrings, pendants, and custom designs.

*Brilliant Earth* is located in downtown San Francisco at the corner of O’Farrell and Grant near Union Square. Their showroom is open to the public while much of their jewellery is sold online through their elaborate website, complete with virtual appointments via a live chat function for distant customers.

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<sup>62</sup> They are also participating in the *Madison Dialogue*, source their diamonds from Canada, and source some of their precious gemstones from the Tanzania Women Miner’s Association mining cooperative (Barrio Neal, 2012).

<sup>63</sup> Ethical jeweller, personal communication, August 1, 2011; Ethical jeweller, personal communication, October 10, 2011; Ethical jeweller, personal communication, August 8, 2012.

### *Company history*

*Brilliant Earth* was founded in 2005 by two Stanford business students, Beth Gerstein and Eric Grossberg. Eric's research at *Stanford Business School* involved looking for solutions to the issue of conflict diamonds while Beth's fiancé, Alex, was looking for an ethical option for an engagement ring. When such a ring proved elusive, Beth and Eric co-founded the company with the idea of filling this gap in the market. The company began with its social mission intact, to supply responsibly-sourced jewellery and use the business as a tool to push for change within the industry.

### *How jewellery fits into their business model*

In past interviews, Beth Gerstein has spoken about the difficulties they faced in entering the jewellery market as one of the first ethical jewellers in the US market: '[Fine jewellery] is a trust-driven business. There are lots of family businesses with relationships going back a very long time. You would think that if you want to retail their products companies would be happy to work with you' (Gerstein, 2008). However, as an overtly political company, many in this long-established industry were sceptical. 'We were asking questions that they weren't used to. We have certain specs and parameters we want our suppliers to meet. We only want manufacturers that use recycled platinum and gold' (Gerstein, 2008). Since then, the company has expanded its sourcing criteria to include certified gold originating from specific sites of ASM extraction, but the difficulty in finding and maintaining sources of gold within these strict parameters remains challenging. Their recycled gold obviously comes from secondary sources such as jewellery items and industrial products while their fair trade gold comes from specific mining cooperatives in the Chocó region of Colombia.

Additionally, *Brilliant Earth* depends on the availability of ‘ethical’ diamonds, most of which come from the *Ekati* and *Diavik* mines in the Northwest Territories, Canada. They have diversified their suppliers to now include mines in Namibia and, most recently, Botswana. As far as their diamond supply goes, the company sources these stones from mines that supply local cutting and polishing, increasing the value adding opportunities in these mining communities (Ethical jeweller, personal communication, October 10, 2011). They employ their own gemologists and designers, with manufacturing taking place in the United States where labour standards can be easily monitored and the company’s production facilities utilise the highest environmental technologies to keep the impact of manufacturing low (Brilliant Earth, 2012b).

## **HISTORY OF INTERACTION WITH CIVIL SOCIETY – FILLING THE GAP**

### *Conflict free diamonds*

The company was launched to provide jewellery to consumers that wanted to purchase products that were harvested using best practices. They did so by originally offering only Canadian diamonds in settings made from recycled metals, including gold (Ethical jeweller, personal communication, October 10, 2011). This reflects not only the political issues surrounding gold, but also the high profile battles waged to eradicate ‘conflict diamonds’ from jewellery supply chains. Diamonds were the source of the initial politicisation of the jewellery market and this constituted a significant learning experience for many jewellers later involved in the politics of gold. As such, understanding the history of conflict diamonds is vital background information for any thorough investigation into the politics of gold.

In the late 1990s, the issue of conflict diamonds was gaining prominence. ‘Conflict diamonds’ (also known as ‘blood diamonds’) was the name attributed to diamonds taken

from alluvial deposits in African conflict zones, notably Angola and Sierra Leone (see, for example, Global Witness, 2000; Smillie, Gberie & Hazleton, 2001; Le Billon, 2008). They were labelled as such due to the role these diamonds played in funding the brutal campaigns against local populations by armed military groups with kidnappings and forced labour in the mines commonplace. While the conflict diamonds story is well-documented elsewhere, it is worth briefly revisiting here as it has played a major role in reshaping the institutional dynamics of the jewellery industry.

In 1999, human rights groups, such as *Amnesty International* and *Global Witness*, began a movement to eradicate ‘conflict diamonds’ from the global supply chain. These groups took the lead in garnering the necessary publicity to force an industry response. Initially caught off guard by the crisis, in July 2000, the industry formed the *World Diamond Council* (WDC) with the goal of eliminating conflict diamonds from the global supply chain (WDC, n.d.). Governments became involved through the *United Nations* with a resolution to establish an official certification scheme for diamonds to track them through their supply chain from retail back to the mine. The activist pressure drove the process forward and, by 2002, a joint government-industry program was in place to control the cross-border trade in diamonds. The now familiar *Kimberley Process Certification Scheme* (KPCS) compels diamond traders to track their supplies via ‘certificates of origin’ that must accompany the diamonds through the supply chain. Participants are subject to audits and monitoring while legislation was introduced to tackle noncompliance. The KPCS remains a work in progress and certainly has its share of critics – including sharp words from one of its key architects, Ian Smillie from *Partnership Africa Canada* who recently cast a vote of ‘no confidence’ and quit the scheme in protest (Hildebrandt, 2009). Despite the salient criticisms of the KPCS, the

campaign to spark the movement has, until recently, been generally hailed as a success.<sup>64</sup> Most importantly for the analysis here, it served as a lesson to industry leaders with many swearing that they would not be caught out again.

### *Why Canadian diamonds?*

Canadian diamonds were the obvious answer for a company looking to avoid the egregious conditions under which some diamonds were being mined around the world. When these issues were coming to light, large supplies of Canadian diamonds were not yet available. From the late 1990s, large diamond projects in the Northern region of Canada began producing high quality and ‘conflict free’ diamonds, claims the Canadian diamond industry was happy to confirm. The mines are operated through partnerships that include three of the largest mining companies in the world, namely, *Rio Tinto*, *BHP Billiton*, and *DeBeers*. They utilise best practices on the ground, with Canadian social and environmental laws being some of the strictest in the world.<sup>65</sup> Interestingly, *Brilliant Earth* only sources from two of the three major diamond mines in the Northwest Territories, purposely avoiding the one operated by *DeBeers* while making it clear that this is due to the company’s practices, past and present (Brilliant Earth, 2012a).

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<sup>64</sup> Global Witness has voiced serious concerns over the KPCS’s unwillingness to take on broader human rights issues and its inability to take effective action without an independent technical capacity and more efficient decision-making process (see <http://www.globalwitness.org/library/global-witness-leaves-kimberley-process-calls-diamond-trade-be-held-accountable/> for more information on their stance).

<sup>65</sup> In the Canadian system, the Government of the Northwest Territories – the regional government in which the mining takes place – does not have the rights enshrined in the Canadian Constitution that allows full-fledged provinces rights over natural resources. Instead, the Government of Canada owns the mineral rights and negotiates the environmental impact agreements with the mining companies directly, leaving only the socio-economic impacts within the jurisdiction of the territorial government. While payments by the mining companies find their way directly to Ottawa, some of the value makes its way back to the local communities through transfer agreements with the Federal Government and socio-economic agreements with the local government and aboriginal authorities. Despite this quirk in the Canadian political system, the legal framework in place assures buyers of Canadian diamonds that best practices are being employed and the local community benefits from extraction of the resource.

### *Incorporating diamonds from Namibia and Botswana*

The major downside of sourcing diamonds exclusively from Canada is that it denies many poor communities in Africa a vital source of income. One of the significant, albeit unintentional, effects of the ‘conflict diamonds’ campaign was that companies became nervous about doing business in Africa, lest they become tainted by the activist accounts. While ‘conflict diamonds’ originated from specific regions of Africa, public opinion often acts as a blunt force and the rest of Africa was quickly implicated. The result was that some companies began switching their sourcing from the continent, resulting in a transfer of resource opportunity from developing to developed countries.

Once the company identified responsible practices on the ground in Africa, namely, in Namibia and Botswana, it incorporated diamonds sourced from these regions into its supply chain. The company boasts that the diamonds originating in Namibia are also sourced in a socially and responsible manner and contribute to the development of the local community by adding value locally through cutting and polishing activities that allow the immediate region surrounding the mines to capture a larger share of the diamond wealth (Grossberg, 2010). Additionally, the company maintains funding programs, such as its *Diamonds for Africa* initiative, which funds programs to reduce child labour in the DRC and to create local diamond processing facilities in Madagascar (Grossberg, 2010).

### **BRILLIANT EARTH, A RESPONSE TO ‘DIRTY GOLD’**

To recap, there seem to be two main factors that lead to a company taking significant steps toward changing policies to meet demands for social and ecological governance. The first is a crisis moment – something that shakes the status quo and changes how the company perceives the market landscape. This leads to a response based on pragmatism, where new

market forces push changes in strategy and policy. The second factor is leadership – there is a person or people involved, willing and able to become the champion for change. While individual agency is certainly a factor, there are structural factors that will facilitate or inhibit latent leaders from becoming institutional entrepreneurs, namely, their interpretation of the issue and their ability to push change through the organisation. Evaluating the causal links between these factors and changing policies is difficult in practice, but both market-driven pragmatism and institutionally-driven leadership are clearly visible in all three cases and is therefore the focal point of the case chapters.

Crises in markets, created by activists, are reminiscent of the external shocks that, Neil Fligstein (1990) argues, are necessary to dislodge the status quo. As alluded to earlier, one of the core insights of organisational sociology is that organisational structures tend not to change unless acted upon by innovation, corporate challengers, or external shocks that force responses from managers of lead firms who otherwise would have little incentive to veer from the status quo (Fligstein, 1990). This thesis argues that such external shocks create an incentive, but also an opportunity for business actors to mobilise the resources of their firm for political purposes. In other words, even if managers wanted to implement social and environmental policies pre-campaign, the structural forces in markets dissuade them from spending the resources necessary to do so. And, in the case of ethical jewellers, the market for their products barely existed in the US before the jewellery market was politicised, and even still only accounts for approximately 1% of the market (GFMS, 2008).

*Brilliant Earth* was not operating at the time the NDG campaign was launched. At the time there was very limited consumer demand for ethical jewellery and there were already a couple of companies catering to this demand, for example, *Reflective Images* in the US and *CRED* in the UK. While information about the social and environmental issues associated with the jewellery supply chain were being circulated through some media sources, the



founders of *Brilliant Earth* felt there was not only a gap in the market, but also an opportunity to increase demand through education and awareness campaigns.

Therefore, the company knew of the NDG campaign before they had even launched the company and have continued to interact with the activists in various forums since (Ethical Jeweller, personal communication, October 10, 2011). Much of the information provided on the *Brilliant Earth* website links directly to reports conducted by the environmental groups themselves (Brilliant Earth, 2011). In fact, the much more visible bone of contention seems to be between the company and industry groups, evidenced by the recently heated exchange between the WDC and *Brilliant Earth* over their divergent public positions on what constitutes a ‘conflict diamond.’<sup>66</sup> While *Brilliant Earth* has taken issue with the diamond industry’s claim that less than 1% of diamonds are conflict diamonds – the company argues that this is simply due to an overly narrow definition – the WDC has responded by defending the 1% claim and attacking the position of the company. The WDC points out that this definition has been endorsed by the UN as recently as January 2011, namely, that conflict diamonds are ‘rough diamonds which are used by rebel movements to finance their military activities, including attempts to undermine or overthrow legitimate governments.’ They go on to accuse *Brilliant Earth* of depriving African countries of revenues and people of employment by only sourcing diamonds from Canada, which is not actually the company’s policy but, in WDC’s defence, was their policy at one point.

### *Recycled and Fair Trade gold*

As mentioned, when the company started, *Brilliant Earth* only offered recycled metals for their jewellery. This allowed the company to be strong critics of gold mining practices while offering an alternative for consumers that wanted the product without the negative practices.

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<sup>66</sup> The exchange can be viewed on the *Brilliant Earth* blog at: <http://blog.brilliantearth.com/2011/12/07/the-one-percent-myth-the-diamond-industry-responds-to-brilliant-earth/>.

Gold is a material that, when melted down and recast, is indistinguishable from newly-mined varieties, provided the purity and alloy content remain the same. The major issue in only dealing in recycled gold is that gold mining, like diamond mining, provides valuable jobs and income to some of the poorest communities in the poorest regions of the world. Simply boycotting newly-mined gold regardless of the practices employed has the potential to delegitimise a livelihood strategy undertaken by millions of miners worldwide. With this in mind, the company has diversified its sourcing now that a viable option has become available in the form of FT/FM gold.

*Brilliant Earth* avoids most of the problems associated with large-scale mining by sourcing gold from one of the first ever, independently certified, FT/FM cooperatives producing gold – *Oro Verde*. The ASM operations certified under the label supply safe working conditions and fair wages while supplying gold in a way that benefits the community and local environment by restricting chemical usage and restoring the surrounding landscape. This provides even more jobs in the local community and ensures that soil fertility and biodiversity remain intact for agriculture and other uses. All of this is undertaken in a transparent and inclusive manner with the direct involvement of local community councils (see *Oro Verde*, n.d.).

It appears that demand is currently outstripping supply by quite a large margin. Other ethical jewellers, such as *CRED* (UK), *FiFi Bijoux* (UK), and *Noen* (Germany) also source from *Oro Verde*, while *Noen* and *Garavelli* (Italy), with their *GLOBO* collection, source from the *EcoAndina* cooperative in Peru. However, note that these companies are all based in the UK or EU markets, where *Fairtrade* and similarly ethical product labels are much more established than in the US. While the *Fairtrade Foundation* hopes that certified gold will account for 5% of the gold jewellery market over the next fifteen years, analysts estimate 130 kg as the upper limit for 2012 production (Industry analyst, personal communication,

November 22, 2011). Even if this could come in at an acceptable price point for mainstream jewellers, the supply would not even be close to meeting their demand and so it will continue to be a niche market for the foreseeable future.

## **IOS MODEL APPLIED TO THE ETHICAL FIRM – BRILLIANT EARTH**

This section applies the IOS model and gauges the extent to which its indicator-based propositions are able to account for how the firm mobilised politically and the extent to which the firm has been able to impact the process of private institution-building. The model guides our analysis of firm responses to civil society contestation by linking their responses to the different opportunity windows for political action faced by institutional entrepreneurs, which are themselves a function of the firm-level structures within which these actors are embedded.

As a small and specialised ethical jeweller, *Brilliant Earth* was launched to fill the gap in the market for ethical jewellery or, in other words, to respond to the increasing demand for ethical jewellery spurred forward by the issues that existing jewellers were scrambling to deal with. The opportunity window for ethical firms to enter the market was different than those for already established jewellers, but the dimensions of the opportunity window should be the same.

To reiterate, the opportunities under examination here are at the firm-level and are both economic and institutional in character; both dimensions of the opportunity structure work together to channel the firm's response to societal demands. Different business actors are confronted with different constraints and opportunities depending on the characteristics of the firm within which they are embedded. Therefore, we should expect differences between firm opportunity structures to lead to variation in approaches to corporate political

mobilisation across different types of firms. The puzzle is not so much whether a firm will engage in a given issue, as all firms will respond in one way or another, but *how* institutional entrepreneurs working within different types of firms operationalize their engagement in accordance with their organisational environment.

The following analysis temporarily suspends the historically-based study of events in order to apply the IOS model to ethical jewellers, using the model to investigate the link between firm structures, the opportunity windows these structures offer institutional entrepreneurs within these firms and, ultimately, the ways in which the firms engage politically.. The model consists of first investigating the relevant economic dimensions of the firm, tracing the parameters of the opportunity window through its exposure to risk and cost of compliance. It then considers the institutional dimensions that shape how business actors might fill that window, including the corporate culture of the company and the position of internal champions within the company's organisational hierarchy.

## ECONOMIC DIMENSIONS

### *Exposure to risk*

*Brilliant Earth* was founded with a social mission and this mission is the concept behind their brand. Generally speaking, branding is a way for companies to differentiate their product from competing products. The company is highly branded as they operate in a niche market for their ethical products and the ethical brand differentiates the product and allows the company to escape competition with conventional jewellery retailers.

Branding is an important consideration when business actors are deciding how to engage with political issues as more branded firms tend to face more risk. However, *Brilliant Earth* is not engaging in these issues to mitigate risk, although it does face risk of a slightly

different variety. Certainly any deviation by the company from its ethical values espoused in its mission statements would pose a huge risk for the brand and so an observer would have to conclude that, if anything, branding is simply another reason the company needs to continue to operate using best practices.

*Brilliant Earth* is clearly the most specialised of the cases under investigation as the company not only specialises in jewellery, but it specialises in ethical jewellery. Diversification is an important variable in that it suggests there is more risk faced by a firm specialising in a politically contentious product than a firm that is more diversified and, therefore, less invested in this product category. If the issues surrounding the product posed a serious risk to the wider business interests of a diversified company, they could simply drop the product from inventories. Again, *Brilliant Earth* is different than the other cases in that it is not engaging in the politics of gold as a risk mitigation strategy, but it is instead filling a perceived gap in the market for ethical jewellery. In fact, the de-politicisation of the market could reduce demand while the colonisation of the ethical market by conventional jewellers could increase competition. Additionally, one could argue that small, ethical jewellers are actually taking a risk by innovating in the realm of ethical sourcing and demonstrating the possibility to both consumers and those in the industry (Ethical jeweller, personal communication, August 1, 2011). Taken together, ethical jewellers have every incentive to keep the market politicised while continuing to innovate and utilise best practices.

### *Cost of compliance*

The structure of each firm's supply chain will differ within an industry and this will affect its willingness and ability to engage in different forms of political mobilisation. The complexity and flexibility of the chain will determine the speed and ability with which the firm can get its house in order and make commitments with confidence. Pure retailers specialising in

diversified products tend to have enormously complex supply chains for a very wide range of goods. Specialised firms should have relatively simple supply chains as they will usually be more vertically integrated and rely on a smaller number of suppliers. This will give them a stronger sense of their position in terms of environmental and social issues, allowing for stronger commitments from the beginning.

The complexity of *Brilliant Earth's* supply chain is also the most straightforward. Starting out as an ethical jeweller meant the company did not have to investigate the upstream processes in existing supply chains. They began only selling recycled gold in order to eliminate any demand for newly-mined gold from the company, which is simply a matter of finding a metals refiner or trader who can offer verifiable assurances about the provenance of their product. Admittedly, this is not always easy, but with the small volumes demanded by ethical jewellers, it is certainly less complex than tracing and verifying already existing supplier networks. Additionally, the company has recently begun selling FT/FM gold now that this certification has been created, but this certified gold is already traced by definition. Therefore, *Brilliant Earth's* chain of custody for newly-mined gold has proven to be straightforward for the company as the tracing and certification is conducted by third-parties. However, the company did contribute to the process in the form of consulting with the certification developers during the draft stages (Ethical jeweller, personal communication, October 10, 2011). The company founders readily admit that due to the size of their operations, they are able to source using the highest standards criteria while the bigger companies have a much more difficult time with this as they have significantly more complex supply chains and they simply need much more gold to meet their much larger sales volumes (Ethical jeweller, personal communication, October 10, 2011).

The price sensitivity of customers is inseparable from a firm's business model. As will be presented in the coming chapters, *Tiffany* and *Wal-Mart* are not direct competitors,

even though they each account for two of the largest chunks of US market share in jewellery sales. They sell to different customers in quite different markets; *Wal-Mart* competes largely on price while *Tiffany* enjoys significant mark-ups based on its promise of quality, design and image.<sup>67</sup> Likewise, *Brilliant Earth* could be said to occupy a third market within the larger US market for gold jewellery.

As a specialty item in a niche market, consumers of ethical jewellery are willing to pay a price premium for the product. How large this market will expand to be is the only question and this depends on the awareness raised amongst consumers and the extent to which these best practices will be replicated throughout the industry. Some ethical jewellers feel that, in the UK at least, certified gold will eventually become the industry norm and so any price premium relative to competitors' products should dissipate (Ethical jeweller, personal communication, August 1, 2011). This would, somewhat ironically, raise the competitive pressures for ethical companies and their product differentiation would be reduced. However, not only would most ethical jewellers welcome this outcome despite the increased competitive pressures, most also feel their jewellery design and quality could compete even without the ethical label (Ethical jeweller, personal communication, August 10, 2012). But, as it stands, the more they politicise the market by disseminating information and advocating for change, the more they grow their brand.

The extent to which ethical jewellers pass the cost of their higher standards onto their customers is contested. Interestingly, *Brilliant Earth* jewellery does not necessarily charge a price premium for their jewellery and, in fact, claim to offer their high quality jewellery at a

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<sup>67</sup> As one expert on the luxury market has conveyed to me, the middle market consumer, which is the one that the luxury market has been targeting for the last twenty years, shops at both big box stores and luxury boutiques. It is a high-low equation, like in many other areas of consumption today. This is why traditionally middle market businesses, such as *JC Penney*, *Sears* and *Liz Claiborne*, to name a few, are all suffering – because they are in the middle. People save money shopping at *Wal-Mart* so they can spend it at *Louis Vuitton* (Luxury market analyst, personal communication, August 22, 2012). However, while many customers may shop at both stores – in this case *Wal-Mart* and *Tiffany* – they are not necessarily buying their gold jewellery from both. In other words, they are probably still not directly competing with one another in luxury product markets, even though they may share customers.

discount (Yee, 2007). They are able to do this by keeping their overhead low; instead of running a chain of pricey retail outlets, they rely on internet sales to complement those done directly through their San Francisco showroom (Yee, 2007). However, with jewellery prices ranging from USD 400-30,000 (Williamson, 2006), they are clearly not catering to the discount market.

## INSTITUTIONAL DIMENSIONS

### *Corporate culture*

The corporate culture of a firm plays a large role in how firms respond to the environmental and social issues brought to them. This culture is in large part a reflection of its customer base and marketing strategy. While managers often act strategically based on the material market interests of the firm, often there remains a significant amount of uncertainty and, therefore, discretion in how the costs and benefits are interpreted. The corporate culture of the firm will often guide, consciously or not, the response of firm managers to external pressure. Additionally, the response to the issues by the firm's leadership group will differ in interpretation and individual autonomy. As we will see, *Tiffany* caters to upper-income, urban consumers while *Wal-Mart* prides itself in being an advocate for the 'working man'. *Brilliant Earth*, on the other hand, is a very small firm with a very clear corporate culture that arose in response to the concerns raised by civil society activists. This means its corporate culture, and that of most ethical jewellers, should be very well-suited for a strong environmental and social ethos.

The fact that these firms are fairly new and quite small means that the culture will bear a strong resemblance to its founders and will facilitate a robust position on political issues. James Collins and Jerry Porras (2005) document how many companies have



contributed to their success by building their firms around values, visions, and goals other than profit maximization, while David Vogel (2005, p. 41) notes that only in a few instances do these values have anything to do with social responsibility. However, self-identified ethical firms may be one such instance.

The founders of *Brilliant Earth*, for example, were business students who were attempting to be ethical consumers and could not find appropriate products to fit their needs. Their business model was based on meeting this demand for ethical jewellery in the marketplace. Therefore, their entire business is based on producing high quality ethical jewellery for those who desire it and increasing demand for ethical consumption of jewellery through their public awareness programs; the corporate culture reflects this as the founders embedded these norms and values in the company from the beginning. As the company has grown, it has added associates who are themselves committed to the social mission of the firm. These new members include the designers, sales associates and gemologists, all of whom were hired with the goals and values of the company in mind (Brilliant Earth, 2011).

*Brilliant Earth* is a small company catering to a small but committed clientele. They are accessible in their dealings with stakeholders and they are vocal in their advocacy. In other words, their corporate culture and the leadership shown by the founders who run the company are based entirely upon delivering on their assurances of ethical jewellery. Unsurprisingly, their corporate culture is a perfect fit on all levels with the task of keeping irresponsibly mined gold out of the supply chain.

Their goals and values are clearly stated on company documents, namely, providing quality jewellery sourced from socially responsible practices, fostering change by providing education about the challenges of and solutions to the social and environmental problems facing the jewellery industry, and supporting mining communities that have suffered from irresponsible mining practices by donating a share of their profits to organisations working

within these communities (Brilliant Earth, 2011). Similarly, their espoused values reflect their basic underlying assumption that the jewellery industry can thrive without great human or environmental cost and that aware consumers can drive change through their purchases (Ethical jeweller, personal communication, October 10, 2011). The company runs a blog with regular posts that leave little doubt as to where the company leadership stands on the most important issues facing the industry.<sup>68</sup>

### *Leadership structure*

As discussed in chapter two, while Scott (1991, p. 164) rightly points out that institutional constraints always leave space for the autonomous play of interests and improvisation, Brint and Karabel (1991, p. 346) recognise that it is probably best to think of organisational elites as simply constrained entrepreneurs. In other words, while not all elites will necessarily make the same assessment of where their interests lay in a given situation, organisational interests can be read with a high degree of probability out of the power structures and organisational field the actors must operate within.

Clearly, an important factor in a firm's response will still be internal leadership from agents within the company. While a consultant for many of the world's largest corporations – including *Wal-Mart* – has confirmed, there always seems to be one person who takes the issue personally, who does not wish to be a laggard, and who champions the cause for change from within the company (CI, personal communication, September 18, 2010).

It is difficult to disagree with these assessments. Nor is it easy to dismiss Brint and Karabel's (1991, p. 346) claim that the socially conditioned mental sets of leaders during decisive periods of decision-making play a role in organisational responses. However, it is always dangerous to guess at the underlying beliefs, intentions, and preferences of individuals

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<sup>68</sup> See [blog.brilliantearth.com](http://blog.brilliantearth.com)

– especially when a study is not set-up to make rigorous assessments of this nature. What this study is designed to do is to look for instances of structured agency at play, where leadership matters, but is channelled through the structures of the firm. Such a model allows for an investigation into the role of constrained leadership as decisions are channelled through the constraints of corporate culture and the leadership, or management, structure of the firm.

*Brilliant Earth*, for example, is a private company and so they are not subject to some of the structural constraints of larger companies that many analysts feel lock these firms into a particular model making them much more resistant to change and innovation. Some in the industry feel ownership structure is an often ignored variable; the corporate structure of publically offered firms limits their ability to be innovative and to spend the money necessary to be ethical (Ethical jeweller, personal communication, August 1, 2011). It is true, to a certain extent, that public companies are driven by the need for capital. They then need to deliver profit and are subject to the free market dogma that permeates the industry. To be ethical costs money – there is no denying or getting around that – and they are locked into a corporate structure that makes this difficult until proven sensible (Ethical jeweller, personal communication, August 1, 2011). However, it must be noted, and the latter cases demonstrate, that Michael Kowalski from *Tiffany* claims that shareholders have not questioned the company's expenditures on social responsibility (Kowalski, 2004) and Andrew Ruben from *Wal-Mart* states that their sustainability initiatives create value as opposed to costing the company (Ruben, 2006).

So while the tolerance of investors may vary, the general consensus of those in industry, backed up by the requisites of fiduciary responsibility and the findings of the studies cited in chapter two, suggest that ownership structure and the perceived expectations of investors is likely to impact upon managerial decision-making when it comes to mobilising firm resources for political purposes. In the case of *Brilliant Earth*, while the company has

investors, it is not publicly traded and this private ownership structure means that, while they are certainly subject to the necessities of market survival, they do not need to report their expenditures, quarterly earnings, or related business decisions to a Board of Directors or release them publicly. This offers the company's leadership much more freedom than those of publicly traded companies. Additionally, it is the owners who are the internal champions of the ethical initiatives and so they also have no need to answer to internal management.

## **BUSINESS POWER AND PRIVATE REGULATION**

The chapter has focused on ethical jewellers, and *Brilliant Earth* in particular, as a first step in explaining variation in corporate responses to the politicisation of the US market for gold jewellery. The remainder of the chapter examines the potential consequences of this corporate political mobilisation. This final section brings the business power lens back to the forefront, examining the mechanisms by which ethical jewellers have altered the political field, contributed to the creation of private institutions, and impacted the opportunities for political action moving forward.

Recall the ways in which business actors might mobilise the resources of the firm for political purposes when the opportunity arises. Internally, business actors mobilise the firm's instrumental power to build institutions aligning the interests and practices of the firm with the structural power in the market. Externally, business actors mobilise their instrumental power to align the structural power in markets with the interests and practices of the firm. Thus, it is a strategy of both influencing the new order as well as re-entrenching the firm's favourable position within this order. As we will see, *Brilliant Earth* has utilised a multifaceted approach to political action and the results of these actions alter the opportunity structures moving forward.

	<b>Economic</b>	<b>Institutional</b>
<b>Internal</b>	<ul style="list-style-type: none"> <li>✓ Translating regulations into actionable practices</li> </ul>	<ul style="list-style-type: none"> <li>✓ Creation and maintenance of institutions internal to the firm</li> </ul>
<b>External</b>	<ul style="list-style-type: none"> <li>✓ Donations</li> <li>✓ Strategic investments</li> <li>✓ Buying power and preferential procurement</li> <li>✗ Paying membership fees</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lobbying and advocacy</li> <li>✓ Issue framing</li> <li>✓ Creation and maintenance of institutions external to the firm</li> <li>✓ Acting as a role model for others to benchmark</li> </ul>

Table 8: Corporate political mobilisation – *Brilliant Earth*

## INTERNAL

### *Creation and maintenance of institutions internal to the firm*

Ethical jewellers – as relatively smaller, younger, and more focused firms – have an advantage over conventional jewellers when it comes to mainstreaming environmental and social criteria throughout their business. This is fairly obvious, but it is worth noting that these firms are designed to be political entities and maintaining rigorous and consistent internal criteria for business practices is a must. Additionally, these firms tend to have a fairly small management team and so maintaining institutional memory, that is, continuous learning and knowledge retention regarding the various political issues concerning the company becomes much easier.

*Brilliant Earth* utilises robust, internally defined criteria to evaluate the sources for diamonds and gold used in their jewellery. They define ‘conflict free’ diamonds as stones that were harvested ‘free from forced labour, child labour, torture, rape and other affronts to human dignity... and mined with respect for the environment and by workers earning fair wages in safe working conditions’ (Grossberg, 2010). These criteria go beyond what the KPCS has defined as ‘conflict free’ for diamonds. The KPCS defines conflict diamonds as ‘rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments’, which is a very narrow definition reserved for rebel movements, saying nothing about violence that may be perpetrated by governments and funded by diamond sales. Therefore, they label their diamonds as ‘of ethical origin’ to avoid confusing definitions of ‘conflict free’ and to indicate that their products are produced using high social and environmental standards and not just meeting the minimum standards as defined by the KPCS (Grossberg, 2010).

As stated, they originally sourced such diamonds exclusively from Canada, but they have since widened their sourcing locations to include Namibia and Botswana, adjusting a blanket policy that had the perverse effect of denying African miners a vital source of income. With this in mind, the company has nuanced its sourcing criteria, basing their decisions on the practices of the specific mines themselves as well as the relatively strong regulatory framework in place in these regions. Namibia and Botswana fit this expanded criteria well as both countries have strong regulatory environments and are free from the abuses associated with the conflicts elsewhere on the continent.

*Brilliant Earth* evaluates the mining operations they are considering sourcing from based on how the mine affects the community, its workforce, and the environment. In accordance with the company’s criteria, all of the diamond mines they source from not only use high standards and technology to minimise environmental harm, but add value to the

communities in which they operate through local hiring priorities, local procurement, and local cutting and polishing facilities (Grossberg, 2010). In the case of Canada, the mines are independently monitored and certified as ISO 14001 compliant (Grossberg, 2010).

Additionally, the company also offers laboratory-fabricated diamonds to bypass diamond mining altogether. The process is still in its early development however and so there is a limited supply of these. Recycled gold and platinum also limit new mine development and the majority of the company's jewellery is produced from recycled gold. Because of the nature of the element, once melted down, the gold is indistinguishable from the newly-mined commodity. It is somewhat unclear at the moment how the average consumer feels about including recycled content as jewellery, and adornment in general, is an intensely emotive market. Additionally, those who feel very strongly about environmental issues do not necessarily buy high-end jewellery in the first place (Ethical jeweller, personal communication, September 10, 2012). While *Brilliant Earth* is an ethical firm that appears to go after the mainstream market, many others seem content with staying small (Ethical jeweller, personal communication, September 10, 2012). It remains to be seen how much this market will grow, but the ethical jewellers have clearly found a sizeable niche.

## EXTERNAL

### *Lobbying and advocacy*

As we have seen, *Brilliant Earth* is a vocal critic of the KPCS and calls for its reform or replacement. They view the definition of conflict as too narrow and the system as too vulnerable to smuggling. They berate the organisation for keeping Zimbabwe as a member despite the human rights abuses being perpetrated in the diamond mining region. In their words, '[i]t is clear to us that [the KPCS] has failed to live up to even its own limited

objectives. The organization does not address severe human rights abuses, does not regulate cutting and polishing centres, and is easily circumvented through smuggling' (Grossberg, 2010).

The company worries that dysfunctional organisations like the KPCS simply breed complacency instead of getting to the root of the problem. As one industry expert and one time diamond buyer put it, one would have to be quite 'naïve' to think 'conflict diamonds' were not finding their way into a supply chain that often operates as a 'cash-in-hand' business (Industry expert, personal communication, July 29, 2011). Having the KPCS is in some ways worse than not having a certification at all as it takes the issue of unethical diamond production off of the international agenda (Ethical jeweller, personal communication, October 10, 2011). They believe that along with eliminating the worst abuses in the industry, it is important to create sources of fair trade diamonds to make diamond mining a positive force for economic development (Grossberg, 2010).

The company has similar concerns regarding the RJC (Ethical jeweller, personal communication, October 10, 2011). Notably, as we have seen in the previous chapter, not one of the major ethical jewellers is a member of the RJC. In fact, ethical jewellers have been arguably the most outspoken critics of the initiative, providing added incentive for the initiative to continue to ratchet-up its standards.

While the founders of *Brilliant Earth* say they applaud any initiative that is working to improve practices and assurances throughout the gold supply chain, they feel that the RJC contains some fundamental inadequacies as it stands (Ethical jeweller, personal communication, October 10, 2011). They add their concerns to those being voiced by other ethical jewellers and the NDG campaigners about the input and output legitimacy of the label. As mentioned earlier, the input legitimacy of the RJC suffers in that NGOs and labour groups were relegated to unofficial consultative roles during the standards development



process, its members are strictly industry actors, and many feel there is not sufficient transparency in its monitoring and evaluation processes. *Brilliant Earth* is not alone in its criticism of the RJC.

Marc Choyt and Greg Valerio, founders of the ethical jewellers *Reflective Images* and *CRED Jewellery*, respectively, co-founded the website *Fair Jewellery Action*, which runs a website dedicated to publishing on ethical jewellery practices. Choyt and Valerio are probably the most outspoken critics of the RJC and summarise the most salient concerns of ethical jewellers. Most ethical jewellers have suspicions that the RJC is simply a ‘greenwashing’ exercise, giving the impression that it is a third-party certification initiative for gold and diamonds when we have seen that it is not. They feel that the rules favour large companies to the detriment of small jewellers who are worried about the cost of membership. There have been accusations that the RJC bullies companies to join as members are moving toward only dealing with RJC suppliers and buyers – what Marc Choyt has called a ‘quasi-cartel’ and Greg Valerio has called a ‘big boys club’ (Choyt, 2009). Without traceability or even requiring members to know the details of their sourcing, the RJC is not performing the function that most stakeholders agree is necessary to eradicate irresponsible mining practices (Ethical jeweller, personal communication, August 7, 2011; Grossberg, 2010). Additionally, critics claim that the RJC allows mining companies to operate in conflict zones and protected areas, dump waste into some water bodies, emit toxic substances, and operate without community consent (Earthworks, 2009).

Despite a name that closely resembles the FSC and MSC, the RJC is not a multi-stakeholder and independent, third-party initiative – nor does it claim to be. In an interview conducted by Greg Valerio, Michael Rae, the CEO of the RJC, says the RJC differs in fundamental ways from certification initiatives that have emerged to regulate commodity chains for other materials. The RJC is a ‘multi-sector organisation’ whose membership is

comprised of industry actors. In the words of Rae, ‘A product stewardship group is how we view ourselves. It has much more in common with a trade association than with any other entity. Its membership is made up of companies and individuals who are participants in the gold and diamond jewellery supply chain, and our governance is by those members... [t]he methodology that we have used is in essence a trade association with a product stewardship focus’ (Rae, 2009).

This refers to a number of aspects of the RJC that make it decidedly different from institutions like the FSC and MSC. Standards were developed in-house, though they were loosely based on existing standards in other industries. The stated reasons for not going with a more inclusive, multi-stakeholder approach was ‘they decided to get this thing done and deliver a product to market and they decided that the best governance model was a product stewardship model that was structured as a trade association’ (Rae, 2009).

Significantly, RJC membership was not initially created to certify the supply chain. It does not trace or make any claims about the provenance of the materials in member supply chains. In Rae’s words, ‘[W]hat we are doing is certifying the performance of the links in the supply chain. We are not certifying the stuff that is moving through the chain’ (Rae, 2009). This makes it much more analogous to the chemical industry’s *Responsible Care* program than the FSC, MSC, or FT/FM products.<sup>69</sup> So while the RJC is filling a gap by certifying the practices of jewellery manufacturers, it does not say anything about where, how or by whom the gold and diamonds have been sourced.

However, in the time since this interview took place, the RJC has in fact developed a Chain of Custody option, voluntary for RJC members, which contains requirements for those members who wish to make claims about the provenance of their materials and audits their systems for tracing these materials through the supply chain. It appears that the RJC has

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<sup>69</sup> For more on *the Responsible Care* program, see King & Lenox (2000), Prakash (2000), and Gunningham (2008).

begun to ratchet-up their standards, slowly meeting the demands of their critics. Formed by a small group of industry actors to mitigate the risk associated with the social and environmental issues being linked to their industry, the initiative has seemingly increased its strength and mandate as it has evolved. The persistent monitoring and critique by the ethical jewellers has almost certainly helped this process along.

#### *Donations and Strategic investments*

*Brilliant Earth* manages to leverage its modest resources through the direct funding of projects. They donate 5% of profits to charities and community organisations in Africa through their non-profit fund. One example is the direct financial support they offer to the *Diamond Development Initiative* (DDI), which funds education for children in mining communities in the DRC and removes them from work in diamond mines. They fund similar on-the-ground initiatives in Madagascar and Sierra Leone, including initiatives designed to promote cutting and polishing industries to increase the value-added of diamond mining for these communities and further develop the supply chains for ethical jewellery (Grossberg, 2010).

#### *Issue framing*

The company founders meet regularly with activists, representatives from communities in which mining takes place, and their suppliers. People within and around the jewellery industry who are engaged with these issues are a fairly small group and so they tend to know one another. *Brilliant Earth* was another company that participates in the Madison Dialogue and was present in Vancouver when the IRMA initiative was launched (Ethical jeweller, personal communication, October 10, 2011).

*Creation and maintenance of institutions external to the firm*

*Brilliant Earth* works with other groups and institutions to further develop fair trade diamonds and gold, including *Transfair USA* and the *Fairtrade International* (FLO) in Europe. They have provided *Transfair USA* with guidance and feedback during that process while also working through the DDI and the Madison Dialogue on the logistics of tracing diamonds from mine to retail as well as developing appropriate criteria that is both achievable and robust (Ethical jeweller, personal communication, October 10, 2011; Grossberg, 2010). Their commitment to working with these groups and also sourcing from these labels once they are formerly launched provides small but tangible economic incentives to develop them further.

The company originally worked only with recycled gold as a way to avoid the sometimes destructive practices of gold mining completely. Once *Oro Verde* became the first independently certified source of FT/FM gold, *Brilliant Earth* began carrying newly mined gold for the first time. The company works with other mining cooperatives as well, for example, it sources sapphires from cooperatives in Sri Lanka (Brilliant Earth, 2012c). They advocated for including mining cooperatives, such as *Oro Verde*, in the fair trade model, as they are examples of how mining can provide fair wages for small-scale miners worldwide while avoiding large-scale environmental degradation and the often traumatic upheaval of local cultures and livelihoods (Ethical jeweller, personal communication, October 10, 2011). Gold from these cooperatives has been certified as socially and environmentally responsible by the independent *Instituto de Investigaciones Ambientales del Pacífico* (IIAP), and is also being certified as part of a pilot program by *Transfair USA* (Brilliant Earth, 2011).

*Acting as a role model for others to benchmark*

*Brilliant Earth* does not have great market power and so cannot spur the industry to change their practices by their direct demand for ethical goods. What it can do is to help create a small market for ethically-sourced jewellery by offering small producers a committed buyer for their products while helping to increase consumer awareness of and, therefore, demand for jewellery produced from ethically-sourced metals and gems.

The important role for small, ethical jewellers to play is as a role model or, in other words, to set the standard for standards. *Brilliant Earth* has laid out some simple standards that they feel should be followed by any company trading in ethical jewellery:

- They should be able to trace the gemstones and metals back to the specific mine in which they were harvested.
- They should know the conditions under which the jewellery item was produced with regard to labour and environmental rights.
- They should have a written policy on sourcing standards and be able to provide a written guarantee that the item was produced without contributing to violence, human rights abuses, or environmental destruction (see Grossberg, 2010).

While the company takes a strong stance on raising standards of existing certifications, they still see an important role for large jewellers in creating a demand for socially and environmentally sustainable jewellery. They applaud the work of both *Wal-Mart* and *Tiffany* and recognise that it can be much more difficult for larger companies to bring their operations around in line with strong standards (Ethical jeweller, personal communication, October 10, 2011). This is where small companies specialised in ethical goods can really make a

difference. They can act as role models for the bigger, risk averse firms and show them what is possible.

Big jewellery companies have an important role to play as they not only wield the market power in the industry and are able to use this market power to incentivise change, but they also have the political clout in industry groups to push for reforms of institutions like the RJC and the KPSC. It is to these companies we turn in the following two case chapters.

## CONCLUSION

Ethical jewellers have opted for the highest, third-party certification where available and have helped create a niche market for the products. The arrival of ethical jewellers can be interpreted as the market colonising the political space that activists have created through their campaigning against ‘conflict diamonds’, ‘dirty gold’, and ‘conflict gold’. From a market-based perspective, they fill a gap in supply of a product that activists have helped create the demand for. From a more political perspective, they fill the need for industry role models, showing other jewellers what is possible while helping to create a market for ‘responsible’ suppliers.

*Brilliant Earth* is one of the leading brands in the ethical category of the US jewellery market. While they began by only sourcing Canadian diamonds and recycled gold to avoid the environmental and social problems associated with mining altogether, they have since incorporated diamonds from established mines in Namibia and Botswana as well as adding third-party certified gold that has now become available through the FT/FM label. Their small size and niche market allows them to stake out a strong position advocating for the highest standard of responsible mining assurance while filling their orders from recycled gold and the small quantities of available FT/FM gold.

It makes sense that the ethical jewellers would not want to advocate for or join the industry-led RJC as their products are subject to much higher ethical standards and this is their way of differentiating themselves in the market. If all jewellers were 'responsible', their product differentiation – which allows them to escape competition – would dissipate. They are able to keep these standards high because their turnover is small enough and they are able to trace their supplies back to their hand-picked sources. However, this market-oriented narrative does not explain everything. The in-depth study of *Brilliant Earth* has revealed that the culture of the company, as espoused in the company goals, values, and on-going narrative is not just to maintain acceptable standards but, rather, the highest standards. This culture was created by the founders of the company, who continue to lead its operations. The fact that the firm is private ensures that they can maintain these standards without the potential constraining force of investor demands.

Unlike the other firms in the industry, ethical jewellers do not need the opportunities that risk offers for them to mobilise the resources of their firm. Instead, their business model is premised on political activism and creating alternative markets for their goods. While they do not have the resources that the larger jewellers have at their disposal, they are able to leverage their modest political capacity in ways conventional firms cannot. They tend to be privately owned and owner-operated, which means the opportunities available through their leadership structure are wide open. Their corporate culture is obviously a fit, which also explains why those ethical firms that existed pre-campaign found it easy, and imperative, to adjust their operations as these new issues and opportunities arose. Really the main market limitations facing these firms are the costs of political activity relative to the revenues they can generate. The main challenge is building both supply and demand for their products. The exposure and politicisation of the jewellery market that activists and ethical jewellers create,

channels market forces in ways aligned with the firms' business interests and expands the opportunity window for future political mobilisation.



## CHAPTER 5 – SPECIALISED JEWELLERS

### INTRODUCTION

This chapter begins by laying out the expectations the IOS model would suggest for the response of specialised jewellers to the politicisation of the market. Once the pattern of mobilisation is established and cross-referenced against these expectations, the chapter then focuses on *Tiffany & Co.* as one of the most engaged firms in the politics of gold, investigating the opportunities and limits present for internal policymakers when mobilising a response to civil society contestation. The chapter profiles the company and outlines the historical context to its engagement with the NDG campaigners. It illustrates how the firm's response was informed by previous conflicts before showing how the company is attempting to reposition itself within the new market reality. It then zooms in on the opportunities institutional entrepreneurs faced when mobilising politically, evaluating the IOS model's ability to account for the firm's response in more detail. The results empirically demonstrate the ways in which business actors' environmental conditions have shaped their responses and, in particular, how the institutional character of the firm influenced the speed and depth of engagement once the opportunity window for political mobilisation was opened by activists. The final section outlines the efforts of institutional entrepreneurs to consolidate *Tiffany's* new position by generating policies internally and externally, positioning the firm where it will be protected from the countervailing forces of civil society activists and the punishing effects of the market. It suggests that when firms wield their instrumental power in the institution-building process, they not only reduce their exposure to risk, but also expand the opportunity structures available for responding to future threats.

## IOS PROFILE AND EXPECTATIONS FOR SPECIALTY JEWELLERS

<b>Economic dimensions</b>	<b>Institutional dimensions</b>
<b>Exposure to risk</b> Level of branding – <i>High</i> Reliance on product – <i>High</i>	<b>Corporate culture</b> CSR artefacts – <i>Mixed</i> CSR espoused beliefs – <i>Mixed</i>
<b>Cost of compliance</b> Complexity of supply – <i>Medium</i> Price sensitivity of consumers – <i>Low</i>	<b>Leadership structure</b> Ownership structure – <i>Mixed</i> Position of institutional entrepreneurs – <i>Mixed</i>

Table 9: IOS profile for specialty jewellers

Specialty jewellers should be expected to engage in the politics of gold due to their high exposure to reputational risk and their high reliance on gold jewellery. They are generally larger than the ethical jewellers and so the complexity of their supply chain should also be greater as they may need to source from multiple sites and suppliers to meet their demand. However, their supply chains should remain less complex than the large, diversified jewellers that are pure retailers and source multiple brands. Therefore, specialty jewellers should maintain more direct control over their supply chains than the diversified jewellers. Their customers, especially for the luxury brands that represent the largest of the specialty companies, are already prepared to pay a price premium, reducing the median price sensitivity of the customer base for this category. Therefore, we should expect them to act both individually and collectively to mitigate the firm's exposure, as well as the exposure of the entire industry, to reputational damage.

**EXPECTATION: HIGH LEVEL OF ENGAGEMENT AND STRONG COMMITMENTS**

	No Dirty Gold (NDG)	Second-party (RJC)	Third-party (FT/FM)
Ben Bridge	✓	✓	✗
Birks & Mayors (Canada & US)	✓	(✓ March 2012 – not yet certified)	✗
Blue Nile	✓	✗	✗
Boucheron	✓	✓	✗
Bulgari (IT)	✗	✓	✗
Cartier (FR)	✓	✓	✗
Chopard	✗	✓	✗
Faberge	✗	✓	✗
Harry Winston	✗	✓	✗
Piaget	✓	✓	✗
Rolex	✗	✗	✗
Signet (UK and US)	✓	✓	✗
Tiffany & Co.	✓	✓	✗
Van Cleef & Arpels	✓	✓	✗
Zale	✓	✓	✗

Table 10: Profile of non-state initiatives for specialty jewellers

As expected, almost every specialty jeweller of note in the US market has signed on to the industry-led, second-party RJC certification. Most have signed the *Golden Rules* while none have yet sourced from the third-party initiative. There are two very interesting cases here. By far the most engaged of any mainstream jeweller in the politics of gold has been *Tiffany & Co.* They were immediately and deeply involved in shifting their supply chain, liaising with activists and industry, advocating for change in the jewellery industry and, ultimately, in mining practices. The other interesting case is *Rolex*, but for the opposite reasons. They have so far resisted attempts by activists to sign the *Golden Rules* and are not part of the RJC. They appear to share the general economic opportunities for mobilisation with their peers, so it suggests the main difference can be found in the corporate culture and leadership categories. These are the categories that appear to also separate *Tiffany* from the pack in the speed and depth of their political engagement.

It is significant that almost every major specialty jeweller in the US market and beyond has signed on to the both the NDG's *Golden Rules* and, importantly, the RJC. In contrast, the ethical and diversified jewellers have almost unanimously avoided this latter certification. This indicates that specialty jewellers face somewhat unique circumstances. Their opportunity window for political action was open wide as the specialty firms found themselves significantly exposed to reputational risk by nature of their brands and their reliance on gold products. Additionally, the sector was already highly politicised, having learned important lessons from previous controversies. Therefore, the response of specialty jewellers was based predominantly on risk mitigation. As with the other case studies, this chapter explores these circumstances through an in-depth case study of one of the leading firms in the category of jeweller, in this case, *Tiffany & Co.*

## COMPANY PROFILE – TIFFANY

*Tiffany* is a specialty jeweller engaged in the design, manufacturing and retailing of fine jewellery and other luxury items, primarily in the US and Japan, but with significant operations across East Asia, Mexico, Canada, and Brazil (Bloomberg, 2012). While jewellery is their principle product category, the company also sells timepieces, sterling silver goods other than jewellery, china, crystal, stationary, fragrances, and personal accessories. *Tiffany* brand jewellery spans a wide price range from the more affordable silver product lines to diamond-based items obtainable by only the very wealthy.

*Tiffany* is composed of three operating divisions: US retail, international retail, and direct marketing. The company operates 71 outlets in the US and 114 outside the US, with its flagship store located on Fifth Avenue in New York City (Datamonitor, 2009a, p. 5-6). *Tiffany's* direct marketing division consists of internet and catalogue operations, through

which it markets over 3500 items online and via mailing lists (Datamonitor, 2009a, p. 5). In addition to its major operating segments, the wholesale diamonds that were obtained in bulk, but failed to meet its in-house quality standards, are sold by its wholly-owned subsidiary, *Laurelton Diamonds*. *Tiffany* has recently expanded into other luxury items, such as eyewear, while also operating other retail outlets through its subsidiaries, including *Iridesse* which specializes in the design and retail of pearl jewellery (Datamonitor, 2009a, p. 5). Therefore, while the company has significant international interests and a certain level of diversification in products, it remains very specialised in jewellery and continues to rely heavily on the US market.

#### *Company history*

The company, originally *Tiffany & Young*, was founded by Charles Lewis Tiffany and John Young in New York City in 1837, specializing in jewellery, but quickly adding other luxury items to its inventory. It expanded its retail offerings to include direct marketing through mail-order catalogues as early as 1845. Soon after the retailer added the silver company John Moore to its business (1851), Charles Lewis Tiffany changed the name to *Tiffany & Co.* in 1853. In the latter part of the 20<sup>th</sup> Century, *Tiffany* continued to grow, adding additional stores in the US, signing exclusive contracts with prominent designers, and establishing its retail foothold in Japan through the Mitsukoshi department store. The 1980s saw the company bought (1979), resold (1984), enter the European market via the opening of London's Old Bond Street store (1986) and become listed on the New York Stock Exchange (1987). *Tiffany* continued its expansion through the 1990s by adding major manufacturing facilities in Japan (1996) and the US (1997, 2001), while launching its online business in 1999.<sup>70</sup>

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<sup>70</sup> Information was compiled from Tiffany.com, Bloomberg (2012a), and Datamonitor (2009a).

### *Where jewellery fits into the business model*

Although *Tiffany* has gradually expanded its interests to include a number of luxury items in its retail locations, the company remains first and foremost a jeweller. They are a vertically integrated company and are continuing to deepen their control over their supply chain. Not simply a jewellery retailer, *Tiffany* has moved beyond retail and design to include jewellery manufacturing and even the cutting and polishing of diamonds. This increasing integration has been undertaken primarily for security reasons – the company felt exposed from its reliance on diamonds with around 40% of the company’s materials incorporating the gem (Kosich, 2004). The company recognized that the combination of its dependence on diamonds and the number of intermediaries in the supply chain represented a strategic risk and a fundamental security problem (Kosich, 2004). ‘Vertical integration or chain of custody was a strategic objective of ours for the last 20 years,’ says Michael Kowalski, *Tiffany* CEO and Chairman of the Board, ‘We have been slowly moving in that direction’ (Kosich, 2004).

## **HISTORY OF INTERACTION WITH CIVIL SOCIETY – FROM CRISIS TO RESPONSE**

### *Crisis – Conflict diamonds*

As with ethical jewellers, the issues surrounding ‘conflict diamonds’ was a watershed moment in the political education of specialty jewellers as it marked the initial politicisation of the market. Unlike many of the ethical jewellers, however, most of the key players in the specialty jewellery market were already in operation and caught unawares when the ‘conflict diamonds’ controversy boiled over. They were forced to learn on the fly. In the late 1990s, when the issue was gaining prominence, the industry formed the *World Diamond Council* (WDC) to tackle the issue and *Tiffany* was one of the founding, and most outspoken,

members of this initiative. The industry group joined with activists from civil society, governments, and the UN to construct the KPSC with the goal of eradicating the ‘conflict diamonds’ from members’ supply chains.

However, we have already heard that the rationale behind *Tiffany* shifting its supply chain and expanding its chain of custody for diamonds was driven primarily by the desire to achieve security of supply and secondarily by the profits that could be realized by taking on these additional activities – it was not driven by any desire to ensure social and environmental accountability. In other words, by the time the ‘conflict diamonds’ issue surfaced, catching the industry completely unaware and uncertain how to proceed, *Tiffany* had already spent significant resources on integrating its supply chain, thereby expanding its chain of custody.

The opportunity arose in 1996-97 when *Aber Diamond Corporation* – a Toronto-based diamond mining company (now *Harry Winston Corporation*) – approached *Tiffany* with an investment opportunity in the Northwest Territories of Canada (Kosich, 2004). In 1999, *Tiffany* bought a 13.9% stake in *Aber* for USD 71 million, which the company used to develop *Diavik* diamond mine in Canada while allowing *Tiffany* to buy diamonds at a discount (Newman, 2006). In late 2004, *Tiffany* sold its interests in the company for USD 268 million and went on to provide USD 35 million in financing credit to *Tehera Diamond Corporation* to allow the company to develop the *Jericho* diamond project in Canada in exchange for similar purchasing rights (Newman, 2006). *Tiffany* now sources the vast majority of its diamonds from *Rio Tinto* and *Harry Winston’s Diavik* mine, *BHP Billiton’s Ekati* mine, and *Tahera’s Jericho* mine (although operations are currently on hold pending sale) – all of which are located in the Canadian Arctic.

In addition to these sourcing deals, *Tiffany* took on cutting and polishing activities as well as manufacturing (Kosich, 2004; Newman, 2006). According to Kowalski, security of

supply and profits were the primary and secondary drivers of this vertical integration, respectively.

‘We began all these activities primarily driven by security of supply and we wanted to control our destiny. As we became more involved, we realized that there were significant incremental earnings to be derived from vertical integration. Our interest became far more intense... because we believed that there were profit opportunities. At the turn of the century, it became more important for issues of social and environmental accountability. That was actually the very last consideration in terms of time sequence.’ (Kowalski, 2004b).

So, the risk to the *Tiffany* brand posed by conflict diamonds was serious, but only reinforced a process of consolidating control of the company’s supply chain that was already underway. However, the process was not complete by the time campaigns to eradicate conflict diamonds came into force and *Tiffany* stores were targeted along with other jewellers. Unlike many in the industry, *Tiffany* responded to the ‘conflict diamond’ controversy in a very proactive way.

In addition to continuing their movement toward establishing a clear chain of custody for their diamonds, the company also took on an advocacy role and began leading the movement to eradicate the controversial diamonds from the industry as a whole. Toward this end, *Tiffany* took out a full page ad in the *Washington Post* in 2001 encouraging the Bush Administration and Congress to pass the *Clean Diamonds Trade Act*, which enacted US participation in the KPCS. Soon after the ‘conflict diamonds’ controversy, the issue of ‘dirty gold’ arose and *Tiffany* was determined to not get caught unawares again.



## RESPONSE OF TIFFANY TO 'DIRTY GOLD'

*Tiffany* was one of the prime targets of the NDG campaign from the very beginning. Its name features prominently on the original campaign blueprint, a bar napkin on which the campaign organisers originally hashed out the plan in schematic form, now framed and hanging in the office of the organisation for which Steve D'Esposito, the ex-President of *Earthworks* and one of the NDG masterminds, currently works in Washington DC.

According to campaign leaders, *Tiffany* was in its own category from the very beginning (NDG, personal communication, September 20, 2010). As explained in chapter three, the campaigners identified high-end jewellers as principal targets because of their brand value. They wanted to raise the threat of damage to this brand value in order to garner the leverage necessary to influence mining practices. They were confident these companies would go to bat for their brands and once they had a core of high-end jewellers they would then take this added credibility to the lower-end jewellers, armed with a model of how companies had adapted and a 'gold standard' by which to judge all within the industry. And *Tiffany's* name was first on the list.

This was an approach that had already proven effective in other industries, notably the forestry sector when *Rainforest Action Network* (RAN) and others targeted large DIY retailers to force them to shift their sourcing strategies away from old growth timber (see, for example, Bartley, 2003; Sasser, 2003).<sup>71</sup>

Contrary to the tactics utilised in the forestry case, however, the NDG campaign leaders decided, against the wishes of many in the activist community, to directly approach some of the companies first. This went against the then current logic amongst activists, which was to hit the companies with demonstrations, boycotts, and other forms of negative publicity

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<sup>71</sup> Other examples include the fur trade and, of course, diamonds.

with the hope of forcing the company to acquiesce to the campaign demands. Approaching the companies beforehand to negotiate, and possibly cooperate, was anathema to activists.

In this case, the campaign leaders decided that leveraging the risk of a shame campaign was worth more than actually pulling the trigger. One of the main concerns was that if they did go through with the planned actions, they ran the risk of losing their leverage. That is, if they held demonstrations outside storefronts and there was no noticeable decline in sales, they would lose the leverage that the threat offered. They felt that the uncertainty and risk itself may in fact be the most powerful motivator (NDG, personal communication, September 20, 2010).

Once the decision to contact the companies directly was made, the campaign leaders then put their minds to figuring out how to go about doing this. During this process of gathering information on target companies, which included *Tiffany*, *Cartier*, *Bulgari*, and *Rolex* among others, they received a call from *Tiffany*. In other words, *Tiffany* approached the activists.

*Tiffany* explained that they had heard about the campaign and that the company was doing many of the same things – assessing the landscape and trying to make sense of it all (NDG, personal communication, September 20, 2010). They were going through their supply chain, post conflict diamonds, and evaluating their vulnerabilities. They came up with gold.

Their gold supply chain constituted a considerable latent problem and environmental concerns could potentially pose an even more significant threat than ‘conflict diamonds’ as conflict diamonds were relatively containable. So *Tiffany* was looking to have a conversation – a move that would have certainly been as appalling to those in the industry as the campaigners’ engagement was to other activists at the time.

As campaign leaders explain, *Tiffany* was out in front; they were in their own category (NDG, personal communication, September 20, 2010). They had done their analysis

and were completely different from everyone else in the industry. They had learned a lesson from the ‘conflict diamonds’ issue. While other jewellers finished with ‘conflict diamonds’, once they saw that it was at least moving along the KPCS track, they went back to doing what they did best – selling jewellery. *Tiffany* went further and saw something deeper here. They began an on-going process of engaging with key people from the NGO sector as well as with their suppliers, including some of the major mining companies. The result was that by the time the campaign launched, *Tiffany* had already done its analysis and had a sense of the lay of the land, their company’s position in it, and a strategy moving forward. They were going to do things that were in *Tiffany*’s perceived interest. Post-conflict diamonds, they were the ones who had already thought this all through and were not going to be surprised again (NDG, personal communication, September 19, 2010).

*Lobbying and advocacy – regulatory reform and opposition to projects*

*Tiffany* has shown itself to be a leader right from the beginning. One of the first major jewellers to sign on to the NDG campaign’s *Golden Rules*, *Tiffany* has gone beyond campaign expectations and has actually pushed for increased regulation in a number of areas affecting their operations.

On 24 March 2004, *Tiffany* surprised the industry and activists alike by placing a full page ad in *The Washington Post* lobbying against a proposed mine in Montana. The ad took the form of an open letter to Dale Bosworth, Chief of the US Forest Service, and was signed by Michael Kowalski, *Tiffany* Chairman and Chief Executive. The letter very publically opposed the Rock Creek project near Libby, Montana.

This move quite naturally triggered divergent responses from environmentalists and representatives from the extraction sector. ‘Given the impact of mining for gold, silver, and platinum,’ explains D’Esposito, ‘they are a company who cared about how they were viewed

and what their customers think' (Associated Press, 2004). Laura Skaer, head of the *Northwest Mining Association* in Spokane, had a different take: 'I was stunned that a person of Mr. Kowalski's stature and obvious business acumen would write a letter like that' (Associated Press, 2004).

In fact, many in the industry were very publically upset with the company's stance. Industry groups attacked the company, accusing Kowalski of being the lapdog of the environmental movement and claiming the advertisement was factually inaccurate, that the company had failed to consult with those working on the project, and had wasted an estimated USD 50,000 of shareholder money on the personal agenda of the CEO (Northwest Mining Association, 2004, p. 6). However, it is worth noting that much of this inflammatory language is originating from the same source – a regional industry group catering to mining interests – and in the same document refers to the NDG campaign as an 'anti-mining crusade' (Northwest Mining Association, 2004, p. 2).

Despite these negative feelings from industry, *Tiffany* has continued down the same path of corporate advocacy. In a talk centred on *Tiffany's* CSR policies and delivered to his Alma Mater, the *Wharton Business School* at the *University of Pennsylvania*, Kowalski opened up about the impetus for and backlash against some of *Tiffany's* actions.

Kowalski has admitted that *Tiffany* did not expect the tenacity of the industry backlash that the *Washington Post* advertisement produced. Kowalski himself considers *Tiffany's* stance to be 'a-political' as 'unlike other environmental issues today, mining issues traditionally cut across party lines,' Kowalski explained; however, his perception began to change once newspaper headlines began announcing *Tiffany Battles Administration over Mining Reform*. 'It was something that we certainly didn't anticipate', admitted Kowalski (Kowalski, 2004a).

‘Certainly all of our fellow retailers, and almost everyone in the mining industry, consider our degree of engagement suspect, stupid, or insane – pick your poison,’ Kowalski told the students.

‘Many of the mining communities in this country absolutely believe that we act as a front for the NGO community, that I am a radical environmentalist who is out of control, that we have been corrupted by the NGOs – none of which is true. In terms of brand leadership on this issue, we are at a turning point right now. To some degree, we could walk away from this today and say ... We have done more than any jeweller in the past by basically putting mining reform back on the national political agenda through our open letter ad in *The Washington Post*’ (Kowalski, 2004a).

But *Tiffany* did not walk away. In 2009, *Tiffany* ran an ad in an industry magazine aimed at jewellers urging its peers to boycott gold from *Pebble* gold mine in Bristol Bay, Alaska run by the ‘Pebble Partnership’ of *Anglo American* and *Northern Dynasty*. *Tiffany* says it objects to the proposal ‘to build an enormous gold and copper mine in the very heart of Alaska’s Bristol Bay Watershed, home of the world’s most productive salmon fishery.’ The ad continues with the statement that ‘there are certain places where mining cannot be done without forever destroying landscapes, wildlife and communities. Bristol Bay is one such place.’ They have followed this advertisement up with a similar one in *National Geographic*, December 2010.<sup>72</sup>

In an email to Mine Web, an online industry hub and newspaper, Michael Kowalski said, ‘We have been opposing the *Pebble* mine in every public forum we have spoken at – the

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<sup>72</sup> To view the advertisement in National Geographic, follow the link below:  
[http://www.tiffany.com/csr/responsiblesourcing/PDF/National%20Geographic\\_Dec\\_2010\\_cropped.pdf](http://www.tiffany.com/csr/responsiblesourcing/PDF/National%20Geographic_Dec_2010_cropped.pdf)

*FT* and *Fortune Green Conferences*, the *EMA Awards* in Hollywood.’ Kowalski said *Tiffany* has discussed its objection to the Pebble Project with Anglo American, the company behind the proposal (Kosich, 2009).

In a separate interview, Kowalski has stated that he thinks it is ‘a matter of risk assessment’ and, after visiting the proposed site for a fly fishing expedition, has even put together a documentary film that helped convince the *Tiffany* Board of Directors to back the campaign (Novellino, 2009). Along with risk assessment, there are other business explanations for this type of corporate activism.

One of the interesting aspects of this ad in particular is that it is directed at industry actors and is, therefore, less public than the *Washington Post* challenge. This suggests two things: First, that *Tiffany* did not wish a repeat of the attention and backlash of the same scale that the first advertisement in a widely-circulated publication created. Second, that *Tiffany* is not simply attempting to create publicity through its activism (Luxury jeweller, personal communication, September 16, 2010).

From the examples outlined thus far, one could easily get the impression that *Tiffany*’s response to the issue of ‘dirty gold’ was simply taking out inflammatory advertisements in newspapers. However, the company has also been active in the creation of industry groups set up to deal with these issues. It was one of the founding members of both the WDC that works toward the elimination of ‘conflict diamonds’ from the diamond supply chain (previously mentioned) as well as the RJC (formerly the *Council for Responsible Jewellery*) created in response to the issue of ‘dirty gold’ (see chapter three). The company has played a central role in gathering industry support for collective action as well as reaching out beyond it.

## IOS MODEL APPLIED TO THE SPECIALTY FIRM – TIFFANY & CO.

So the response of *Tiffany* has conformed to our expectations for actors in the specialty jewellery category. Due to the structural opportunities available to institutional entrepreneurs within the firm, once activists raised the issue of ‘dirty gold’, these business actors were able to act quickly and decisively. The analysis will now bring in the IOS model to offer a more focused explanation of the company’s deep engagement, paying particular attention to the unique features of the opportunity structure business actors within the firm were able to take advantage of to drive this very proactive response. This will also offer a chance to evaluate the framework itself, judging the extent to which the company’s response can be accounted for through the channelling effects of the economic and institutional dimensions of the IOS model.

### ECONOMIC DIMENSIONS

#### *Exposure to risk*

The immediate competition that firms face has a lot to do with their business model. *Tiffany* enjoys significant mark-ups based on its promise of quality, design, and image. *Tiffany* competes with other luxury brands and spends large quantities of its expenditures on marketing, for example, in its daily advertisements in the *New York Times*. An enormous proportion of the company’s value is intangible and the *Tiffany* brand has risen to the upper echelons of the industry by leveraging its reputation. It is not a needs-based industry and so customers must be convinced that the product is worth its significant price premium. As we saw in the chapter on the global gold supply chain (chapter three), much of this can be said about the jewellery sector as a whole, but it is especially so in the case of the luxury brands.

*Tiffany's* brand value is, arguably, of greater value to the company than those of our other cases. That is to say, *Tiffany's* brand image accounts for a relatively greater share of the company's value and constitutes a vital part of its business strategy. The company is ranked 76<sup>th</sup> in Businessweek's Top 100 Global Brands annual report (Bloomberg, 2010a) with a brand value of USD 4.000 billion. Cartier is ranked just slightly behind in the 77<sup>th</sup> position with a brand value of USD 3.968 billion. Noticeably absent is *Wal-Mart*, which is especially significant when we consider that the company is by far the largest retail company in the world. This just emphasises the point that not all firms in the branded node of the supply chain have equal value invested in their individual brand and so the levels of threat and opportunity will also vary.

*Tiffany* designs and manufactures its own jewellery. The jewellery is then emblazoned with the *Tiffany & Co.* name, which adds value to the piece. *Tiffany* maintains exclusive contracts with prominent designers, making its product – for all intents and purposes – a designer brand. It does not compete on price so much as product differentiation and this makes the brand image of *Tiffany* vital to its business interests, while also allowing for a market strategy based on smaller volumes and double-digit profit margins (see appendix B).

*Tiffany's* lack of diversification can go a long way toward explaining the company's political activities. Michael Kowalski has stated that prior to NGOs and others raising public concern over the social and environmental effects of the jewellery industry's demand for minerals, this lack of diversification posed a fundamental security of supply predicament (Kowalski, 2004a). It left the company at the mercy of its suppliers. This was especially the case with diamonds as roughly 40% of *Tiffany's* products required their use. So even before diamonds were in the global media spotlight as fuelling armed groups that were adding to the miseries of many in poverty-stricken and war-torn supplier-countries, *Tiffany* was working to integrate manufacturing and supply processes into its market strategy. The 'conflict



diamonds' movement only added a new security issue to *Tiffany's* strategic supply chain agenda and added extra impetus to a movement already underway.

### *Cost of compliance*

The structure of each firm's supply chain will differ within an industry and this will affect the firm's cost of compliance and, therefore, the opportunity window available for business actors. *Tiffany* has a relatively simple supply chain as it is fairly vertically integrated. They source the vast majority of their gold from a single mine with onsite refining capacity and control the design and manufacturing processes.

As mentioned above, *Tiffany* was already in the process of shifting its supply chain toward a more vertically integrated model when the first cries of the 'conflict diamond' controversy were heard in the late 1990s. This certainly lowered the marginal cost for participating in a movement away from these damaging sources of minerals. The winds of change had already been blowing through the company's supply chain and were unearthing benefits unbeknownst to those preaching for a supply chain devoid of 'conflict minerals' and the concomitant reputational risks that accompany them.

*Tiffany's* experience with 'conflict diamonds' certainly prepared the company for what lay ahead when the issue of 'dirty gold' arose. However, unlike the diamond experience, *Tiffany* had not expanded its control over its gold supply chain and so could not immediately respond with chain of custody verification as to how and where their gold was sourced. In the words of Michael Kowalski, when the question was posed: 'Where do we get our gold from?' He admits: 'The answer was we have no idea' (Kowalski, 2004b). Apparently the same security of supply concerns *Tiffany* faced with diamonds were not at the forefront of their procurement strategies for gold.

‘If one were to ask us about the ultimate mine origin of any of our precious metals we couldn't begin to answer that question’ (Kowalski, 2004b). So the company put the question to its suppliers – its manufacturers, fabricators, and even bullion banks – but to no avail. ‘The trail simply goes cold’ (Kowalski, 2004b).

Since then, *Tiffany* has shifted its supply chain so that it sources most of its new gold from the Bingham Canyon mine in Utah, a modern mine where the company can ensure full control of procedures (Friedman, 2008; Copping, 2009). Like the *Diavik* diamond mine in the Northwest Territories, the *Bingham* mine is operated by *Rio Tinto*, through its subsidiary, *Kennecott Utah Copper*. They continued to consolidate their chain by melting and moulding jewellery in their own facilities in NYC and Rhode Island while continuing to cut and polish rough diamonds in Belgium, South Africa, and Canada (Newman, 2006).

As was shown, even before the NDG campaign hit its stride, *Tiffany* already had a very strong sense of their position in terms of the potential environmental and social issues that were beginning to come up. While the rest of the industry moved on from the diamond controversy, *Tiffany* realized they were still exposed and proactively began the process of investigating the provenance of their other materials and expanding their chain of custody to reduce this supply chain exposure. In this respect, *Tiffany* was ahead of the curve and by the time the NDG campaign was up and running, it was much easier for *Tiffany* to get its house in order.

Additionally, the consumer base for specialty jewellers should be less sensitive to changes in price than those of diversified jewellers. While the latter compete largely on price, *Tiffany*, for example, emphasises the *Tiffany* name as representing tradition and quality. This is a major reason why *Tiffany*'s profit margins are triple those of its larger, discount superstore competitors (see appendix B).

Recently, *Tiffany* has expanded its market into less expensive jewellery whose target market should be more price sensitive than for the higher range luxury goods market. This jewellery tends to utilize silver as its base metal and so is not directly targeted by the campaigns against diamonds and gold. However, the company has utilized the diamond experience to inform its response to concerns about gold and it seems only natural to expect silver to be next in line.

Perhaps more significant is the fact that *Tiffany's* movement into less expensive jewellery and *Wal-Mart's* movement into more expensive jewellery has resulted in many similar products being brought to market by these companies. However, there are still some major differences between them. Even though the products seem comparable, they may in fact fall into different categories – *Tiffany* specialises in aspirational goods while *Wal-Mart* specialises in attainable goods. It harkens back to the conversation about branding. *Tiffany* is selling an image and, although they do a wonderful job at balancing this with accessibility, they are a luxury goods company and they do not compete on price, but on image.

In fact, although *Tiffany* and *Wal-Mart* are two of the largest retailers of gold jewellery in the US, industry analysts do not even list them as competitors. For example, Datamonitor, an industry database, lists *Tiffany's* main competitors as *LVMH Moet Hennessy Louis Vuitton*, *Zale Corporation*, *Bulgari Societa per Azioni*, *Blue Nile Inc.*, *Signet Groups plc (Kay and Jared)*, and *Richemont (Cartier)* as the top six – despite *Wal-Mart* accounting for the highest gold jewellery sales in the US market (Datamonitor, 2009a, p. 21). This reflects one of the major divisions in the jewellery sector, namely, that between specialty jewellery retail chains and department stores with jewellery operations (Datamonitor, 2009a, p. 20). There is, of course, a third category that accounts for *Brilliant Earth* (Datamonitor, 2009a, p. 20).

The significance for the analysis here is two-fold: First, *Tiffany* is much more reliant on its image, making the company much more susceptible to threats against its reputation. And second, *Tiffany* should be more able to incorporate the cost of mitigating these risks into the price of its product. Both of these factors expand opportunities for institutional entrepreneurship.

## INSTITUTIONAL DIMENSIONS

### *Corporate culture*

*Tiffany* is associated with classic American luxury stemming from its Manhattan flagship store. Their market is in aspirational goods. While they pride themselves on being accessible, their main customers are upper income, urban consumers. All of these factors contribute to the organisational identity of the company, which will be reflected in the artefacts (past actions) and espoused beliefs (written and verbal policies and goals) of the company.

Naturally, this identity leads to different strategies than our other cases when implementing environmental and social directives. *Tiffany's* customers want the *Tiffany* brand and everything it represents and they are willing to pay a premium to attain it. This makes *Tiffany* more vulnerable to the risks of being associated with irresponsible mining practices, but also more inclined to use its voice against such practices. This can be seen in the *Washington Post* advertisement calling for the reform of mining laws as well as in its ad in *National Jeweler* calling for its fellow jewellers to boycott gold coming from the Pebble Lake mine in Alaska and the similar ad in *National Geographic*. *Tiffany's* customers are likely to care about these issues and applaud *Tiffany's* position on them as it is a cognitive fit with its global brand image.

In fact, the campaigners were counting on this from the beginning. There was a strong business case based on risk mitigation present in the *Tiffany* situation. With so much intangible value invested in its brand, the company would go to great lengths to protect that image. An intimately related factor was that *Tiffany* customers, wealthy urbanites that have shown themselves to be willing to pay premium prices for this well-groomed *Tiffany* brand, may actually find ‘dirty gold’ to be a salient issue – more so than consumers shopping for price. However, at the end of the day, those working closely with the company feel that it came down to culture. ‘It was less a business case than a given – *Tiffany & Company* does not equal protesters outside of stores’ (NDG, personal communication 20/09/10).

#### *Leadership structure*

As explained in the conceptual framework, the structure of a firm’s leadership will influence the autonomy of managerial decision-making; therefore, leadership structure will shape the extent to which individual characteristics of the firm’s leadership matter. To put it differently, the leadership structure of the firm will influence the willingness and the ability for internal institutional entrepreneurs to respond proactively to external pressure.

While the vast majority of the major specialty jewellers have signed on to the NDG’s *Golden Rules* and the RJC, there are exceptions. *Rolex*, the luxury watchmaker, has declined engagement with activists and the wider politics of the market. This is somewhat surprising given that most of the economic opportunities that facilitate *Tiffany*’s proactive stance are also present with *Rolex*. The difference, it seems, is that the institutional character of *Rolex* does not favour this type of political activity. Their website does not have a prominent CSR section and according to activist accounts, their leadership simply does not appear interested in participating (NDG, personal communication, April 24, 2012). It suggests that they have not built the systems or the culture that would facilitate proactive political engagement.

For *Tiffany* it is the CEO and Chair, Michael Kowalski, who is driving change as he has both the vision to bring a strong CSR analysis to the firm and the position to see it through. Campaign leaders note that there are others like Mr. Kowalski in other companies who have a similar vision, but are not in a position to drive these issues past the Board of Directors (NDG, personal communication, September 20, 2010). They may not have the Board onside or they may not have the senior leadership onside. They really need the combination to drive ambitious programs forward. The fact that Mike Kowalski is both CEO and Chair of the Board of Directors helps.

In fact, key campaigners contend that ‘leadership is key – it is at least as important as the brand value. *Harry Winston* didn’t move; *Cartier* came more slowly – all the other brands needed to figure out what was going on. There was no leadership; nobody was in a position to really drive it forward. With *Tiffany* it was the perfect mix’ (NDG, personal communication, September 20, 2010). So while many companies will possess latent leadership potential, any prospective champions must be in a position to expend company resources while creating the cognitive and organisational space for change.

Michael Kowalski holds many of the top positions at *Tiffany*. He is the Chairman of the Board, Chief Executive Officer, Member of the Management Board, Member of the Dividend Committee, and Member of the Corporate Social Responsibility Committee (Bloomberg, 2012b). While *Tiffany’s* business model and corporate culture do lend themselves to proactive leadership on these issues, Kowalski’s position as Chairman of the Board of Directors expands his opportunity window when advocating a very strong position on CSR. With the amount of autonomy these positions afford him, it seems appropriate to expand briefly on the character of the company’s leader.

A self-proclaimed ‘corporate activist’, Mr. Kowalski is an environmentalist and seems to take these challenges personally. While climbing the rungs of the *Tiffany* corporate ladder,

Kowalski also became involved in various environmental causes, including as Trustee of the Wildlife Conservation Society and the Nature Conservancy (Bloomberg, 2012c).

This is interesting as it not only points to a personal commitment to environmentalism, but also hints at an underlying conservationist worldview of environmental protection as opposed to a more instrumentalist perspective at the core of concepts like ‘sustainable development’ (see Bernstein, 2001). When explaining the logic behind *Tiffany’s* campaign against the proposed mine in Alaska to a reporter for *National Jeweler Magazine*, Kowalski states that ‘[a] mine, by definition, is a wasted resource... it will be gone, it will be depleted and likely be abandoned’ (Novellino, 2009).

What makes this statement interesting – and controversial – is not the distilled sentiment, but rather, the source and context. It is coming from the business community and, moreover, from an industry player with a stake in this sector. It is not empty rhetoric and it is not representative of flexible, market-based instruments. It advocates for strict limits to market activity – prescribing ‘no go’ zones for extractive industries. It demonstrates a logic that is fundamentally at odds with that underlying the market-driven environmentalism that permeates the contemporary business community. Michael Kowalski may have been correct when he stated in a *Reuter’s* interview that appeared on *Forbes.com* immediately following the *Washington Post* ad: ‘For *Tiffany*, responsible mining is absolutely a part of our brand contract and, if you haven’t guessed it already, I’m close to being a radical environmentalist’ (cited in Northwest Mining Association, 2004). In all likelihood, Kowalski was probably having a little fun with the statement, but it has been picked up by some in the industry and treated as a confession of guilt (see, for example, Northwest Mining Association, 2004).

It is worth repeating that it is a combination of the company’s business model as well as cognitive factors that allow those within the company the ‘wiggle room’ to take this stance. If Mr. Kowalski did not hold such powerful positions within the company, *Tiffany’s*

depth of engagement would almost certainly have suffered. *Tiffany's* value is its brand. In a company where the vast majority of value is intangible, one of the CEO's main tasks must be reputation management. Also the fact that the culture of the firm is conducive to this type of thinking – it did not clash with the core of the *Tiffany* culture. It must be said that this should be viewed as a positive cycle of sorts, the corporate culture enables strong leadership on these issues, but that corporate culture itself will reflect this strong leadership. The bottom line is, without these favourable opportunity structures, Mr. Kowalski's leadership would have likely laid dormant.

Kowalski swears he does not have a problem selling the company's proactive position to shareholders. During the Wharton talk, one student asked Kowalski directly if investors ever criticize him, as the CEO, for spending so much time promoting environmental and social responsibility issues, taking his focus off other daily and strategic initiatives.

'That's a fair question, but investors have not asked. When the subject comes up and when we outline our programs, those investors who are concerned are predisposed to be supportive of what we are doing. And I would say that my role is not to focus on daily operations. My role is to focus on issues of strategic importance. I would place this near the top of our list. It really is about our social license to continue to do business. That is about as fundamental a CEO-like responsibility I can imagine' (Kowalski, 2004a).

## **BUSINESS POWER AND PRIVATE REGULATION**

The chapter has thus far offered an explanation for *Tiffany's* response to activist contestation based on the actions of internal institutional entrepreneurs who drive change through the opportunity structures available. But what are the potential consequences of this corporate



political mobilisation? The final section brings instrumental dimensions of business power back to the analysis, examining the ways in which *Tiffany* has impacted the political landscape, contributed to the creation of private institutions, and expanded the opportunities for political action moving forward. We bring back the business power lens to examine the ways in which specialty jewellers might mobilise the resources of the firm to not only take advantage of, but to also expand, the opportunity window for corporate political mobilisation. Business actors use various strategies to impact their institutional field, inside and outside the firm, utilising the instrumental power of their firm.

	<b>Economic</b>	<b>Institutional</b>
<b>Internal</b>	<ul style="list-style-type: none"> <li>✓ Translating regulations into actionable practices</li> </ul>	<ul style="list-style-type: none"> <li>✓ Creation and maintenance of institutions internal to the firm</li> </ul>
<b>External</b>	<ul style="list-style-type: none"> <li>✓ Donations</li> <li>✓ Strategic investments</li> <li>✓ Buying power and preferential procurement</li> <li>✓ Paying membership fees</li> </ul>	<ul style="list-style-type: none"> <li>✓ Lobbying and advocacy</li> <li>✓ Issue framing</li> <li>✓ Creation and maintenance of institutions external to the firm</li> <li>✓ Acting as a role model for others to benchmark</li> </ul>

Table 11: Corporate political mobilisation – *Tiffany & Co.*

## INTERNAL

### *Buying power and preferential procurement*

*Tiffany* is rather uniquely positioned to monitor its sourcing as it maintains one of the most vertically integrated supply chains amongst jewellers. As we saw earlier in the chapter, even before the conflict diamonds controversy, the company began purchasing interests upstream in mining and processing activities. In addition to securing their supply of diamonds and actually enlarging their value-adding activities, this has allowed *Tiffany* to follow their diamond supply from the source and monitor practices along the chain.

*Tiffany* has advantageously positioned itself when sourcing gold as well. As noted earlier, the company purchases gold almost exclusively from *Kennecott's* Bingham Canyon copper mine in Utah, which has the advantage of being an established mining community that uses the highest technology to extract the ore without the use of cyanide and, importantly, has an onsite refinery which allows the gold to remain segregated from that mined from other sites. This last point is vitally important as it is the refining stage at which sources often get mixed, posing difficulties for tracing the substance back to its original source (Industry expert, personal communication, July 29, 2011). Additionally, it allows the company to have a policy of only sourcing gold when it is mined as a by-product – as the mine predominantly produces copper – though some in the industry find this policy disingenuous (WGC, personal communication, July 18, 2012).

### *Creation and maintenance of institutions internal to the firm*

*Tiffany's* mainstreaming of sustainability throughout their business really took off with the conflict diamonds controversy and has continued since. *Tiffany* monitors its compliance with its evolving standards through its involvement with certification initiatives as well as through

a semi-independent *CSR Committee*. Those tasked with CSR initiatives interact often with operations management in their New York offices.

*Tiffany* maintains a strong CSR program. While Kowalski has admitted that *Tiffany* expends a fair amount of resources working on mining reform issues (Kowalski, 2004a), they are a good example of a company that does a lot with relatively little and the cost of implementing their CSR strategies has never been an issue with investors (Luxury jeweller, personal communication, September 16, 2010). One of their main CSR divisions – the *Tiffany Foundation* – consists of only two employees including the President, Anisa Costa, and they retain a semi-independent *CSR Committee* that oversees their CSR efforts.

In line with the *CSR Committee Charter* (*Tiffany*, n.d.), the *Committee* includes at least two independent directors and one employee director. The *Charter* defines ‘social responsibility’ as the way in which the business, including its sourcing, affects the communities in which it operates. Its remit is expansive in that it considers everything from environmental impacts to employment practices to political engagement. The *Committee* is directed to monitor and evaluate all management decisions with regard to their social and environmental impacts and offer recommendations for improvements. The focus is on any issue that may impact upon its business operations, brand image, and reputation while updating priorities based on evolving industry best practices and community concerns. They also review the company’s engagement with various groups and oversee the reporting on their initiatives to the wider stakeholder community while maintaining the authority to engage or terminate engagement with any third-party auditors or consultants. It is the responsibility of management to ensure that resources are available to the *Committee* to carry out all CSR activities that the *Committee* sees fit.

Through its internal policy mechanisms, the company adheres to numerous self-imposed bans on dealing in certain materials and materials of certain provenance. For

example, in 2002 *Tiffany* unilaterally stopped selling coral and in 2003 they ceased to trade in gems from Myanmar in line with the U.S. government's *Burmese Freedom and Democracy Act*, continuing to adhere to the ban even when legal loopholes were being utilised by other jewellers to sell these items (Tiffany, 2012). As previously noted, in 2004 the company pledged to not source silver or gold from the *Pebble* mine in Bristol Bay and, in 2010, added diamonds from the Marange region of Zimbabwe to the list of materials banned from company products and stores (Tiffany, 2012). An example of how diligent the company is in protecting its reputation and adhering to the CSR goals of the firm took place in 2002 when the company pulled tanzanite from its shelves at a time when the mineral was being linked to terrorist groups; when these rumours proved false, the company began selling tanzanite once more (Newman, 2006). These internal policies are meant to protect the company from the reputational risk of being associated with environmental degradation and human rights abuses and serve the function of denying those involved in these activities a source of financing from the company. This act of leadership on these issues also serves as a model for other jewellers and applies both political and market pressure to those who would seek to profit from these activities.

## EXTERNAL

Through its annual sales of over USD 3 billion, *Tiffany* exhibits moderate market power in the fairly fragmented jewellery market. The approach that *Tiffany* has taken to integrating and, therefore, securing its supply chain has further limited its ability to use its market power to change industry practices beyond its immediate partnership with the *Kennecott's Bingham Canyon* mine. By sourcing exclusively from a single mine, the company is rewarding good practices locally, but limits its ability to incentivise others to change their own practices.

*Bingham* was already utilising best practices and so, in contrast to *Wal-Mart's* approach of bringing suppliers along by working with them to improve their processes, *Tiffany's* approach has the rather ironic effect of reducing their ability to affect change throughout the supply chain and limiting the incentive to maintain best practices to this single mine. Where *Tiffany* exhibits a much greater capacity to govern is through their institution-building, vocal leadership, and acting as a role model for others in the industry.

#### *Donations and strategic investment*

The company extends its political influence while strengthening their social license to operate through its philanthropic arm, the *Tiffany Foundation*, which was established in 2000 and currently supports various projects, including campaigns against trade in coral, beautifying urban parks, restoring areas surrounding abandoned mines, designing programs to maximise the benefits of artisanal mining in Sierra Leone, and supporting community health through HIV/AIDS programs in Botswana (Tiffany, 2012).

We see evidence of the company's conservationist approach to environmentalism in *Tiffany's* philanthropic activities outside of mining as well. A good example is the USD 1 million donation from the *Tiffany Foundation* to purchase the land next to the famous Hollywood sign to spare the woodlands from development. In *Tiffany's* statement, Kowalski states that '[t]he Hollywood Sign... cannot be separated from its untrammelled setting of hiking trails and wildlife corridors. Preserving both means that future generations may gaze on this parkland and know the California frontier before freeways and urbanization' (USA Today, 2010). This conservationist agenda espoused and funded by *Tiffany* parallels many of the statements directly confronting environmental issues in mining and are indicative of the company's basic underlying assumptions about what constitutes effective environmental policy.

*Lobbying, advocacy, and issue framing*

As outlined in previous chapters, *Tiffany* has established itself as a very vocal proponent of responsible sourcing for jewellers. Through both the *Tiffany Foundation* and through their CEO, the company advocates for industry change in mainstream media. Examples discussed earlier include political stances aimed at creating public demand for policy reform and creating market demand from both fellow jewellers and end-use consumers for ethically sourced gold.

The *Washington Post* ad calling for the reform of US mining regulations is a political strategy usually reserved for environmental and social rights groups. The ad was an open letter to the Forest Service in which Kowalski argued that ‘opponents fears are justified’, referring to the opposition of numerous environmental organisations, dozens of local businesses, and a handful of local politicians to the proposed *Rock Creek* silver and copper mine in Montana. It was the first time that a jeweller of *Tiffany*’s size and stature had taken a public stance calling for reforms to mining regulation and this did not go unnoticed by civil society or industry groups. The battle between the *Rock Creek* mine developers and opponents is on-going, but the *Tiffany* ad certainly helped place the fight front and centre in policy conversations.

Along with the company’s activism targeting policy reform, *Tiffany* took a strong stance aimed at other jewellers – as commercial consumers of gold – calling for a boycott of gold and silver from the proposed *Pebble* mine. But, the company’s vocal position on responsible mining extends beyond both gold and newspaper advertisements. Through various public appearances, media interviews and through their website, *Tiffany* advocates for ‘no-go zones’ for mining operations, which are essentially places that are too environmentally or culturally sensitive to host mine development regardless of the scale or practices employed (Tiffany, 2012). They have advocated for policy reform regarding the

reclamation of abandoned mines, reform of the KPCS to close existing loopholes, respect for human rights through boycotts against gems from Myanmar and diamonds from Zimbabwe, and a moratorium on trading in coral to protect the world's coral reefs (Tiffany, 2012).

*Creation and maintenance of institutions external to the firm*

In addition to their political activism, *Tiffany* is directly and actively involved in institution-building through their involvement in conferences, workshops, certification institutions, and various other collaborations.

*Tiffany* helped convene a 2003 multi-stakeholder conference leading to the publication of the 2005 *Framework for Responsible Mining: A Guide to Evolving Standards*, which seeks to establish dialogue between government, civil society and industry that will eventually evolve into actionable criteria for responsible mining practices moving forward (Miranda, Chambers & Coumans, 2005).<sup>73</sup> Additionally, *Tiffany* set an important precedent for other jewellers to follow by being the first to sign the *Golden Rules*.

As mentioned previously, *Tiffany* was one of the 14 founding members of the RJC and has been an active and instrumental member of the organisation since its inception in 2005. This organisation encourages ethical business throughout the industry by certifying members within the jewellery supply chain against its internally developed criteria. As a member of the RJC, *Tiffany* is monitored for compliance against its *Principles and Code of Practices*.

We have seen that the company also supports IRMA, whose membership comprises many of the same members of the RJC, but goes beyond industry players to include NGOs, labour groups, and communities impacted by mining. IRMA's wider representation – and, therefore, increased input legitimacy – should allow the organisation to define best practices

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<sup>73</sup> [http://www.frameworkforresponsiblemining.org/pubs/Framework\\_20051018.pdf](http://www.frameworkforresponsiblemining.org/pubs/Framework_20051018.pdf)

in the mining industry and its goals include certifying individual mines. However, this wider representation has meant that the initiative remains in the planning stages and is not officially up and running to date, which obviously degrades the output legitimacy of the initiative.

Progress on all the initiatives that *Tiffany* engages with is possible through its partnerships with various NGOs, which include *Earthworks* and *Oxfam* with their NDG campaign and *SeaWeb*, a marine conservation NGO, with their ‘Too Precious to Wear’ campaign (Tiffany, 2012). Additionally, the *Tiffany Foundation* provided financial support to a feasibility study for fair trade diamonds and gold<sup>74</sup> in cooperation with FLO and ARM (Madison Dialogue, 2007).

The company also collaborates with numerous governmental and nongovernmental organisations by participating in and lending public support to their programs. For example, they participate in the *Carbon Disclosure Project*, the EPA’s *Climate Leaders* program, and the *US Coral Reef Conservation Act* along with Appendix II of the *Convention on International Trade in Endangered Species* (CITES) to end trade in coral.

Participation in institution-building offers numerous benefits for the company. While their active participation may grant the company another dimension of product differentiation by branding them as an exceptionally conscientious company, it is perhaps not the company’s greatest benefit. Significantly, *Tiffany*’s engagement permits them a seat at the table from which to voice their needs and concerns with any of the proposed elements of the initiative. It also brings environmental groups into their realm, giving these groups a stake in the firm’s process of operationalizing standards. Such benefits allow the company to control the narrative and, in this way, they re-establish their structural power within these industry-based regimes.

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<sup>74</sup> This particular initiative is still in its draft stage. It is called ‘Standard Zero’ and can be viewed at the ARM website: <http://communitymining.org/index.php/en/standard-zero>



By utilising the arsenal of instrumental power available to the firm, internal institutional entrepreneurs have altered the political landscape, not only securing the firm's position in the market by reducing its exposure to risk, but also expanding the opportunities for future political action on these issues and others. By creating systems internal and external to the firm, they have lowered the relative cost of compliance with future issues that may arise from within their supply chain. By mainstreaming CSR norms throughout the company and their supply chain, they further embed these norms within the corporate culture of the company. By creating and strengthening their CSR department, they further raise the profile of social and environmental concerns within the company's operations and establish operating procedures to deal with them. Although such opportunities could always contract, this suggests that continued activist pressure, even in different issue areas, offers a mechanism by which to expand opportunities for institutional entrepreneurs and ratchet-up the proactive political engagement of the private sector.

## CONCLUSION

Specialty jewellers have created an industry-led, second-party certification initiative in response to the political issues they face throughout their supply chains. For these jewellers, it is predominantly about risk mitigation. They have organised individually and collectively in an attempt to control the narrative and the non-state institution-building process. By leading the push for industry certification, lead firms and industry groups ensure that their individual reputations along with the shared reputation of the jewellery industry is upheld, that all specialty jewellers are subject to the same standards and related costs, that there is ample quantities of 'responsible' gold available, that they forestall any future campaign or state-led pressure, that they maintain control over the processes of agenda-setting and rule-making,

and that they are not inadvertently contributing to socially or environmentally irresponsible practices.

There is a clear pattern amongst the specialty jewellers in their willingness to sign on to the *Golden Rules* and the RJC campaign. However, by the same token, we need to ask why *Tiffany* has pushed so hard while many of the others were slower to respond and less deeply engaged. Lead firms set the pace and standard for their respective categories and there is much to learn from these policy leaders. *Tiffany*, for example, became deeply engaged with the RJC as a founding member of this second-party certification while remaining involved in the development of IRMA. Additionally, they have been a vocal advocate for reform of the KPCS, a stance they can maintain as they source the majority of their diamonds from easily traced, 'conflict-free' locations.

*Tiffany* had strong leadership that cared about the issues and was in a position to implement the directives. The company has taken a very proactive route to engaging with these issues, seemingly because of the intensity of the potential risks to its business model as well as the environmental ethos espoused by a leader with deep influence within the organisation. The crisis seemed to have occurred with 'conflict diamonds' and since then, *Tiffany* has simply extended in-house processes that were already in place.

The response of *Tiffany* demonstrates the complex causality involved in the interpretation of social phenomena. The application of the IOS model seeks to aid in a dynamic understanding of the interaction between cooperation and compromise, structure and agency, and economic and institutional dimensions. *Tiffany* clearly has a committed leader in Michael Kowalski who has the power within the organisation to push the company to respond in ways that align with his assessment of the situation. He not only holds positions within the company that allow for him to push chosen policies through, but serves a company that, because of their intangible value, requires the CEO and Board of Directors to place reputation

management at the forefront of their managerial remit. In a similar vein, it is a rational strategy, in a market sense, to advocate for strict regulations of mining as the company would benefit from an elevated reputation of the jewellery industry as a whole, would enjoy a wider array of options for sourcing, and would force the rest of the industry to pay the slight premium involved in ethical sourcing instead of reaping the benefits of lower prices from utilising lower standards. In this way, the company levels the playing field, albeit on a higher level.

Through the company leadership's efforts to leverage its power and shape the institutional landscape, *Tiffany* realigns its practices and interests with the prevailing market forces post-campaign. The findings suggest that through the collaboration and contestation between industry and civil society actors, the opportunities for corporate political engagement with future issues have expanded.

## CHAPTER 6 – DIVERSIFIED JEWELLERS

### INTRODUCTION

The diversified jeweller category includes the largest retailers of gold jewellery by value sold annually and, as a group, their share of the market is growing. Since the 2008 financial crisis and the concomitant dip in luxury sales, there has been a movement toward consolidation in the industry and the diversified jewellers, who tend to sell products with a lower price point, have been the main beneficiaries of this change in the market (Industry analyst, personal communication, November 22, 2011). As with the previous cases, the chapter begins by revisiting the expectations of the IOS model for the response of diversified jewellers to civil society contestation over the politics of gold. We find some variation in responses amongst the diversified jewellers; however, once again there is a clear pattern that seems to confirm the basic expectations of the model. The chapter then focuses on *Wal-Mart* as the, perhaps unlikely, leader in the diversified category and the analysis explores the emergence, development, and impact of the firm's engagement. It begins with a history of the company and the critical role its initial engagement with activist groups played leading up to its position regarding the politics of gold. It applies the IOS framework to examine the response from the opportunities perspective, evaluating the model's ability to account for events while collecting empirical data that can be used to help make the model itself more robust. The final section examines the ways in which internal actors were able to mobilise firm resources to create institutions and, ultimately, expand the opportunity window for future political engagement.

## IOS PROFILE AND EXPECTATIONS FOR DIVERSIFIED JEWELLERS

<b>Economic dimensions</b>	<b>Institutional dimensions</b>
<b>Exposure to risk</b> Level of branding – <i>Low</i> Reliance on product – <i>Low</i>	<b>Corporate culture</b> CSR artefacts – <i>Mixed</i> CSR espoused beliefs – <i>Mixed</i>
<b>Cost of compliance</b> Complexity of supply – <i>High</i> Price sensitivity of consumers – <i>High</i>	<b>Leadership structure</b> Ownership structure – <i>Public</i> Position of institutional entrepreneurs – <i>Mixed</i>

Table 12: IOS profile for diversified jewellers

Diversified jewellers should not be expected to actively respond to civil society contestation. They have a low exposure to risk and a low reliance on jewellery as part of their overall market strategy; therefore, any latent institutional entrepreneurs within these firms should have a difficult time mobilising firm resources for engaging in the politics of gold. Furthermore, the high complexity of their supply chains and the high price sensitivity of their customers mean that complying with the demands of civil society activists would be much more costly for the firm than specialty or ethical jewellers. These companies tend to be publicly traded as well, so managers would need to justify these expenditures to a Board of Directors overseeing resource use. Overall, we should not expect diversified jewellers to be very deeply engaged in the politics of gold – with any observed variation most likely due to the variation expected along the institutional dimension of the model.

**EXPECTATION: LOW LEVEL OF ENGAGEMENT AND WEAK COMMITMENTS**

	No Dirty Gold (NDG)	Second-party (RJC)	Third-party (FT/FM)
Argos (UK)	✗	✓	✗
Amazon	✗	✗	✗
Costco	✗	(✓ July 2011 – not yet certified)	✗
HSC	✗	✗	✗
JC Penny	✓	✓	✗
Macy's	✗	✗	✗
QVC	✓	✗	✗
Sears (and Kmart)	✓	✗	✗
Target	✓	✗	✗
Wal-Mart	✓	✗	✗

Table 13: Profile of non-state initiatives for diversified jewellers

The results conform to our expectations for the most part as none have opted for the robust, third-party certification, only two of the largest US diversified jewellers have opted for the industry-led certification, and it is a mixed bag as far as signing the *Golden Rules*. However, there is more diversity in responses evident in this group and not every case meets the expectations of the model. *JC Penny* and *Cosco* were initially slow to respond to the campaign but, after continued hounding by the NDG activists, *JC Penny* has signed the *Golden Rules* and both have opted for RJC membership. While this may appear proactive, their engagement with the issues has largely stopped there. The most intriguing case is *Wal-Mart* as, despite the low exposure to risk, the firm has been very engaged in the politics surrounding their gold jewellery. After a rather slow start, the company has attended a number of significant stakeholder meetings, funded various initiatives and, perhaps most surprisingly, launched their own line of ethical jewellery. As an outlier in the group, by showing significant political engagement despite an apparent lack of exposure to risk, the focus for the in-depth study will fall on *Wal-Mart*, by far the leader from the diversified category. Contrast this with the case of *Macy's*. This is a company that does have a well-branded reputation, albeit, not as far as branding its jewellery goes. But this is also a company that, to date, has not engaged at all with the politics of gold and has even refused to

sign the *Golden Rules*. *Macy's* generally enjoys higher margins than *Wal-Mart*, so it appears to once again come down to differences in corporate culture and leadership as the difference between engagement and resistance. We will now turn to the case of *Wal-Mart*, the largest gold jewellery retailer in the world, and attempt to explain why the company has engaged in an issue area against the expectations of many – and seemingly against the expectations of the IOS model.<sup>75</sup>

## COMPANY PROFILE – WAL-MART

*Wal-Mart* is the largest retailer in the world, operating in three business segments: *Wal-Mart* US, Sam's Club and the international segment (Datamonitor, 2009b, p. 6). Additionally, *Wal-Mart* has a fourth, non-operating segment generating revenues from financial services, rent from tenants, and Sam's Club membership fees. *Wal-Mart* merchandise consists of both branded and private labels in a wide array of product categories including apparel, groceries, electronics, entertainment, home furnishings, and health and wellness (Datamonitor, 2009b, p. 6). They are far and away the world's largest retailer with 2.2 million employees, over 8600 stores under 56 different names in 15 countries and USD 443.2 billion in sales for 2012 (Wal-Mart Annual Report, 2012).

*Wal-Mart* operates three different formats of retail space in the US: 'supercenters', discount stores, and neighbourhood markets – in descending order of average size. There are 2612 'supercenters', 891 discount stores, 602 Sam's Club stores, and 153 neighbourhood markets in the US, in addition to online retailing through its website. *Wal-Mart* owns 106 distribution centres, 26 Sam's Club distribution centres, as well as utilizing 15 third-party distributors – and this is just to service the US market (Datamonitor, 2009b, p. 6).

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<sup>75</sup> See the 'Jewelry Network Fact Sheet' available at [Walmartstores.com](http://Walmartstores.com).

### *Company history*

The company's history and underlying numbers indicate that its core business model is based on volume and continuous expansion. *Wal-Mart* was established in 1969 and went public almost immediately, getting listed on the New York Stock Exchange in 1972. In the 1980s, *Wal-Mart* diversified into grocery and warehouse formats with *Sam's Club* opening in 1983 based on the concept initiated by *Costco's* ancestor, the *Price Company* of California (Datamonitor, 2009b, p. 8). The 1990s saw rapid expansion as *Wal-Mart* purchased wholesale distributors in the US and retail chains internationally, including *Woolco* in Canada, *Wertkauf* and *Interspar* in Germany, *Lojas Americanas* in Brazil and *ASDA* in the UK while establishing joint ventures with *Cifra* in Mexico (Datamonitor, 2009b, p. 8). There was further expansion through 2005 as the company bought a large stake in *Seiyu* in Japan, bought *Supermercados Amigo* in Puerto Rico and *Bompreco* in Brazil outright, and opened 107 new international stores including two in Brazil, 22 in Canada, eight in China, two in Germany, three in South Korea, 59 in Mexico, two in Puerto Rico, and nine in the UK (Datamonitor, 2009b, p. 8). In the last five years, *Wal-Mart* has bought, wholly or partially, hundreds more stores in China, Brazil, the US, and Chile (Datamonitor, 2009b, p. 9).

### *Where jewellery fits into the business model*

Despite being the number one jewellery retailer with sales of USD 2.9 billion in 2008 (State of the Majors, 2009), a quick calculation shows that jewellery accounts for significantly less than 1% of *Wal-Mart's* total revenue. Jewellery has historically seemed almost an afterthought to the company with display cases nestled inconspicuously amongst a maze of aisles filled with thousands of apparel items. The company does not actively publicize its jewellery product lines, perhaps because the economic downturn has taken a bite out of jewellery sales, as it has to all categories of discretionary items.



There is some indication that *Wal-Mart* may be anticipating economic opportunity in the jewellery market, however, as it has been reported that the company is actively moving its jewellery displays to more prominent locations at the front of its stores, improving the training of its jewellery sales people in their retail locations, and recently moving its jewellery operations from Bentonville to New York (Graff, 2009).<sup>76</sup>

Regardless of these changes and despite being the largest retailer of jewellery by sales, *Wal-Mart* limits itself to the retail node of the supply chain, mostly selling popular brands of fashion jewellery as opposed to engagement pieces.

## HISTORY OF INTERACTION WITH CIVIL SOCIETY – FROM CRISIS TO RESPONSE

### *Crisis – Labour, Katrina, Environment*

So with *Brilliant Earth*, the market for ethical jewellery was really opened with the ‘conflict diamonds’ controversy and the company stepped into this gap in the market, further expanding the market through its advocacy and sourcing of ethical gems and metals. *Tiffany*’s business case is based on risk management. They were caught off guard with the conflict diamonds controversy, but responded by playing to their strengths. By the time gold came along as a concern, they were prepared for it.

In the case of *Wal-Mart*, the company was facing increasing scrutiny from the late 1990s from a diverse range of civil society groups, coalescing in a multi-pronged attack on the company over a diverse array of issues. The company that had become the poster child for the evils of corporate America brought much of this on itself by ignoring the labour issues that were at the core of these attacks. As the company grew, so did the allegations against it and coalitions opposing the expansion of *Wal-Mart* emerged and deepened. The company’s

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<sup>76</sup> However, rumour has it that these offices are now being moved back to Bentonville.

history with these issues is key to understanding its response to the politics of gold. The allegations fall into three broad categories of discontent: labour issues, local economy and sprawl.

### *Labour*

Labour issues have always been the foremost concern of civil society groups targeting the firm, including allegations that the company pays their workers exceedingly low wages, employs a disproportionate number of part-time workers to avoid paying benefits, outsources jobs by sourcing an increasing proportion of goods from overseas, and engages in systematic gender discrimination.

The accusation is that *Wal-Mart* pays lower wages than comparable businesses. This charge is disputed by the company and its supporters. Because definitive evidence is lacking and often biased, it is difficult to pass judgement on this issue in any straightforward way.<sup>77</sup> Another charge levelled at the company is that they employ a disproportionate number of part-time workers to avoid paying them the benefits legislated for full-time employees.<sup>78</sup> The effect is a transfer of responsibility from the company to the state as the low income workers are then entitled to benefits paid for by taxpayers. Through leaked company documents, the news received international attention (Greenhouse & Barbaro, 2005). Unions have rallied against the company for ‘outsourcing jobs’, claiming that by sourcing labour intensive goods from overseas suppliers, notably China, *Wal-Mart* is gutting the American manufacturing sector (Jamieson, 2012). And the final labour allegation is that *Wal-Mart* has systematically discriminated against women at every level in the company, consistently paying them less money and promoting them less often than their male counterparts and the result was the

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<sup>77</sup> See, for example, Global Insight, 2005 for a company sponsored study and go to [walmartwatch.com](http://walmartwatch.com) for the watchdog group tracking a comprehensive collection of issues associated with the company.

<sup>78</sup> For a quick view, see [http://walmartwatch.com/wp-content/blogs.dir/2/files/pdf/2006\\_02\\_20\\_WM\\_HC.pdf](http://walmartwatch.com/wp-content/blogs.dir/2/files/pdf/2006_02_20_WM_HC.pdf)

largest gender discrimination law suit in history (Heal 2008; Sage & Stempel, 2010; Goudreau, 2010).<sup>79</sup>

### *Local Economy*

An additional concern is centred on the so-called ‘Wal-Mart Effect’, the name given to the economic repercussions of the introduction of a *Wal-Mart* store into a local economy (Fishman, 2006). *Wal-Mart*’s ability to bring down consumer prices in all categories is well-documented (Basker, 2005). The company achieves this by using its purchasing power to squeeze the profit margins of suppliers by rewarding them with large contracts (Javorcik et al., 2006). Their sometimes ruthless bargaining tactics are well-documented through interviews with former, albeit disgruntled, suppliers (Fishman, 2003). Through logistics, scale, and strategy *Wal-Mart* has brought down consumer prices and changed the face of the retail sector.

While the effects on local economies are complex and contested, these lower prices have certainly caused many small- and medium-sized local businesses to close shop through their inability to compete with the market power of *Wal-Mart*. The result has been increasing opposition from local business people to the introduction of big box retailers into their communities.

### *Sprawl*

Environmental concerns entered the fray with suburban sprawl garnering the most attention. The idea is that *Wal-Mart* superstores, distribution centres, and parking lots take up hundreds of thousands of acres of land, often previously zoned for agricultural use or productive wetlands. With thousands of the largest stores most shoppers will ever step into, dozens of

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<sup>79</sup> The lawsuit was recently blocked in the US Supreme Court as the court ruled in *Wal-Mart*’s favour, effectively defeating the claim (Washington Post, 2011; Goudreau, 2011).

distribution centres in which one could fit dozens of stores, and expansive networks of parking lots and feeder roads, *Wal-Mart* is indeed a major landowner. Add to this the roads and traffic created for shoppers to reach their discount destination and the concerns of environmentalists become clear.

The company certainly disputes many of these allegations and it is beyond the scope of this study to evaluate these claims in any great detail. The point is that *Wal-Mart* has been under fire from a number of societal actors on a number of issues and this has forced the historically recalcitrant company to change its policies and practices.

We have seen that for *Tiffany*, the crisis moment occurred with the ‘conflict diamonds’ controversy. For *Wal-Mart*, this crisis occurred in the early twenty-first century as they continued to face persistent criticism and lawsuits, mostly over the workforce-related issues. In addition to the equal employment lawsuit mentioned above, the company also faced a number of shareholder resolutions – taken on the aforementioned labour, equal employment, and environmental issues. While one such case resulted in *Wal-Mart* changing its policy on employment discrimination based on sexual orientation (Vogel, 2005, p. 64), the deeper crisis did not occur until *Wal-Mart*’s business model for growth was challenged directly.

The company was facing increasing resistance to its expansion into urban areas (Mui, 2007; Heal, 2008). Having conquered the competition in the race to set-up shop in smaller, rural communities, *Wal-Mart* now needed to focus its expansion on urban areas as well as overseas. Its efforts, however, were increasingly facing resistance from local community groups and city councillors. The company encountered staunch opposition to opening stores in Los Angeles, Chicago, New York, and Washington DC in the United States (Heal, 2008, p. 131). In Canada, Guelph, Ontario put up an unexpectedly strong front while Vancouver has

turned down multiple attempts by *Wal-Mart* to enter the market.<sup>80</sup> As Geoffrey Heal has noted, many jurisdictions were passing urban planning bylaws that appeared to be tailored for the sole purpose of keeping *Wal-Mart* and other ‘big box’ retailers out of market by placing limits on the number of employees, square footage, and product diversification a business may boast (Heal, 2008, p. 130). The opposition was based precisely on the grievances laid out at the beginning of this section, citing concerns over labour issues, local business competitiveness, and suburban sprawl.

This constituted a threat to the company’s core business model, which we have seen is based on expansion. If we look at *Wal-Mart*’s key financials, the growth rate of the company has been phenomenal. Gross revenues grew from about USD 280 billion in 2005 to about USD 400 billion in 2009 and to over USD 440 billion in 2012. Profits margins have remained stable around a very modest 3.5%, if anything shrinking slightly over the same period (see appendix B). The extraordinary growth, therefore, is based on aggressive expansion of the company into new regions and markets. Thus, any threat to this expansion is a serious threat indeed. There was clearly a business case for engaging with societal demands and a pragmatic response was required. For reasons we will explore later in the chapter, the company chose to champion sustainability.

*Wal-Mart*’s efforts to incorporate sustainability goals into its business model fall into two broad categories, namely, improving the eco-efficiency of its operations and cooperating with external groups from the public and private spheres. We will look at these approaches briefly as they will help us understand the ways in which the firm later mobilised around the issues of gold.

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<sup>80</sup> For a first-hand account of the reasoning given for opposing *Wal-Mart* from a Guelph activist, see <http://www.bbc.guelph.org/goliath/folios.PDF>

### *Eco-efficiency in stores and along supply chains*

Eco-efficiency initiatives are what are commonly referred to in the business literature as ‘win-win’ solutions to environmental problems. These solutions are based on hunting down wasteful processes and outdated technologies and replacing them with innovative management solutions and cutting-edge technologies. When managers increase the ecological efficiency of their business practices they also save on operating costs, thereby becoming more ‘green’ and more competitive (see, for example, Porter & van der Linde, 1995a, 1995b; Porter & Kramer, 2002, 2006). Examples from *Wal-Mart* include fitting doors on the refrigerated food aisles reducing the energy required to keep the food cool by 70% and using motion detectors for cabinet lights in 24 hour stores, which cut the time they were on by half (Esty & Winston, 2006, p. 109).

The company is also pushing for increased efficiency along its supply chains, for example, through its plan to reduce the firm’s global carbon footprint by 20 million metric tons, or 150 per cent of their estimated global carbon footprint growth over the next five years, achieving most of this by asking its approximately 100,000 suppliers to create better products, incorporating sustainability goals into the standing order to make products cheap.

### *Cooperating with external actors*

Injecting sustainability goals and values into the corporate culture of the firm has paid immediate dividends in terms of opening up space for innovation and cooperation while improving relations with external actors, many of whom used to be ardent critics.

The company is working with the public sector, including signing a memorandum of understanding in 2008 with the Chinese government to raise environmental targets for their suppliers in China (Dauvergne & Lister, 2010, p. 158). They entered into agreements with the

South Carolina Department of Agriculture to promote locally grown produce (Datamonitor, 2009b, p. 10).

NGOs also seem to be buying in. 'By challenging itself and its supply chain, we really believe that *Wal-Mart* can create a race to the top for environmental benefits,' said Gwen Ruta of the *Environmental Defence Fund* (EDF) in a recent media interview (Associated Press, 2006a, 2006b). In fact, EDF has recently opened up a project office in Bentonville to be closer to the company. 'We think their actions demonstrate they are serious about sustainability and the environment,' said EDF Executive Vice President David Yarnold, 'Being geographically close to *Wal-Mart* will increase the number of opportunities to advise them on environmental issues' (Associated Press, 2006a, 2006b).

The *Worldwide Fund for Nature* (WWF) is working with *Wal-Mart* 'phasing out illegal and unwanted wood sources from its supply chain and increasing the proportion of wood sourced from credibly certified sources for US stores' (Market Watch, 2008; WWF, 2008). *Conservation International* (CI) has become a partner on many initiatives, including jewellery, and the company hired former *Sierra Club* president Adam Werbach to launch a sustainability initiative aimed at employees. In fact, *Wal-Mart's* enthusiasm and actions have altered thinking about the company so much that one prominent activist NGO has apparently decided to not campaign against the company as they no longer make an attractive target (Bendell & Cohen, 2006).

Much of this support stemming from civil society is because NGOs like EDF see the potentially positive environmental impact *Wal-Mart* could have through its influence over its suppliers. 'We've come to believe through experience that you really can create environmental progress by leveraging corporate purchasing power. And who's got more corporate purchasing power than *Wal-Mart*?', asks Ruta (Associated Press, 2006a, 2006b).

## RESPONSE OF WAL-MART TO 'DIRTY GOLD'

As discussed in relation to the targeting of high-end, specialty jewellers, the NDG campaigners were not confident that they could actually muster any real impact on consumer behaviour over issues surrounding 'dirty gold'. While the activists had some doubts about the mid- to high-end jewellery customers, they were not at all confident that they would be able to gather a critical mass of *Wal-Mart* customers to begin asking the retail giant about its sourcing. Therefore, the campaign only ever targeted *Wal-Mart* half-heartedly. They had limited resources and did not want to risk losing any credibility, and thus the threat, by hitting companies that they did not think would budge without achieving any bottom-line impact (NDG, personal communication, September 20, 2010).

Additionally, the campaign started with a very small niche set of groups with *Earthworks* taking the reins initially. *Earthworks* was itself just a small organisation and this is why they were adamant about getting *Oxfam* on-board; they needed to get a big NGO 'of note' and *Oxfam* had the brand equity (NDG, personal communication, September 20, 2010). Even once they had *Oxfam*'s name behind them, they still felt they 'were much too small and needed to be focused' (NDG, personal communication, September 20, 2010). The idea was to concentrate on the high-end jewellery specialists and hopefully get one or two gold companies on-board – or better yet a diversified mining company so they could transfer the impact to other metals as well – and then the entire mining sector. They didn't feel they could get, or really even need, *Wal-Mart* on-board.

So the NDG campaign against *Wal-Mart* consisted of sending regular letters and public shaming to the extent of including the company's name in lists of laggards on their own site, sites of other networked environmental groups, and any media source that would publish the information.



For years NDG continued to send letters calling on *Wal-Mart* to endorse their campaign and adhere to its principles. The group never got a response, except one, from the communications department (Shin et al., 2008). This was hardly surprising at the time given the company's history on other issues.

The NDG campaigners were not alone in seeing *Wal-Mart* as just too big to target effectively. At the time, nobody really had a strategy to get *Wal-Mart* to the table using consumer pressure or public pressure more generally. They were seen as just too big, and despite their enormous jewellery sales, it was still seen by the campaigners to not be a proportionally large enough part of the company's business to be able to leverage (NDG, personal communication, September 20, 2010).

However, the moderate campaign pressure from NDG coincided with the intense pressure *Wal-Mart* was facing on labour initiatives. Lee Scott, the CEO of *Wal-mart* at the time, had an epiphany that they could use their purchasing power to do good and *Wal-Mart* launched its sustainability initiative, creating 15 sustainability networks – and jewellery was one of them.<sup>81</sup> Each network had to internally set up a goal for achieving sustainability results. This all had little if anything to do with the NDG campaign, which continued to send letters and continued to receive no response. Until, all of a sudden, the phone rang.

The NDG campaign ran a full page ad in the *New York Times* listing leaders and laggards – and *Wal-Mart* was on the 'companies lagging behind' list.<sup>82</sup> Almost immediately they received a call from Bentonville asking them to come down to have a conversation as the company wanted off the list. And so the campaigners went to Bentonville and began working with *Wal-Mart*.

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<sup>81</sup> More on Scott and the awakening of *Wal-Mart's* leadership when we apply the IOS model later in the chapter.

<sup>82</sup> To see the advertisement, go to [http://www.nodirtygold.org/pubs/LeadersLaggards\\_lores.pdf](http://www.nodirtygold.org/pubs/LeadersLaggards_lores.pdf); to see the accompanying letter to the companies, go to [http://www.nodirtygold.org/laggard\\_ltr.cfm](http://www.nodirtygold.org/laggard_ltr.cfm).

So what made *Wal-Mart* respond after all these years? ‘I am convinced that if they never had the sustainability initiative, they would have never played’ says one of the NDG campaign leaders, ‘whether somebody could have gotten them... maybe, but not us’ (NDG, personal communication, September 20, 2010). The activists felt that the campaign was just too small and lacked the necessary leverage. What turned *Wal-Mart* was the pressure it was facing on labour issues. ‘I am convinced that if we ran the ad and there was none of that going on, we would not have gotten the phone call – it wouldn’t have happened’ (NDG, personal communication, September 20, 2010).

The immediate result of this collaboration was that *Wal-Mart* publically joined the NDG campaign by signing on to the *Golden Rules* in 2007. Soon after signing, the company partnered with CI and launched the ‘Love, Earth’ line of higher end, sustainable jewellery. Each piece of jewellery comes with a batch number that allows the customer to go online, enter the number, and trace the item all the way back to the mine where it originated. The line is comprised of 10 karat gold and sterling silver items at *Wal-Mart* while *Sam’s Club* carries 14 karat gold and sterling silver – all of which have ‘earthy’ themes like ‘starfish’ and the ‘tree of life’ (Shin et al., 2008). All the materials are responsibly sourced – as defined by the company – from *Rio Tinto* and *Newmont* mines (Adler, 2008; Smith & Crawford, 2012). The plan was to add a collection of ethically sourced diamonds and to have 10% of all jewellery it sells coming from a traceable source by 2010 (Adler, 2008; Wal-Mart, n.d.). Eventually, the company claims all of its jewellery will meet these standards (Shin et al., 2008).

The ‘Love, Earth’ line has been popular with consumers and controversial within the NGO community (NDG, personal communication, September 20, 2010). The media has picked up on both the praise and caution expressed by various groups, including NDG.<sup>83</sup> The charge is that *Wal-Mart* is over-selling the ‘responsible’ nature of the mining practices,

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<sup>83</sup> See the NDG official statement at <http://www.nodirtygold.org/loveearth.cfm> and check the pressroom for media coverage.

inflating the attributes of their sourcing when there has been neither an agreed definition of what constitutes responsible mining nor third-party verification that the company is even meeting its own standards.<sup>84</sup>

In response, the *Wal-Mart* spokesperson's statement at the time was '*Wal-Mart's* objective is to have a long-term, fundamental and positive influence on the jewellery supply chain by selling jewellery that is made from precious metals and gems that are produced following *Wal-Mart's* supplier standards and the Jewellery Sustainability Value Network's environmental and social sourcing criteria' (Martin, 2008).

The criteria *Wal-Mart* came up with are closely aligned with current best practices in the industry and, with the help of Assheton Carter from CI, were based on the NDG's *Golden Rules* pledge (Smith & Crawford, 2012). Much of the criticism is based on how it was decided upon. *Wal-Mart* needed something to base their 'Love, Earth' line of sustainable jewellery on and they needed this within a business climate of needing things urgently (NDG, personal communication, September 20, 2010). According to campaigners, the sites that *Wal-Mart* sources from are relatively good, but still have issues (NDG, personal communication, September 19, 2010). *Wal-Mart* needed something quick and, the fact is, all mining sites have issues. If there are no agreed upon criteria by which to judge good sites from bad ones, then there are going to be disputes. With the lack of agreed upon criteria in place, *Wal-Mart* and a number of environmental groups, including input from NDG representatives, compromised over issues and hashed out the sourcing criteria *Wal-Mart* would incorporate into its new line of jewellery.

In addition to its 'Love, Earth' line, *Wal-Mart* participates in IRMA, although in practice this amounts to some financial support and not actively taking a seat at the table (NDG, personal communication, September 19, 2010).

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<sup>84</sup> CI, personal communication, September 18, 2010; NDG, personal communication, September 20, 2010; NDG campaign leader, personal communication, September 19, 2010

Additionally, the company has begun distancing itself from NDG campaigners since the organization recently released a ‘report card’ grading companies on their response to the goals of the campaign that included what *Wal-Mart* considers to be factual inaccuracies (CI, personal communication, September 18, 2010). We will now return to the IOS model and see if it can shed more light on the company’s response.

## IOS MODEL APPLIED TO THE DIVERSIFIED FIRM – WAL-MART

### ECONOMIC DIMENSIONS

#### *Exposure to risk*

While we have seen that a significant proportion of *Brilliant Earth’s* and *Tiffany’s* value is intangible, the same is not true for *Wal-Mart*. As mentioned, *Wal-Mart* is noticeably absent from Businessweek’s Top 100 Global Brands annual report – perhaps surprising for the world’s largest retailer and the only retail company to mingle with the energy giants in company value rankings.<sup>85</sup>

There are three fairly intuitive and very connected reasons for this: First, *Wal-Mart* is a pure retailer. It does not design or manufacture goods. The ‘private brands’ it does sell are made by small, local contractors in the region in which they are retailed and then sold at a discount for their lack of brand value. The company’s model is not based on consumer preference for *Wal-Mart* goods, but on consumer preference for cheaper goods. Second, *Wal-Mart’s* value is in the infrastructure underlying its business model, which facilitates the delivery of cheaper goods than its competitors. With 8600 enormous retail locations worldwide, hundreds of colossal distribution centres, thousands of huge trucks, and the most

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<sup>85</sup> See Bloomberg Businessweek (2010) for top brands. See FTGlobal500 (2012), CNN (2010), and Forbes (2010) for global company value rankings.

advanced private distribution network in the world, *Wal-Mart's* infrastructure has very tangible value. Third, and connected to its business model and logistic dominance, is *Wal-Mart's* market power. *Wal-Mart* has the power to set the prices at which it will purchase goods from suppliers and then pass on the savings to consumers. It is economy of scale and purchasing power together that add to *Wal-Mart's* immense, tangible value.

*Wal-Mart* is extremely diversified in its product and service offerings. They sell more than 9000 lines of merchandise, representing every merchandise category (Walmartstores.com). The implication is that *Wal-Mart* is not heavily invested or dependent on any one product category, including gold jewellery. The fact that they do not rely heavily on any single product category increases their market power and decreases their risk.

In fact, *Wal-Mart* is very adept at mobilizing its buying power in the supply chains it dominates as well as transferring risk upstream (Dauvergne & Lister, 2010). A good example of this risk transfer is the way in which *Wal-Mart* transfers ownership of products between themselves and their key partners up and down the supply chain, namely, their suppliers and their customers. *Wal-Mart* not only, allegedly, calls its suppliers collect and bargains intensely for favourable terms, they have arrangements with many of their suppliers by which *Wal-Mart's* legal possession of a good is initiated when the barcode is scanned at the *Wal-Mart* checkout (Heal, 2008, p. 115). Amazingly, this means that *Wal-Mart's* obligation to pay the supplier is only activated once they have already sold the good to the final customer and taken possession of the wholesale cost plus additional mark-up. While this does not necessarily affect its exposure and dependence on gold as a product category, it demonstrates both the power of *Wal-Mart* over its suppliers and gives an indication of the ease with which it could shed a product line or even product category if it proved to be a security risk.

Importantly, no diversified jeweller, including *Wal-Mart*, has actually dropped gold jewellery due to the threat posed by political controversy. However, all diversified jewellers

were slow to respond and have been reluctant to support industry-wide initiatives as the political and reputational threat of the 'dirty gold' framing does not threaten their core business interests.

### *Cost of compliance*

*Wal-Mart* could not initially be so confident about its exposure to these issues through its supply chains. This is not to suggest *Wal-Mart* lacks knowledge of its supply chains. In fact, supply chain management and logistics constitute the major strengths of the company and from where they draw much of their competitive advantage. *Wal-Mart* has managed its exceedingly complex chains by pioneering the movement to bar code scanners, utilizing real-time links with suppliers so they can replenish stocks without communicating with *Wal-Mart* management, and using the largest computer in the US outside the Pentagon to link their supplier network (Heal, 2008, p. 115). They move millions of products daily along one of the largest private distribution systems in the world, connecting about 200 million customers per week with the goods of an estimated 100,000 suppliers (Walmartstores.com). They do this using 40 regional distribution centres, averaging one million square feet each, operating twenty-four hours a day and seven days a week, to fill the trailers of 7,000 18-wheel transport trucks (Walmartstores.com). However, despite these logistical marvels, knowing the environmental footprint and social impact of all of its products was never part of its remit. They have been learning on the fly.

When the issue of 'dirty gold' arose, *Wal-Mart* was in no position to verify its supplies. As with most of its products, they did not factor the environmental and social impacts of gold into sourcing decisions. Their core area of concern was retail and their core metric was price.

When Lee Scott decided that *Wal-Mart* would not be caught off-guard again, as they appeared to have been with the fallout from the labour issues, he wanted to know what the next big thing coming down the pipe would be. They held discussions with CI, a moderate environmental NGO with whom they share a board member, and discussed what types of challenges they may face on this front and how they might counteract any future threats that might emanate from them (CI, personal communication, September 18, 2010).

The initial concern of *Wal-Mart* was the potential backlash they may face from the effect of *Wal-Mart* stores on small businesses – the corporate giant undercutting prices and driving the ‘Ma and Pa’ operated retailers out of business (CI, personal communication, September 18, 2010). The people at CI disagreed. They felt that *Wal-Mart* was most exposed through its complex global supply chains and their potential for negative social and environmental impacts – and, of course, the negative attention this could potentially bring to the company (CI, personal communication, September 18, 2010). The result was that *Wal-Mart* began working with CI on mapping their supply chains in terms of exposing the potential for risks.

CI was not the only large environmental organization working with *Wal-Mart* on supply chain issues. As mentioned earlier, EDF, one of the largest environmental NGOs in the US, was also on-board – and also has a board connection to *Wal-Mart*. EDF worked with the company to help develop sustainability ‘scorecards’ for their thousands of suppliers, including the estimated 30,000 in China (EDF, 2010).

The customers for diversified jewellers tend to be more sensitive to pricing than consumers within the ethical and specialty jewellery markets. *Wal-Mart* tends to compete with other large discount retailers. As such, *Wal-Mart*’s major competitors in this market are *Target*, *Safeway*, *Sears*, *J.C. Penney*, *Kroger*, *Tesco*, *Carrefour*, *Metro*, *Costco*, *Amazon.com*, and *CVS Caremark* – only some of which sell a significant amount of gold jewellery

(Datamonitor, 2009b, p. 21). As with most of their product lines, those in competition for consumers of gold jewellery compete largely on price.

The significance of this for the study is that these firms operate at very high volumes with very small profit margins. *Wal-Mart* manages to be successful through sheer volume and manages continuous growth through expansion. Their unparalleled market power allows them to impose their will up the supply chain, squeezing their suppliers for the best price and passing on these savings to their price conscious clientele. These tight margins leave very little room for absorbing additional overhead costs and even less opportunity for cost-sharing with end-use customers. If the price of comparable jewellery rises to a level above that of its discount competitors, *Wal-Mart* can expect to lose that business. This is not to say the world's largest retailer could not afford to absorb the cost for particular product categories, but it demonstrates that incorporating avoidable costs into the price of a product runs counter to *Wal-Mart's* business model.

The fact that *Target*, *Sears*, *JC Penny*, *Macy's*, and *Amazon*, who all sell large quantities of gold jewellery under comparable business models, have responded much more passively to the issue of 'dirty gold' suggests that the business case for *Wal-Mart's* response was not enough to account for the engagement. For a complete understanding, the analysis must consider additional elements, namely, the emerging culture of sustainability within the company and its leadership.

## INSTITUTIONAL DIMENSIONS

### *Corporate culture*

As with the previous cases, the corporate culture of diversified jewellers will play a significant role in how they respond to the social and environmental issues brought to them. It



is in large part a reflection of the customer base and marketing strategy of the firm, but treating corporate culture as an indicator in its own right requires an examination of the artefacts and espoused beliefs of the company or, in other words, what they do and what they say.

*Wal-Mart* represents 'middle America' and stays true to its Arkansas roots. Its goods are not only attainable, but its ethos stems from bringing the prices of goods down so people can afford more of them. Naturally, this leads to very different strategies than the ethical or specialist jewellers when implementing environmental and social directives. For example, while the customers of ethical or specialist labels are buying the brand and everything it represents, *Wal-Mart* customers are shopping for price. For *Wal-Mart*, taking a vocal stance against projects with potentially destructive environmental consequences is obviously a much trickier issue than it is for *Brilliant Earth*, but it also would appear to be much easier for *Tiffany*. While *Tiffany's* customers may care about these issues and applaud *Tiffany's* position on them, *Wal-Mart's* customers may not feel so strongly about them. Many of *Wal-Mart's* customers work in heavy industry themselves or know people that do. Not only are they, on average, probably less likely to applaud a vocal stance in opposition of a project that could be construed as a stance against heavy industry, they may actually be strongly against it. *Wal-Mart* tailors the products each store carries to the local population it serves and so in places like Alaska and Nevada, they equip miners with much of the personal gear that they need in their work. It would certainly be a tricky issue to publically back any initiative that appeared to run counter to the interests of its clientele.

So, on the one hand, the images of the ethical brands are actually built upon public campaigns decrying the injustices of mining practices worldwide and the specialist brands similarly appear well-suited to take a vocal stance on these issues. On the other hand, *Wal-Mart's* efforts to localize outlets to fit the needs of working families do not translate as easily.

Add to this the negative feelings a vocal stance against large-scale extractive projects may elicit from local governments that have already approved the potentially lucrative projects. *Wal-Mart* would need to weigh this against their desire for these same local governments to approve the development of new stores in their jurisdictions. This sort of reasoning could go a long way toward explaining why *Wal-Mart* is changing its practices on the ground, but keeping a lower profile than most of the specialist and ethical jewellers while doing so.

Another factor related to corporate culture is that *Wal-Mart* has tended to be a fairly insular company. Located in Arkansas, they have traditionally sat back and had their suppliers come to them, an approach that could only be effective for a company wielding the market power of *Wal-Mart*. The company's insularity becomes very apparent when one considers the historical reluctance on *Wal-Mart's* part to translate this economic power into political power of the visible, instrumental sort. In 1998, Wal-Mart had no lobbying operations in Washington and the company's political contributions were only around USD 140,000 total as the company simply did not want to be involved in politics in an overt way (VandeHei, 2000).<sup>86</sup> Add to this culture of insularity the potential credibility gap considering their on-going troubles with labour issues and it seems obvious why *Wal-Mart* has chosen a path of working behind the scenes on public policy issues directly related to their business interests and within the company itself on issues related to its sustainability initiative.

The historical actions and policies of the company are a good fit with their espoused no-frills approach to business. The core ethos of the company from the very beginning has been 'saving people money so they can live better' (Walmartstores.com). The company is famous for its frugality as well. Desks are packed tight in their corporate offices and executives fly economy – that is, if it's too far to drive (CI, personal communication,

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<sup>86</sup> However, there was a significant spike in Wal-Mart's spending on lobbying 2008-2009 as they wielded their financial power in Washington, DC in the face of Obama's healthcare reform, which would certainly affect the company's bottom-line (see, for example, Mui, 2007; Sherwell, 2007; Sarkar, 2008; Bloomberg, 2010; as well as Opensecrets.org, a website that tracks lobbying in Washington).

September 18, 2010). Squeezing suppliers, maximizing efficiency, and generally keeping the operating costs down are the main conduit to achieve these goals. Clearly, expenditures that do not directly further this lean business model run counter to the company's goals. We could expect CSR initiatives that are not firmly aligned with this business model and do not demonstrate positive returns for the company to fall out of favour quickly.

While *Wal-Mart* has always maintained that improving the purchasing power of its customers is a positive contribution to society – and when one considers that the average *Wal-Mart* customer falls into the lower income strata of society, there is some truth to this – once the company sought to add sustainability goals to its philosophy, its potential to make a positive contribution to society beyond profit maximization has many onlookers excited.

*Wal-Mart* has always had a dedicated, and some might even say eccentric, corporate culture. The working day is started with a *Wal-Mart* associate cheer, resembling a high school pep rally more than a staff meeting. While efficiency and frugality as core values could have initially slowed the incorporation of sustainability initiatives into their business model, once *Wal-Mart* decided to include sustainability into its values, it was a company that knew how to embed it. Even the inner corridors of their Bentonville headquarters have gone from grey-washed walls to bright colours splashed with sustainability slogans.

In consultation with former *Sierra Club* president Adam Werbach, *Wal-Mart* has created the Personal Sustainability Project (PSP), asking its employees to make a personal pledge to advance sustainability in their own lives (Esty & Winston, 2006, p. 230). Possibly the largest employee program in the world, it asks its 2.2 million employees to pursue their own sustainability quests that have so far ranged from car-pooling to helping local schools create recycling programs (Esty & Winston 2006, p. 230).

While some might object to such a seemingly apolitical and individualized response to environmental issues, one could certainly argue that this initiative could have deeper and

longer lasting impacts than it first appears. Not only is it directly challenging 2.2 million individuals to change some aspect of their lives – and at last count well over 500,000 had already participated (Esty & Winston, 2006, p. 230) – but it is helping to lay a foundation on which to build a corporate culture around environmental sustainability and innovation.

*Wal-Mart* is clearly very good at embedding corporate goals and values into its day to day operations. In addition to the PSP initiative, the company has systematized sustainability and inserted it into its business model by creating 15 ‘Sustainable Value Networks’ (SVNs) that correspond to its broad product categories. The networks consist of both outside consulting from interested parties, hand-picked by the company and executive salespeople from *Wal-Mart* who actually control the process. It was through the jewellery sustainability network that *Wal-Mart* initiated contact with the people from NDG. So when *Wal-Mart* responded to NDG, the seeds of sustainability were already planted through the actions of activists past and embedded by the business actors themselves.

#### *Leadership structure*

So why has *Wal-Mart* become engaged in these issues, albeit through first-party initiatives, while some diversified jewellers have remained silent? *Macy’s*, for example, continues to ignore activist prodding despite appearing at least as vulnerable to the politicisation of the market as *Wal-Mart* and other diversified retailers. Activists that have had contact with these companies on various issues feel that it once again comes down to the differing corporate cultures and leadership within these firms (NDG, personal communication, April 24, 2012). We have just witnessed a culture of sustainability being manufactured through the contestation and collaboration between business and civil society actors. Can the same be said for leadership? Can leadership be created?

As Fligstein (1990) has argued and as we have seen with our cases, it often takes a crisis situation to dislodge status quo routines and create the opportunity for leadership. The market crisis faced by *Wal-Mart*, based on slowing profits and crippling resistance to its continuing expansion, demanded a pragmatic response by the company. The shape this response took was dictated by the leadership of the company, all of whom seemed to have had personal awakenings of sorts to the role *Wal-Mart* might play in moving environmental concerns closer to the centre of the business world. Whether this amounted to spin or was sincere and altruistic is an open question that will be explored in more detail in the analysis later in the chapter. For now, suffice it to say that *Wal-Mart*'s new leadership role in environmental sustainability was framed in both pragmatism and strategic altruism. It started at the very top of the leadership hierarchy and trickled down through the organisation as operational space and resources were made available for the sustainability drive.

Interestingly, two members of the Walton family – heirs to the *Wal-Mart* throne – sit on the Board of Directors for two of the largest environmental NGOs in the US. During the time of increasing civil society pressure on *Wal-Mart* over labour and community-level issues, the concurrent decline in profits and opposition to expansion, and the exponential increase in *Wal-Mart*'s lobbying activities, S. Robson Walton – the grandson of the *Wal-Mart* founder and Chairman of the Board of *Wal-Mart* since 1992 – went scuba diving with the Chairman of the Board for CI. Apparently they had a discussion and the end result was Rob Walton sitting on the Board at CI (Mui, 2007). He was introduced to the sustainability consultant, Jib Ellison, whom he, in turn, introduced to Lee Scott, resulting in many of the new sustainability initiatives that now permeate the company's operations (Mui, 2007). Rob Walton continues in his position of Chair at *Wal-Mart* and has since become the Chairman of the Board at CI.

In addition, another grandson of *Wal-Mart*'s founder, Sam Rawlings Walton – who does not have close links with the daily operations of the company – sits on the Board of Trustees of EDF. Both CI and EDF work with *Wal-Mart* on many of their initiatives, although officers at EDF made a point to mention that Walton recuses himself whenever the *Wal-Mart* project comes before the Board (Associated Press 7/12/2006; EDF, personal communication, August 16, 2011).

The awakening of Lee Scott to the role *Wal-Mart* might play in pushing for more sustainable business practices is well-documented, but differs slightly from this previous account. This widely acknowledged version traces *Wal-Mart*'s sustainability initiative back to the catastrophe caused by Hurricane Katrina, as Scott himself outlines in the speech he delivered to 7,000 *Wal-Mart* managers entitled 'Twenty-First Century Leadership', which has itself become a key artefact and contribution to the company's espoused beliefs and operational culture.<sup>87</sup>

Scott was deeply moved by the events and extremely proud of his company's response to help Katrina victims. After meeting with many of the company's critics, he realised that he needed to change *Wal-Mart*'s strategy for engaging with the issues that they have 'been dealing with historically from a defensive posture' (Scott, 2005, p. 3). Scott went on to summarize the goals set by the company to improve its environmental performance, including cutting energy use by 30%, aiming for 100% renewable energy (from wind farms, solar panels, etc.), creating zero waste, and improving the fuel efficiency of its massive shipping fleet of more than 7,000 trucks – with total investment of USD 500 million annually (Scott, 2005, p. 6-7).

Naturally, Scott also lays out the business case for such aggressive expenditures and claims in his speech that this 'will make us a more competitive and innovative company',

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<sup>87</sup> In fact, key quotes from the speech were also sprinkled around the company's headquarters in large letters. Transcripts of the speech are readily available at both [Walmartstores.com](http://Walmartstores.com) and [Walmartwatch.com](http://Walmartwatch.com).

while Esty & Winston (2006, p. 13) note that '[i]n internal meetings, Lee Scott told *Wal-Mart* executives that their sustainability efforts would help protect the company's 'license to grow'. This highlights the close alignment of *Wal-Mart*'s CSR strategies to its business model and explicitly links this about-face in the company's engagement with civil society on these issues and the threat the company's business model of aggressive expansion was facing.

The central push to internalise this new green initiative into the very fabric of *Wal-Mart*'s operations occurred when Scott ordered all departments to reach goals for sustainability in-house. This meant they were essentially starting from scratch. Many of those involved did not even understand the concept of sustainability yet alone have any knowledge of the baselines from which they would be working. As one company executive confessed, the first thing they did when given the task of creating sustainability policies for the firm was to go home and 'google' sustainability (*Wal-Mart*, personal communication, August 16, 2011). However, what they did have going for them was a deep understanding of the *Wal-Mart* business model and its organisational needs. Therefore, the marching orders were purposely vague to begin with. Team leaders were asked to achieve sustainability 'wins', which was shorthand for improvements in environmental or social performance of their product or services focus. So while the directives came from the top, it was the salespeople, managers in charge of normal operations, who were to operationalize the plan.

Both the individuals as well as their position within the company affect what the results will look like. An observation that meets the expectations of the IOS model is that those SVN's led by personnel in more authoritative positions seem to have progressed more rapidly, seemingly experiencing less push-back from middle management as they roll out initiatives (*Wal-Mart*, personal communication, August 16, 2011).

In the case of *Wal-Mart*'s jewellery operations, those advocating change found an internal champion in Dee Breazeale. Breazeale, an aspiring country and western singer when

she joined the company, started working the floor in a local *Wal-Mart* store and rose through the ranks of the company to become the Senior Vice President of Merchandising at Sam's Club, a position she held for almost 20 years. While in this position, Breazeale received word that the company was listed as a laggard by the NDG campaign in their very prominent *New York Times* advertisement. This news would not have sat well with the company when there was a standing directive to make the firm a sustainability leader in all product categories. Breazeale took the challenge and ran with it, quickly realising that she would need to have a chat with the NDG campaigners and get the company off the 'laggards list'. So she phoned *Earthworks* and invited the activists to come down to Bentonville (*Wal-Mart*, personal communication, August 17, 2011).

The NDG people went down to Bentonville and met with the jewellery sustainability team, which was made up of regular *Wal-Mart* operations managers – not members of a CSR department or outside consultants, as is usually done with large corporations. The team came together and, after a *Wal-Mart* associate cheer, put their heads together to figure out what the jewellery team was going to do on the issue of sustainability (NDG, personal communication, September 20, 2010). In other words, they were not experts on the issues, but worked hard and eventually got there. Going back to the idea of corporate culture, this is quite interesting. There was very little consulting with outside experts. It was really about the people in the company – the people who were actually doing the work in the product area – who were asked to come up with and implement an appropriate solution for *Wal-Mart*, and this was really different (NDG, personal communication, September 20, 2010).

Breazeale needed to deliver three sustainability 'wins' by a certain date. What exactly these 'wins' needed to be was not clearly defined by design. So the team had boxes to tick and while they were searching for solutions, they saw the *New York Times* advertisement and



decided that the NDG organisers may actually be able to help them. This was the rather serendipitous chain of events that led to cooperation between the firm and the NGO.

Breazeale was known as a straight forward, no nonsense leader. She took part in the Vancouver meetings set up to discuss the prospects for responsible mining practices and the possible creation of some sort of certification institution. It was full of senior CSR people and executives from the big mining companies as well as organisers from the NGO community. According to campaign leadership, it quickly became very analytical and was becoming bogged down in the complexity of the matter. ‘Dee simply asked “Which of your companies can I buy good gold from because that is what I need to know. I will put you in touch with my suppliers tomorrow” – and it totally opened the whole thing up’ (NDG, personal communication, September 20, 2010). It was this meeting that eventually delivered the beginnings of IRMA.

So because the sustainability directive was given, and Breazeale needed to tick the sustainability box, it put the whole process in motion and suppliers began to scramble to meet the demand. It was into this directive that Dee Breazeale, with the help of Assheton Carter, drove the ‘Love, Earth’ product line. ‘Dee needed something and the last thing she needed was to be on the bad list when she was trying to come up with three ‘wins’. If that context didn’t exist we wouldn’t have gotten [the response],’ explains one campaign leader (NDG, personal communication, September 20, 2010).

Other civil society leaders admit that working with *Wal-Mart* poses its own unique difficulties despite their salespeople’s freedom to innovate. The main difficulty seems to be that people change positions often within the company – especially if they are successful. This poses a problem as you ‘lose some of that institutional memory’ (CI, personal communication, September 18, 2010). When Pam Mortensen took over, Carter says that despite her interest in the issues and the traceable line, it was like starting over once again

(Smith & Crawford, 2012). While Mortensen turned out to be an internal champion in her own right, the implication is that you cannot rely on the enthusiasm and drive of individuals, no matter how effective they are. You need to embed the goals and principles as they are established, change practices within the company and allow them to take root and allow their potential benefits to grow into reality so the process can take on a life of its own. 'In this way,' a key civil society leader argues, 'we can see real transformation in practices and outcomes and it is now happening of its own accord' (CI, personal communication, September 18, 2010). So we can see the opportunity window for business actors to engage in the politics of gold was wide open, though framed by the requisites of the business model and enforced by market forces. The final section looks at the ways in which these embedded agents are driving the process forward.

## **BUSINESS POWER AND PRIVATE REGULATION**

As with the previous cases, this section investigates the ways in which internal institutional entrepreneurs mobilised firm resources to build institutions inside and outside the firm. This allows for an empirical analysis of the use of the instrumental power available to business actors embedded in different types of firms. It facilitates an examination of the consequences of different varieties of corporate political mobilisation in the non-state sphere and sets the thesis up for a further cross-case comparison in the following chapter.

As with the previous cases, *Wal-Mart* has utilised the many forms of instrumental power at its disposal to influence the process, though this is not to say that the actors involved have been able to leverage the latent power of the firm to its full capacity. This section will show that the ways in which initiatives have been embraced and institutionalised in the firm and along its supply chains have altered the structural opportunities for future political action.

The major differences between *Wal-Mart's* approach and those of *Brilliant Earth* and *Tiffany* is that *Wal-Mart's* is heavily geared toward internal policies that allow it to leverage its immense market power through purchasing criteria. The company frames the issue as a market issue, allowing volunteers from their operations and sales teams to lead, while avoiding the more conventional political activities of philanthropy, membership in external organisations, and vocal advocacy.

	<b>Economic</b>	<b>Institutional</b>
<b>Internal</b>	<ul style="list-style-type: none"> <li>✓ Translating regulations into actionable practices</li> </ul>	<ul style="list-style-type: none"> <li>✓ Creation and maintenance of institutions internal to the firm</li> </ul>
<b>External</b>	<ul style="list-style-type: none"> <li>✗ Donations</li> <li>✓ Strategic investments</li> <li>✓ Buying power and preferential procurement</li> <li>✗ Paying membership fees</li> </ul>	<ul style="list-style-type: none"> <li>✗ Lobbying and advocacy</li> <li>✓ Issue framing</li> <li>✓ Creation and maintenance of institutions external to the firm</li> <li>✓ Acting as a role model for others to benchmark</li> </ul>

Table 14: Corporate political mobilisation – *Wal-Mart*

## INTERNAL

### *Creation and maintenance of institutions internal to the firm*

*Wal-Mart's* sustainability initiative is not spear-headed by its public relations or compliance departments, but it is done through the people working within the business, such as buyers

and others in operations. There are approximately 20,000 associates directly involved in the initiative through its Sustainable Value Networks (SVNs). The approach seeks to embed sustainability into the corporate culture of the firm by changing mind-sets of those in leadership positions and operations, not allowing them the opportunity to ‘offload’ it to a CSR department or the like (Ellison, 2006).

One problem the company and those who work with it face, mentioned in the previous chapter and identified by both those inside the firm and those working closely with the firm, is the difficulty maintaining institutional memory with people changing positions.<sup>88</sup> People move around the company often with buyers staying on in a network for 12 to 18 months before they are rotated. For example, from the company’s initial engagement with the issue of ‘dirty gold’ to the launch of the ‘Love, Earth’ line, Dee Breazeale gave way to her successor Pam Mortensen who, in turn, gave way to her successor Gail Campbell (Smith & Crawford, 2012). This poses problems as relationships forged and information shared between personnel, suppliers and external consultants suffer with such regular rotation. Additionally, their seasonal contracts with suppliers make investments in environmentally and socially preferable technologies to be a risky proposition for producers.

*Wal-Mart* is working on correcting many of these difficulties. The company has created a longer-term category of buyers so they are able to work with suppliers for a longer period. They have also switched from strictly seasonal buying to actually offering five-year commitments to incentivise producers to invest in new practices (Ruben, 2006).

The core strategy is to change the corporate culture of the firm and the mind-sets of leadership so sustainability becomes a standing order in all the company’s operations. As reflected in the IOS model, it is essential to have leadership onside and many credit *Wal-Mart*’s rapid movement toward sustainability to the strong leadership shown by Lee Scott and

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<sup>88</sup> CI, personal communication, September 18, 2010; Wal-Mart, personal communication, August 16, 2011; EDF, personal communication, August 16, 2011

others at the top of the management team.<sup>89</sup> However, even top management changes eventually and regardless of the depth of mainstreaming, individuals continue to matter – and matter more at the upper echelons of the company. Many observers have noticed a slowdown in the changes being implemented throughout the company as leadership has changed hands. For example, Bill Simon, the new CEO of US operations attributed *Wal-Mart*'s recent financial slowdown to the company being distracted from its 'Every Day Low Price' mission: 'Sustainability and some of these other initiatives', he explained, 'can be distracting if they don't add to everyday low cost' (Simon, 2011).

### *Compliance and monitoring*

While *Wal-Mart* does have a compliance department, they maintain a sole focus on the retailer's compliance with existing laws in jurisdictions they operate and not on the sustainability initiatives undertaken within the company (Ellison, 2006). *Wal-Mart* resists restricting themselves by setting hard targets for their initiatives, which makes monitoring a moot point in most cases. However, there are a couple of exceptions. They do monitor individual store compliance to company-wide initiatives, such as their initiative committing the company to an internal goal of zero waste. This zero waste initiative has already reached an 80% reduction in store waste from the initial baseline and they are currently negotiating internally whether the next goal will be set at 85% or 90% reduction in the next year (*Wal-Mart*, personal communication, August 16, 2011). For jewellery, the internal target is more modest with a target of 10% traceability of gold through their supply chain and a flexible schedule for meeting this threshold.

The significant point here is that their targets are internally set and monitored with the company choosing what the initiatives will be, which results they will announce, and when

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<sup>89</sup> *Wal-Mart*, personal communication, August 16, 2011; *Wal-Mart*, personal communication, August 16, 2011; EDF, personal communication, September 7, 2011

they will announce them. However, there are opportunities for external actors to influence these decisions. Organisations, such as WWF, EDF, and CI, have the opportunity to bring ideas forward to *Wal-Mart* and lobby for the ones that they feel have the most promise (EDF, personal communication, August 16, 2011). Obviously *Wal-Mart* benefits from this relationship by avoiding the cost of the initial vetting process and utilising the consulting functions of these NGOs. The NGOs benefit from their access to and influence within the largest retail company in the world. The only way this relationship works is through confidentiality agreements, which is essential for *Wal-Mart* to be able to share the information necessary for the organisations to take on an effective consultative role (*Wal-Mart*, personal communication, August 16, 2011; EDF, personal communication, August 16, 2011). An example of the influence NGOs enjoy under this agreement, and an exception to the company's resistance to externally defined targets, is the February 2010 commitment by *Wal-Mart* – pushed by EDF – to reduce its global carbon footprint in line with the hard targets mentioned above (EDF, personal communication, 16/08/2011).

Therefore, along with the company's new focus on sustainability comes a seemingly new willingness to engage with stakeholders from various spheres of society. *Wal-Mart* is granting access for interviews to both media and academic researchers. While there has never been a want for interest in the company, new analyses are accompanied by interviews with *Wal-Mart* executives who have taken an interest in divulging details of their new philosophy and activities. This includes access for researchers, including myself, for whom the company has provided information and face-to-face meetings in their Bentonville home office. Interestingly, by engaging with NGOs and other stakeholders, the company is fortifying its structural power by giving these people and organisations something to lose, namely, a favourable position from which to influence *Wal-Mart's* investment in sustainability. The

company manages to offer these incentives, while maintaining ultimate control over the process.

## EXTERNAL

### *Creation and maintenance of institutions internal and external to the firm*

Wal-Mart is not certified. It is not a member of the RJC. While this may initially seem surprising given the company's sustainability goals, it is actually a natural fit with the company's approach and does not mean the company is not quietly involved with the organisation in an unofficial capacity.

Recall that Wal-Mart's approach is based on cost-effectiveness. Part of their so-called 'business approach' to sustainability is that the company does not wish to add cost to their operations. While company representatives rightly point out that such an approach has a significant benefit in that it does not change when times are good or bad, financially speaking (Ruben, 2006), it also means that they refuse to pay the fees associated with certification membership. The RJC's fees assessment is based on a very small percentage of sales. For many jewellers, this is an acceptable cost for risk mitigation, reputational advantage and access to the ethical jewellery market. With *Wal-Mart*, however, one cannot place enough zeros after the decimal point and before the percentage to make this an acceptable cost to the company (CI, personal communication, September 18, 2010; Wal-Mart, personal communication, August 17, 2011).

This approach could also be interpreted as a desire to protect the company's autonomy and not subject its operations to the will of outside partners (see, for example, Sasser et al., 2006). This is a recurring theme for the company. Another example can be found in their new 'green buildings', all of which could almost certainly be LEED certified if

*Wal-Mart* chose this path. The point is, the company strives to maintain its autonomy and refuses to raise costs based on such intangible value

However, it is not simply cost and autonomy that turns the company away from such initiatives. There is a general feeling within the company that many certifications are in fact pitched too low and may actually restrict innovation (*Wal-Mart*, personal communication, August 16, 2011). Certifications are often subject to the lowest common denominator amongst their founding members and do not necessarily incentivise members to ratchet-up their standards or look for new approaches to sustainability beyond those dictated by the certifying body.

Having said this, *Wal-Mart* does work closely with many certifying bodies, including the RJC (Rio Tinto, personal communication, August 7, 2011). The question is: how much can *Wal-Mart* contribute to these certification initiatives from the outside? The answer is – a great amount. They consult with the RJC and have apparently contributed funds to IRMA. They will certainly buy and even give official preference to certified suppliers; they just will not pay a percentage of their sales for or sacrifice autonomy to it. While there is no official preference for RJC suppliers to date, there is a precedent being set through their procurement practices.

#### *Buying power and preferential procurement*

*Wal-Mart* maintains control over the process by designing their own *Supplier Sustainability Assessments* (SSAs), asking their suppliers to report on a series of questions the company created. They began quite basic, but they are becoming more sophisticated, targeting unique features of different products and creating baselines (EDF, personal communication, September 7, 2011). This represents a big opportunity to gather data and use this data to drive positive change. *Wal-Mart* states that their goal is to eventually create a sustainability index



that will allow consumers to effortlessly choose products that meet their social and environmental expectations. Such an initiative has the potential to be transformational, but it is still very much an open question as to whether they will realise this long-term goal.

Thus far, they have managed to shorten their supply chains by cutting out intermediaries. Andy Ruben (2006) recounts a story of cutting packers out of the supply chain by getting the fish mongers to freeze and package fish themselves to sell directly to *Wal-Mart*, while Plambeck and Denend (2002) explain how the company has cut entire countries out of their textiles supply chains by completing more stages in fewer countries. While there are certainly losers in this consolidation, the company cuts costs, reduces its ecological footprint, and tightens its control of its supply chains, reducing its exposure to risk.

Besides developing their own criteria, the company rewards external initiatives with preferential procurement. The company committed to give preference to seafood suppliers certified by the *Marine Stewardship Council* (MSC). The MSC is the largest seafood certifier and demands that their members adhere to best practices in a number of areas (MSC, 2011). Although this certifying body enjoys the largest membership in the sector, MSC supply was not nearly enough to supply all of *Wal-Mart's* seafood needs. Thus, because there were not adequate suppliers of MSC-certified seafood to meet *Wal-Mart's* demand, the company's commitment meant that if you get certified, you can supply *Wal-Mart* (Denend & Plambeck, 2007, p. 55) and was therefore a boon to the certifying organisation and those who advocate for best practices in the industry. This is really an easy win for *Wal-Mart* as the suppliers bear the cost of certification. Despite not bearing the direct cost, the company plays an instrumental role in supporting these efforts and takes care to support the most stringent standards to avoid diluting them with lesser standards (Ruben, 2006). It is a clear example of *Wal-Mart* using its power to shift industry practices and perhaps foreshadows what we will

see moving forward as relationships develop between the company, the RJC, FT/FM gold, and IRMA once it is launched.

Similarly, with *Wal-Mart* we see an alternative approach to supporting the leading advocates against the Pebble Mine – the Alaskan fishermen. *Wal-Mart* may not publicly support the Alaskan fishery's opposition to the project, which will allegedly damage the fisheries, but their commitment to MSC-certified salmon includes large orders of wild sockeye from the Bristol Bay, Alaska fisheries. The local fisheries were so delighted that they wrote *Wal-Mart* to thank the company for its support. 'It can be nothing but good for the state and the area,' said Bob Waldrop of the Bristol Bay Regional Seafood Development Association in an interview with a local newspaper, 'You can vote with your fork. You can ask more about the fisheries, Bristol Bay, the threat it faces. It's a really good way to get the word out about Pebble (Mine), and create jobs for people in Bristol Bay and elsewhere' (Associated Press, 2008). So it appears that people are buying in to *Wal-Mart's* approach of leading through market decisions and the company seems content with this less vocal, but seemingly effective, stance on environmental and social issues.<sup>90</sup>

### *Walking softly?*

It hasn't always been the case that *Wal-Mart* would abstain from taking an overtly political stance on an issue. When *Wal-Mart* began its sustainability push they actually engaged

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<sup>90</sup> Unravelling the puzzle of why *Wal-Mart* has not signed the petition to halt mining in Bristol Bay is a difficult task as it is certainly multi-causal and very sensitive in nature. The first possible cause was that those pushing for support to halt the *Pebble* mine development, including the NRDC and NDG, didn't reach out to *Wal-Mart* to any great extent because they didn't think they would get a response. Second, it may be because many politicians in Alaska favour the development and so the company would have felt political pressure to abstain from the conflict. Third, a company as big as *Wal-Mart* relies on regular supplies of large amounts of goods; the *Pebble* mine is a giant copper and gold mine run by an industry giant, *Anglo American*, and cutting off supplies from this or like projects may not have appeared to be in *Wal-Mart's* best interest. Fourth, the company certainly wouldn't want to alienate their customers, who are –generally speaking – more likely to be involved in heavy industry than environmental movements. Lastly, the company's sustainability philosophy is to make greener products that people want because they are better, not to create a niche market for environmentally friendly goods, which they argue would be the result if they took a more vocal approach instead of focusing on the business case.

vocally in political debates and advocated for specific environmental policies in Washington. Andy Ruben, who at the time was Vice President of Strategy and Sustainability for *Wal-Mart*, actually testified in front of Congress on Capitol Hill in April of 2006 and again in May of 2007 calling for the implementation of carbon regulations and a cap and trade system (Carney, 2011; Wal-Mart, 2008). Coming from one of the largest and most successful companies in the world, these types of activities add strength, legitimacy, and publicity to such causes and are an invaluable counterforce to the public scepticism and private lobbying activities of many of industry's biggest players.

However, this vocal stance on a political issue appears to have been short-lived. It is very difficult to determine specific instances of pushback that the company may have felt to their stance on carbon regulation and similarly controversial positions, but *Wal-Mart* observers certainly saw the company backpedal immediately after taking this activist role. While the company continues to hold press conferences in Washington on 'green jobs', the link between sustainability and efficiency, healthy food and local sourcing, they have backed off the politically charged issues in favour of the 'the warm, fuzzy kittens of the policy world' (EDF, personal communication, September 7, 2011).

Due to the heavily guarded nature of such political decision-making, it is difficult to know exactly why this decision was made or where the pressure emanated from. While there is a certain amount of speculation involved in any outside analysis, most agree that this was probably a rational cost-benefit calculation by management. The reality is that their customer base is largely located in the heart of the country, where it is not uncommon to doubt the reality of climate change. Under these conditions, it could be seen as a somewhat risky strategy to be interpreted as being 'too far out there' politically and the company would be wise not to put themselves in that position.

Besides these strategic, market-based rationales for taking a quiet approach to incorporating sustainability in their operations, the narrative put forward by the sustainability gurus in working both with and within the company offers another explanation. If *Wal-Mart* vocally pushes sustainable products, they risk creating a niche. If they instead work toward creating better products long-term, everybody will want them regardless of their individual commitment to conscientious consumption. The company leadership maintains that if they use the best communications tools through their public relations department, they will not get the type of change they are after (Ellison, 2006).

This line of argument can be easily seen as a type of discursive power being wielded by a very influential organisation, effectively domesticating calls for sustainable consumption by aligning it with their business interests and delegitimising approaches that may cost the company money or market-share. However, they have a point. *Wal-Mart* brandishes such immense market power that simple changes in the products and services they offer – and how they frame these – has a ripple effect throughout the industry. Decisions made within the company, even those involving the allocation of shelf space within stores, sets the agenda for change and can quietly make or break entire sectors.

So with the *Wal-Mart* case, we seem to be observing another example of business actors mobilising the political power of their firm by taking advantage of the opportunities created by civil society contestation, just contestation originating from earlier issues. The response to the politics of ‘dirty gold’, in turn, should continue the momentum and expand opportunities for future political action in this issue area and others. *Wal-Mart* has been creating elaborate systems to integrate sustainability goals into their operations, and they have been entrenching the norms associated with social and environmentally responsible business into their organisational culture. By creating incentives along their supply chains for suppliers to do the same, they are leveraging their considerable market power to expand

opportunities for latent institutional entrepreneurs in diverse industries. While the company never seemed very exposed to any tangible risk from the NDG campaign, institutional entrepreneurs took advantage of the opportunities created by past cooperation and conflict and have helped expand this window even further.

## CONCLUSION

The core business interests of the diversified jewellers were never severely threatened by the spectre of ‘dirty gold’ as the jewellery these companies sell is not branded in-house and they only have a very small stake in the industry relative to their total sales. As a group, diversified jewellers responded fairly passively, if at all, to the issue of ‘dirty gold’. Very few diversified jewellers joined the RJC and most were slow to sign on to the NDG’s *Golden Rules* as they appear unwilling to relinquish either their autonomy or the membership fees to external certifications.

While *Wal-Mart* has also declined joining the RJC, they remain in discussions with the group as well as with IRMA. They have signed the *Golden Rules* and have opted to create their own, first-party certification in the ‘Love, Earth’ line. There appears to only be a small market for ethical jewellery amongst their customers, so they created this niche line that may be expanded upon if it remains profitable. What then explains how *Wal-Mart* has become a lead firm amongst diversified jewellers in the politics of gold?

Their interest in the sector appears to be more driven by the requisites of their larger sustainability push than it is by pressure exerted by activists or consumers interested in gold. So, in the end, it was the desire to meet the directives handed down from the company’s leadership that drove their approach as the issues surrounding jewellery did not constitute a

direct threat to their business model, a claim buttressed by the fact that its main competitors, operating according to similar business models, have responded much more passively. Note that the larger, company-wide sustainability initiative was, in fact, partially driven by risk mitigation and a threat to the firm's business interests – it was simply not the threat it faced by the issue of 'dirty gold' in particular.

*Wal-Mart's* approach is arguably more process-oriented, allowing the market to set the pace for change. This is not to say that *Wal-Mart* has refused to take a stand altogether. The company has signed on to the guiding principles of the activist groups and is moving toward internalizing them, building systems around the general guidelines that should lubricate on-going transformation. While the corporate political mobilisation of the diversified jewellers may be more market-oriented and individualised than those of the ethical and specialty jewellers, it is important to note that none of the jewellers in any category have thus far relinquished their operational autonomy.

The *Wal-Mart* case also demonstrates the cross-cutting effect of issue areas – an experience in one issue area, labour, has driven change in another, the environment. It seems the politicisation of one aspect of a company's operations has in fact led to deep change in another. This is significant for a couple of reasons. It is an example of a company tailoring its political mobilisation to its business model; instead of focusing on labour issues, it focuses on sustainability. While there are clearly economic reasons for this, corporate culture and leadership have also played a role, both in filtering out labour concerns and injecting environmental concerns.

Furthermore, it suggests that changes in sustainability may change the culture and decision-making processes in all aspects of the company's operations. These wider changes should bleed into other issue areas – including the possibility of feeding-back into the initial

area of concern, namely, labour issues. This highlights the importance of breaking the status quo. A crisis moment expands the opportunity window and allows for change to the inner functioning and culture of the firm and, with enormous firms such as *Wal-Mart*, it can spread to the operational culture of multiple industries. As these corporate leaders leverage their power and influence, they may end up changing not only the competitive and cognitive dynamics of their firm, but also those along their supply chains.

## **CHAPTER 7 – THE IOS MODEL AND THE CAUSES AND CONSEQUENCES OF CORPORATE POLITICAL MOBILISATION**

### **INTRODUCTION**

This chapter brings the cases together, summarising what the findings can tell us about variation across categories of firms using the IOS model. While the IOS approach works well for explaining the major patterns of corporate political mobilisation across firm types, the analysis has not yet accounted for why some firms, namely the cases under investigation, were so deeply engaged so early in the process. To explain how leaders have come to be leaders amongst their peers, this chapter argues that we must take into account the history of each firm's interaction with civil society and consider the role of learning and the evolution of the opportunities available to actors within these firms.

With these goals in mind, the first section focuses on the expectations of the IOS model and compares it to the patterns of political mobilisation observed across the jewellery industry, allowing for further opportunity to test and refine the model itself. It then undertakes a closer, cross-case comparison of the lead firms under investigation, explaining the emergence of leadership through past interaction and the expansion of opportunity structures. It further develops the theory by showing the ways in which present mobilisation around the issues of gold are further expanding the opportunity window for future political action from these firms, demonstrating how actors from civil society and industry not only take advantage of existing opportunity structures, but also create them. Arguing that we are witnessing a cumulative and cross-issue effect from civil society contestation, the final section elaborates on the actual impacts these leaders are having on the emerging regulatory



environment, noting the apparent division of labour taking place both between different types of firms and between actors from industry and civil society.

## SUMMARY OF FINDINGS

To understand the IOS model, one must understand both its mechanics and the claims it makes. The economic and institutional dimensions of the structures, and the indicators used to approximate their value, are not *driving* firm responses, per se. They are *opportunities* that offer business actors within firms an increased chance of successfully mobilising the firm's resources for political purposes. Leadership has been seen to be a key variable in all of the lead firms investigated, and one seemingly missing from those that have yet to respond. Without this leadership, the opportunities are more likely to remain dormant.

The findings contribute to debates surrounding the promise and peril of the apparent rise in private regulation by offering a nuanced perspective on the role of business actors in the emergence of these initiatives and their potential impacts moving forward. The findings are interpreted through the lens of structured agency in which civil society contestation plays an enabling role, offering embedded business actors opportunities to drive change forward. With the IOS model and its claims firmly in mind, we can now draw some general conclusions from the case study findings. The remainder of the chapter offers an explanation of variation between firms across categories of jewellers before explaining why and how certain firms come to lead the process and the impacts these leaders might have.

## EXPLANATION OF VARIATION BETWEEN FIRMS ACROSS CATEGORIES

The IOS model would predict that business actors embedded in different types of firms will face different opportunities to mobilise the resources of the firm for political purposes and, therefore, would be likely to implement different strategies when responding to the politicisation of their market through activist contestation. At the beginning of each case chapter, expectations for different types of firms were formed based on generalisations about the respective opportunity windows available.

Ethical firms were expected to be deeply engaged as the only reputational risk they really faced was not utilising the highest standards available. They are generally small firms built for niche sourcing and traceability, so the marginal cost of compliance with new standards is relatively low. Additionally, their political engagement is built into their business model and the more politicised the market, the better for their political goals and for their brand. The corporate culture should reflect both their core ethos and business model; therefore, we expect it to be clearly receptive to engaging in the politics of gold. Their leadership structure is generally one of owner-operator and so those with the original vision are running the company and have fewer, if any, investors to answer to. Therefore, based on the IOS model, these jewellers should be very receptive to the highest standards and the deepest commitments available when it comes to mobilising politically and the patterns of political mobilisation confirm this.

Likewise, the IOS profile of specialty jewellers would have us expect high levels of engagement and strong commitments. Specialty jewellers are highly exposed to reputational risk due to their high levels of branding and reliance on gold jewellery. While

they require too much gold as inputs to simply source from niche, ethical suppliers, their supply chains should be much less complex than the diversified jewellers and traceability could eventually become a cost-effective option. They enjoy high profit margins due to their branding and design; therefore, the companies should be able to either absorb the costs associated with compliance or be able to pass it along to consumers in the form of higher prices. Their corporate culture and leadership structures will differ and so some variation is to be expected based on these institutional dimensions but, based largely on opportunities along the economic dimensions, their IOS profile suggests they will act individually and collectively to protect their reputation. The patterns that emerge confirm these expectations as almost all have signed on to an industry-led certification built to mitigate risk and maintain autonomy from the activist groups.

Diversified jewellers were also targeted, but never faced the same levels of exposure to risk as the specialty firms. They compete in the market based on price more than brand and are not reliant on jewellery sales for their future success. They have highly complex supply chains and are less involved with their suppliers down the chain. Their profit margins are small and their customers are price sensitive. Their corporate cultures and leadership structures are mixed, however, we can expect general trends toward frugal cultures stemming from their business model and most will be publicly traded due to their size and capital requirements for expansion. Therefore, the opportunity window for diversified firms is very small and we should expect them to demonstrate very low levels of engagement and weak commitments regarding the politics of gold. While there is some variation, the findings generally conform to these expectations.

There are clear patterns available for the types of political mobilisation chosen between the different categories of firms under investigation.<sup>91</sup>

	No Dirty Gold (NDG)	Second-party (RJC)	Third-party (FT/FM)
<b>Ethical</b>	Bario Neal	✓	✗
	Brilliant Earth	✓	✗
	Cred (UK)	✓	✗
	Fifi Bijoux (UK)	✓	✗
	Leber	✓	✗
	Reflective Images	✓	✗
<b>Specialised</b>	Ben Bridge	✓	✓
	Birks & Mayors (Canada & US)	✓	(✓ March 2012 – not yet certified)
	Blue Nile	✓	✗
	Boucheron	✓	✓
	Bulgari (IT)	✗	✓
	Cartier (FR)	✓	✓
	Chopard	✗	✓
	Faberge	✗	✓
	Harry Winston	✗	✓
	Piaget	✓	✓
	Rolex	✗	✗
	Signet (UK and US)	✓	✓
	Tiffany & Co.	✓	✓
	Van Cleef & Arpels	✓	✓
Zale	✓	✓	
<b>Diversified</b>	Argos (UK)	✗	✓
	Amazon	✗	✗
	Costco	✗	(✓ July 2011 – not yet certified)
	HSC	✗	✗
	JC Penny	✓	✓
	Macy's	✗	✗
	QVC	✓	✗
	Sears (and Kmart)	✓	✗
	Target	✓	✗
Wal-Mart	✓	✗	

Table 15: Summary of jewellers' preferences for non-state initiatives

<sup>91</sup> While this table is not a comprehensive list of every jeweller that sells gold, it includes the key players in the US industry and is indicative of the divisions between types of jewellers and the patterns of political mobilisation emerging in the industry.

The ethical jewellers tend to develop their own elaborate, first-party standards while sourcing gold from the highest (and only available) third-party certified suppliers. There is little variation along either the economic or institutional dimensions of their respective IOS profiles, and little variation in their mobilisation. The specialised jewellers, especially the luxury brands, have almost all signed on to both the NDG's *Golden Rules* as well as the second-party, RJC certification. The diversified jewellers have been generally less responsive with many ignoring activists altogether, some signing on to the NDG's Golden Rules, a few opting for the RJC, and really only one becoming more deeply engaged and developing their own first-party certification. So there is some variation present in both the specialised and diversified categories and, because like-firms should face similar risk and costs, we should expect to be able to account for inter-category variation through the institutional dimensions of their IOS profiles.

The patterns we see suggest two general findings. First, the fact that the majority of jewellers within each of the three categories seem to respond in the same way as one another within their respective category, and different than those found in the other two categories, suggests that their responses are closely connected to their shared business model and market. Second, the fact that there are also different strategies employed amongst firms operating with relatively similar business models, ranging from deep engagement to no engagement, suggests that there are factors other than their business model, which also must be considered to account for variation.

## WHY LEAD FIRMS LEAD

As previously mentioned, there are many theories explaining homogeneity amongst like-firms when it comes to their organisation and actions that seek to explain why patterns form in organisational fields. These include arguments based on neo-classical economics that assume firms with similar structures and facing similar market conditions will make similar strategic choices to optimise their efficiency and general performance (Seth & Thomas, 1994; Shapiro, Russell & Pitt, 2007). Equally compelling, especially for the study of corporate political mobilisation, are theories originating from organisational theory. One of the most prominent is the new-institutionalist perspective that stresses isomorphic activity whereby firms imitate lead firms to gain legitimacy or otherwise guide their policies in conditions of uncertainty (Meyer & Rowan, 1977; DiMaggio & Powell, 1983, 1991; Deephouse, 1996). There are theories that in some ways bridge this gap by claiming that efficient strategies tend to diffuse across organisations through learning networks and the practice of benchmarking, by which firms evaluate their management practices by comparing them to industry best-practices, leading to emulation and strategic convergence (Porter, 1996; Dobbin & Baum, 2005; Shapiro et al., 2007).

Given these convincing explanations for homogeneity, variation in firm activity becomes more puzzling. This is true for both firms that develop strategies along different trajectories, leading to different outcomes, as well as for those that differ in timing and depth of engagement with the politics of their market. Patterns emerge, as expected, once policy innovations become established by lead firms. This makes it particularly significant to understand how these lead firms have come to lead. While organisational routines in an organisational field appear to converge over time, how do we explain those firms at the front of the movement? Why and how have lead firms managed to shed the structural constraints

that theories of homogeneity predict? Why have they chosen the strategies they have chosen? And, finally, what impact might they have on the private regulation that emerges?

The goal of the study is to offer a nuanced and empirically-informed perspective on business power outside the state system and, specifically, to do so through an explanation of the impacts of firm-level structures on the responses of business actors to civil society contestation. To fulfil this goal, the study has sought to explain this variation through a theory of structured agency in which variation is a product of the divergent opportunities for and constraints upon corporate political mobilisation within the industry and has undertaken a firm-level investigation for this purpose. In order to control for isomorphic activity and to trace the opportunities and limits of corporate political engagement, the study has focused predominantly on lead firms representing the major divisions within the industry, investigating the conditions that enable and shape the development and impact of proactive political mobilisation, thereby accounting for the second significant variation occurring within the jewellery industry, that between leaders and more passive political actors in the private sector. Toward this end, the remainder of the chapter seeks to explain the conditions under which latent institutional entrepreneurs might escape what has famously been called ‘the paradox of embedded agency’ (DiMaggio & Powell, 1991; Friedland & Alford, 1991) and come to lead the private institution-building process.<sup>92</sup>

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<sup>92</sup> To be clear, the study was not constructed for a comprehensive comparison between firms within each category of jeweller but, rather, it compares across lead companies in each category to account for the opportunities present that allowed institutional entrepreneurs to be first-movers on the issue, albeit with different results.

## HISTORY AND LEARNING AS PRECURSERS TO LEADERSHIP

As mentioned, in order to control for isomorphic effects, this cross-case portion of the thesis focuses on leaders across the industry.<sup>93</sup> These three companies represent the three major categories of jewellers in the US jewellery industry and are fitting representations of how the different types of firms have blazed different trails toward ensuring their companies minimise their association with the negative effects of irresponsible mining. *Brilliant Earth* responded by launching a company that only produced its jewellery from recycled gold to avoid the sometimes devastating effects of mining altogether, or at least not adding direct demand for it. It has since expanded its gold sourcing to include FT/FM gold that benefits the local communities in which it takes place. *Tiffany* was ahead of the curve as far as approaching civil society groups working on the issue of gold and collaborating to develop systems whereby gold could be traced and eventually certified as originating from sources in which responsible mining practices were employed. *Wal-Mart*'s response to the issue of 'dirty gold', as part of a larger sustainability initiative designed to mitigate reputational risk, generates value in its supply chain by creating a specialty line of jewellery aimed at ethical consumers. The 'Love, Earth' line also represents a pilot project of sorts as the company works toward tracing its supplies of gold with the ultimate goal of achieving traceability for all of its gold sourcing.

The intangible nature of risk and the need to interpret the risk posed from civil society contestation offers a big clue as to why the cases under investigation exhibited leadership amongst their peers, namely, they had systems in place, had the right people in the right positions, and were informed by past experience with civil society groups. The fact that all

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<sup>93</sup> While *Tiffany* and *Wal-Mart* were certainly leaders in their respective categories, all of the ethical jewellers could be considered leaders. This corresponds to the expectations of the IOS model as there is not much to choose between them along either the economic or the institutional dimensions of their opportunity structures.



three firms so clearly built upon their past experience with civil society contestation in other issue areas suggests the significance of having a history of interaction with activists and points to the importance of learning in expanding the opportunity structures for political mobilisation.

To recap, activists from civil society circumvent state agencies, in which business enjoys a privileged position, and target firms directly within markets. When building a campaign, activists consider their options for influencing the practices they seek to change based on perceived leverage points along the commodity chain. Based on the profiles of particular industries and even particular firms operating within these industries, activists attempt to leverage the power of targeted firms to induce change along their supply chains. Typically, these leverage points are the retail nodes of commodity chains and, in particular, those operating in the US and EU markets. Activists aim to fracture the structural constraints imposed by market forces by introducing conflict into the equation. Conflict creates risk and markets, through the aggregate decisions of individual investors, punish risk. The structural forces in the market shift slightly as activists open opportunity windows for the political mobilisation of firms by recalibrating the interests of firm managers, who now have incentives to act to reduce their exposure to risk to avoid being disciplined by the market. Whereas pre-campaign firm managers would not have the space or economic rationale for these political activities, post-campaign these managers are incentivised, or at least given the opportunity, to mobilise and shift practices to where they will once again enjoy the protection of structural forces and not be sanctioned by the market.

But the findings have shown that, along the gold commodity chain, the threat leveraged by activists was very intangible indeed. While there is no evidence to suggest that activists have affected the bottom line of jewellers in any measurable way, what they have done is expose the companies to risk. Risk, by nature, is difficult to calculate and, therefore,

must be interpreted; past experiences, in turn, inform interpretations. The findings of the cases examined in this thesis suggest that the opportunity window for political leadership may be positively correlated to past civil society contestation, which we can understand through the IOS model.

Prior contestation of industry practices by activists expands the opportunities for future political mobilisation by business actors. Along the economic dimension of the opportunities model, prior civil society campaigns inform the risk analysis of firms when dealing with new issues as they have either seen or experienced the power activists can bring to bear. An even more tangible effect of past pressure is its impact on the institutions and mechanisms of the firm and industry. Past civil society contestation also created opportunities for business actors to mobilise the resources of the firm, creating institutions with which to mitigate the risk – or in the case of ethical jewellers, fill the gap – associated with the particular issues. This means when new issues arise, the systems are in place, or at least the knowledge of how to deal effectively with activist contestation, and so the marginal cost of engagement has declined. Along the institutional dimension, the corporate culture has changed as past experiences have led business actors to embed social and environmental concerns within the operational culture of the firm, in effect, raising the profile of these concerns within the hierarchy of organisational interests. Relatedly, as these issues become seen as increasingly important to the interests of the firm, they become part of the remit of the organisation's leadership, further enhancing the profile of social and environmental concerns within the company. Often CSR departments are created, people are hired, and their power in organisational decision-making increases. Therefore, all four dimensions of the IOS model are expanded from past experience. This also demonstrates one of the key consequences of the *present* political mobilisation of the firm's resources in response to civil society

contestation, namely, the further expansion of these structural opportunities for *future* private sector engagement in social and environmental issues.

Thus, the IOS model demonstrates the importance of institutional learning and adaptation along multiple dimensions. This expansion of the opportunity window for future political activity also suggests that activist contestation can have a cumulative effect on the political mobilisation of firm resources in non-state institution-building. While there is no claim that the expansion of the opportunity windows cannot also be reversed, past interaction with civil society does appear to make corporate political leadership more likely. A quick review of the cases empirically illustrates the point.

As with most of the ethical jewellers, *Brilliant Earth* based the way they approach gold on the lessons learned from the earlier and higher profile issues surrounding diamonds. In fact, it is highly doubtful that without the civil society contestation surrounding ‘conflict diamonds’ that there would be much of a market for ethical jewellery at all. The company was designed to avoid irresponsible practices along its supply chains and, therefore, when new issues arise, these companies are well-prepared to meet the challenge. While the company has investors, leadership at all levels would be well-aware of the need for an ethical firm to stay out front of supply chain issues.

*Tiffany* was able to be extremely proactive with their response to the issue of ‘dirty gold’ as they learned from their experience with ‘conflict diamonds’ and quickly consolidated their supply chain, identifying an appropriate mine site from which they could trace the gold to their own manufacturing facilities. The company also has a strong CSR department, established at the height of the ‘conflict diamonds’ controversy, which holds considerable sway within the company and interfaces with the operational managers regularly (Luxury jeweller, personal communication, September 16, 2010). Investor expectations would surely

have been impacted by the ‘conflict diamonds’ controversy as well, offering management increased leeway to confront the politics of gold.

And again with *Wal-Mart*, proactive political leadership can be explained through a combination of an economic case for a wider sustainability initiative as well as strong leadership backing this initiative. The company faced civil society contestation targeting their labour practices, their contribution to urban sprawl, and their negative effect on local businesses. These issues led to a broad-based sustainability push within the company, which created the room for action on the gold issue. *Wal-Mart*’s leadership, from the founding family and ownership group to the CEO and Chair, all got behind this broader sustainability drive. The internal champions that pushed the ‘Love, Earth’ initiative through this opportunity window did so under these general directives.

To recap, *Brilliant Earth* and the ethical jewellers represent a private sector response to the issue of ‘conflict diamonds’ and ‘dirty gold’ by filling a perceived gap in the market and catering to those conscientious consumers who were beginning to demand ethically sourced jewellery post-‘conflict diamonds’. In the case of *Tiffany*, the company’s recent history of interaction previous to the politics of ‘dirty gold’ was also informed by the issue of ‘conflict diamonds’ and their experience with diamonds played a central role in how the company approached the issues surrounding the gold supply chain. The fact that most specialty jewellers would have also been exposed to the ‘conflict diamonds’ experience explains the proactive response of the entire sector while *Tiffany*’s internal institutional entrepreneurs account for the company’s extraordinary depth of engagement. *Wal-Mart*’s response was embedded in a wider initiative to reduce supply chain risk and improve the reputation of the firm across the broad spectrum of issues they face. The fact that no other diversified jeweller has come close to the level of engagement underscores the importance of past experience, systems, and leadership in accounting for the company’s response.

The cases suggest that the political roles these firms have taken on would be very difficult to explain without an understanding of the history of civil society contestation in their markets. The importance of past experience and institutional learning cannot be overestimated and the IOS model assists in understanding the mechanisms by which this experience translates into leadership. While a history with civil society contestation is clearly a key factor explaining present corporate engagement, the firm resources available to leaders and the ways in which they mobilise these resources also impact upon the opportunity window for future political engagement.

#### **EXPANDING OPPORTUNITIES FOR FUTURE MOBILISATION**

While business power has generally been considered a defiant force opposed to the emergence of robust regulation, the cases investigated in this thesis suggest that business actors are able to exercise this power to build institutions that expand the opportunity window, and therefore the likelihood, for proactive engagement with social and environmental issues moving forward. Firms exert their instrumental power to fortify their new position in markets and realign their operations with market forces. It is at this stage where we can observe the mechanisms by which institutional entrepreneurs expand the economic and institutional dimensions of the opportunity window for future action. Specifically, they exert their instrumental power to create or alter institutions both internally and externally to the firm. Internally, preferences are institutionalised throughout an organisation via a process of mainstreaming, or embedding, norms and practices while ensuring operations are compliant through a system of monitoring and evaluation. Externally, firm preferences are diffused instrumentally through market power, agenda-setting, and discursive framing. Through these actions, business actors alter the institutional landscape,

contributing to the creation of collective institutions, building coalitions with like-minded firms and civil society groups, and tightening their control over their supply chains. All of these actions can have a positive effect on the likelihood of corporate political engagement with social and environmental issues moving forward.

### *Building institutions*

Business actors exercise the instrumental power of the firm to help create internal and external institutional environments conducive to their interests, thereby expanding the opportunities for future political action. On the one hand, these institutions are created to reduce the firm's exposure to risk, especially in the case of the specialty jewellers. It is notable that firms will tend to avoid acquiescing any operational autonomy during this process, as joining an initiative in which civil society groups share decision-making power could constitute an even greater risk than doing nothing at all (see also Sasser et al., 2006). On the other hand, building and supporting regulatory systems, even at arm's length, reduces costs and reinforces norms, both of which expand opportunities for further engagement.

Business actors attempt to control the process of private institution-building in a variety of ways by mobilising firm resources to operationalize and institutionalise their preferences. They do so by choosing between rival institutions, participating in the creation of new institutions or, at least, consulting with outside groups on standards development for fresh initiatives. Firms will advocate for particular initiatives or, alternatively, they may advocate for reform of institutions and even sometimes boycott certain arrangements completely. Firms support their institutions of choice through their membership, lending their official support – along with their membership fees – to the goals of the institutions. However, they may also support initiatives through their preferential treatment by way of

purchasing priorities or even contribute to the cost of institutional development through direct funding. In these ways, firms steer the process of institution-building and shape the governance landscape in which they operate. In other words, business actors not only take advantage of opportunity structures, they also help create them.

The case chapters highlighted many specific instances in which these practices have been undertaken with regards to private initiatives. *Wal-Mart* opts for the highest certification standards, which we have seen in their organics and through their support of the MSC, as they do not want to bring standards down and want to avoid controversy. This seems to be a rather easy decision to make as the company does not need to meet the criteria of these standards themselves, but simply offers purchasing priority to those suppliers that do. When sufficient standards did not exist in the jewellery industry, the company opted to create their own which, by all accounts, constitute best practices in the industry despite concerns that the standards cover only a small percentage of their jewellery sales and the company may be ‘overselling’ the assurances beyond their ability to manage the practices down the chain. While they do not subscribe to any particular external certification, they do work with the institutions in an informal, consultative capacity. *Tiffany* is not only a member of the RJC, but devoted significant time and resources to its development. They also support the continued efforts to launch IRMA, the main goal of which is to certify the mines themselves. *Brilliant Earth* advocates for ethical consumption by way of recycled gold, but is a strong supporter of FT/FM gold from *Oro Verde*, which the company helped develop, and backs up this support with purchasing priorities. Additionally, all three firms support various organisations working to develop regulatory initiatives in other issue areas through funding and various philanthropic activities.

*Tiffany* and *Brilliant Earth* are staunch advocates for reforming the KPCS, which they find is inadequate in its definition of ‘conflict diamonds’ and in its ability to quash the

entrance of these diamonds into the supply chain. In fact, they feel it may do more harm than good through the complacency it breeds. Additionally, *Brilliant Earth* is a critic of the RJC, which they feel lacks legitimacy through its narrow and industrial membership, which they claim has led to serious deficiencies in the standards themselves.

### *Building partnerships and coalitions*

Business actors will often handpick their partners when building coalitions with civil society groups. As they control the process to a large extent, many firms will avoid formalised arrangements with the most contentious groups and opt instead for informal discussions. Deeper cooperation is more likely with the more business-friendly groups, often the biggest NGOs with the most resources to contribute and a history of corporate partnerships. While this also reduces the immediate risk to the firm by finding solutions to pressing issues and adding the legitimacy that comes with civil society partnerships, it also expands the opportunity window for future political engagement by reducing the cost, through cost sharing, while further embedding norms and moving social and environmental concerns up the leadership hierarchy within the firm.

When institutions or organisations do not meet the criteria necessary for a firm to cooperate, firms either shut them out (for example *Wal-Mart* and NDG), act unilaterally (for example *Tiffany* and Zimbabwean diamonds), or vocally oppose them (for example *Brilliant Earth* and the RJC). They are influencing the agenda for industry change and setting the parameters of possibility for what can be asked of them. NGOs working with them are supplied with funding, information, and vocal accolades. Those that do not play by the rules are marginalised. This goes for organisations that appear to be asking too much in the eyes of particular firms (for example NDG and *Wal-Mart*) as well as those organisations that ask too little (for example KPCS and *Tiffany/Brilliant Earth*). Those espousing positive messages are



rewarded (for example MSC and *Wal-Mart*) while those adopting critical positions are sidelined (for example NDG and *Wal-Mart*).

Clearly there is no consensus amongst jewellers as to which organisations and initiatives to support and how to support them. However, there are striking similarities amongst these diverse firms in that they all exert their influence over the institutional architecture of the industry while carefully guarding their autonomy. *Wal-Mart* refuses to become certified, but consults with and supports those initiatives that fit the company's economic needs and cultural preferences. *Tiffany* has committed itself to becoming certified, but by an organisation that it helped develop and is intimately involved with. *Brilliant Earth* has been directly involved in the development of the only certified gold it will buy and differentiates itself from other 'responsible jewellers' by refuting the claims made by the main industry group. In these ways, firms attempt to maintain control of the process.

These divergent strategies have led to three types of firm-NGO coalitions in the jewellery industry, which could be categorised as free market, regulatory, and niche market in character. Free market coalitions involved the less exposed firms who joined forces with mainstream NGOs to help devise, implement, and add legitimacy to market-based solutions. Regulatory coalitions included more exposed firms who sought more institutionalised, external solutions to protect their interests. Once institutionalised, these firms were less vulnerable to direct-targeting campaigns, were able to defend against less palatable regulation by taking a seat at the table and, by getting like firms to also join, avoided suffering a competitive disadvantage from implementing these higher standards. The niche market coalitions involved the firms who stepped into the gap in the market for ethical goods and had the luxury, due in part to their relatively small scale, and the need, due to their business model relying on product differentiation, to form coalitions with NGOs representing the highest ethical standards in the market. Although different in character, all three types of

coalitions constitute learning networks that should make proactive political mobilisation more likely moving forward.

### *Tightening control over supply chains*

Firms are responding to activist pressure and the concomitant exposure to risk by tightening control over their supply chains. This reduces their exposure to risk, but also reduces the cost and risk involved when making future commitments, further expanding their opportunity window for future action. The campaigns seek to shed light on the ‘shadows’ of these chains and close the social ‘distance’ between consumers and producers (see chapter three). With firms reacting by shortening these chains and integrating upstream processes into their companies, it appears that these campaigns are consolidating the geographic, economic, and social distance for these products as well. Importantly, these findings suggest that one of the effects of direct targeting appears to include the *defragmentation* of global production chains, at least to some degree, which constitutes a minor reversal to one of the major elements of globalisation – the transnationalisation of production (see chapter three).

*Brilliant Earth* and the other ethical jewellers have responded to the political issues facing the jewellery industry with tightly controlled supply chains from the very beginning. Their value is largely built upon the ability to trace and control processes along their modest and carefully regulated supply chains. They undertake much of their production in-house and fabrication is done locally in the US. It must be said that they have recently expanded their sourcing to include mining cooperatives overseas, but this has been done using tightly controlled, third-party certification.

In the case of *Tiffany*, the company is vertically integrating its processes. For example, the company has consolidated its control over its diamond supply chain by buying

shares in mines and is instituting preferential purchasing policies for specific cutting and polishing facilities. They implemented similar changes with their gold supply chain, sourcing the vast majority of their gold from the *Kennecott* copper mine in Utah, which utilises high standards, is part of an established mining community, has onsite refining, is a local (US) source, and mines gold as a by-product of its copper production. Additionally, *Tiffany* favours in-house melting, moulding, and fabrication that also takes place in the US. This significantly reduces supply chain risk and, as we saw with the case of diamonds, integrating their supply chain not only can lead to cost savings and a secure supply, but has the added benefit of being traceable, which allows the company to become a first-mover when social and environmental issues rise to the forefront.

*Wal-Mart* has also been exercising its influence, using different means toward similar ends. The company is reducing the number of intermediaries by encouraging and assisting its suppliers to integrate processes downstream into their operations. The case chapter showed how the company is cutting out middle men and helping producers further downstream in the supply chain meet their evolving standards, finding cost savings and consolidating the chain. In some cases, this has resulted in cutting out entire countries from the production process, significantly shortening the length of the supply chain. The main tactic of the company thus far appears to be diversifying the tasks that suppliers undertake instead of diversifying suppliers themselves. This is a significant departure from the traditionally complex supply chains and arm's length supplier relationships the company has maintained in the past.

Overall, the implications of these responses include a measured reversal of one of the key elements of the transnationalisation of production and an expansion of the opportunity window for future political action as these adjustments should reduce the cost of compliance with emerging supply chain issues as systems of monitoring and evaluation continue to be put in place.

These findings illustrate the ways in which firms engage in non-state institution-building, the ways in which they attempt to control the process, and the ways in which they expand opportunities for future political mobilisation. However, the findings also speak to the limitations of what society can expect from firms regarding their willingness and ability to contribute positively to the regulation of global supply chains. Crises, or issues that threaten the core business interests of firms, can enable institutional entrepreneurs to change the practices of their firm, but even deep changes seem to conform to the requisites of each firm's business model.

The final section pushes the analysis toward an understanding of how these firm choices affect regulatory outcomes, both in the short-term and long-term. It does so by extending the examination of these cases to include an assessment of how the ways in which they have engaged in the politics of gold have had a direct effect on the private institutions that have taken shape and what this can tell us about the impact of the different manifestations of corporate political mobilisation moving forward. Ultimately, it aims to make a modest contribution to our understanding of what firms are capable of contributing to global social and environmental regulation outside the state system.

## **IMPACT OF CORPORATE LEADERSHIP**

There appears to be an evolving division of labour emerging through the divergent responses and contributions of different firms, even amongst those occupying the same position along the commodity chain. This thesis identified many points of divergence between our cases in how each organisation has operationalized their participation in the regulation of the gold supply chain. This next section distils the major differences in how these gold jewellers have undertaken roles in regulating the chain and analyses how each firm's approach to political

mobilisation impacts upon the non-state institution-building process. While institutional entrepreneurs within firms are limited by both the resources of the firm and their ability to mobilise them, different types of firms bring different elements of business power to the private institution-building process, leading to a range of contributions. What all three cases have in common, however, is that by acting as role models and demonstrating possibilities for proactive engagement with social and environmental issues, they are expanding the opportunity window for not only future leadership from their firm, but also for other firms to follow in their footsteps.

#### *Brilliant Earth and the ethical jewellers*

Small, ethical jewellers clearly cannot garner the market power of their larger counterparts. However, they do possess the ability to lead with their voice. While statements made by larger specialised companies, such as *Tiffany*, probably carry more weight in that their consumer base is much larger and the firm is more established, there are certainly some benefits enjoyed by these ethical companies. The major advantage is that because they utilise the highest possible standards for their product sourcing and manufacturing processes, they are able to be the industry voice for raising standards without fear of appearing hypocritical. When taking a stand on a particular issue, firms often subject themselves to increased scrutiny. *Wal-Mart's* 'Love-Earth' line could be interpreted in this light as it sometimes seemed activists were lining up to critique the initiative. The issue is with firms 'over-selling' their commitment to and actions on sustainability. By utilising best practices in the industry, the small ethical jewellers are able to advocate for the highest standards without fear of reputational reprisal.

Ethical jewellers are business enterprises with a social mission. This mission can be summarised in four parts: First, they strive to make high quality, ethical jewellery to meet the

demand from ethical consumers and to translate this previously latent demand into economic incentives for ethical practices upstream in the jewellery supply chain. Second, they attempt to increase this demand for ethical jewellery by raising consumer awareness of the issues surrounding gold and diamond mining. Third, they advocate for change within the industry and the creation of more purposeful regulatory frameworks surrounding the industry. Fourth, they act as a role model for other firms in the industry, especially the larger jewellers that wield significant market power, in order to demonstrate that sourcing ethical metals is not only possible, but also desirable (Ethical jeweller, personal communication, October 10, 2011).

Ethical jewellers can have an impact disproportionate to their financial turnover. Many feel that smaller companies are more innovative and are not held hostage to the structural constraints that appear to lock the larger jewellers into a particular model and are therefore much more resistant to change and innovation (Ethical jeweller, personal communication, August 7, 2011). This study has certainly uncovered many of the structural constraints faced by these larger jewellers, but it has also shown that these constraints can be overcome through a combination of strong and committed leadership along with innovative reforms to sourcing strategies that are aligned with the business models of the firms. Regardless, the ethical jewellers do appear to be leading the industry in both advocacy and innovative sourcing.

As one of the founders of an ethical jewellery company explains, they were ridiculed early on when discussing the possibility of a traceable, ethical supply chain for gold (Ethical jeweller, personal communication, August 1, 2011). They were told this was not the way it had been done and will never be the way it is done as it is logistically impossible to trace. But the *Oro Verde* project and similar FT/FM projects seem to be proving these sceptics wrong, at least on a small scale, as they have succeeded in becoming fully traceable. However, they

note, the critiques have not gone away, but have simply switched to claims that this is a niche market, there are no margins, and it cannot be done on a large scale (Ethical jeweller, personal communication, August 1, 2011). How salient these critiques prove to be is an open question at this point.

Arguably, the greatest contribution of ethical jewellers is creating and maintaining the highest possible standards and not needing to dilute these standards to fit a previously existing business model. As small and specialised companies, they are in a somewhat unique position to do so. They are limited by their lack of market power, but make an important contribution with their soft power. By not participating in industry governance initiatives that do not meet their very high standards for ethically sourced commodities, they deny themselves a seat at the table, but provide themselves with the opportunity to hold these institutions to account as an external critic.

#### *Tiffany and the specialty jewellers*

Specialty jewellers tend to have less direct market power than the more diversified retailers, but the largest have powerful brands and so are especially suited to leading with their voice. In the case of *Tiffany*, the company sources great quantities of gold, but it mostly originates from one relatively benign mine in Utah. They did not need to shift their supply chain for social or environmental reasons; therefore, bringing them onsite did not have much of a direct, economic effect on mining companies. However, they are a very well-known and well-respected company and so their opinions and actions carry significant weight in the industry and in the marketplace. Their work in promoting responsible gold mining is helping to shift expectations of buyers at all stages of the supply chain. The company is contributing to the institutionalisation of governance structures and setting the stage for a potential long-term shift in the nonmarket, normative structure of the mining industry. Obviously, it is

important to not get carried away with the still fledgling progress that has been achieved thus far. As identified earlier, the US jewellery market is highly fragmented, the US market only accounts for a small share of the global jewellery market, and the global jewellery market only constitutes a portion of the global market for gold (see chapter three). Therefore, even if all specialist jewellers were committed to the goals of responsible gold sourcing, there would still be a very valuable market for the ‘dirty’ varietal.

*Tiffany* responded to the ‘dirty gold’ issue in a similar manner to how it responded to ‘conflict diamonds’, that is, the company increased its control and monitoring ability by vertically integrating its supply chains. We have seen the benefits for the company, including risk mitigation and financial rewards, but how does this contribute to the governance of gold? First, this approach strengthens the responsible mining movement by rewarding good practice with, and denying poor practices, the money allocated to purchase the metals and minerals. It also contributes to governance indirectly by offering a model of good practice that other firms may imitate; there is immense value in industry leadership that demonstrates how things can be done in a different manner. Of course, there are significant limitations to such an approach as well. In contrast to the *Wal-Mart* approach, *Tiffany* has essentially shut out suppliers that cannot guarantee the provenance of their gold. This eliminates any direct incentive that *Tiffany* could have offered them through its purchasing power.

The second major contribution the company has made to the governance of the supply chain stems from the conferences and collaborations *Tiffany* has entertained. Through its work organising stakeholder meetings and through its collaborations with NGOs, even the most contentious ones, the company is building ‘learning networks’ and developing criteria for responsible mining, a necessary first step to effective governance as concepts must be defined before policy is devised (see, for example, Ruggie 2002). This has the added benefit



of giving these groups a stake in the process and helps ensure the input legitimacy of the institutions that result.

The third aspect of *Tiffany's* contribution is its direct involvement in institution-building. The company was a founding member of the RJC and has been closely involved in the development of IRMA. This is a vital role as they have lent their expertise and reputational legitimacy to these groups, not only helping to create serviceable standards, but also bringing other companies into the process. These certification institutions help protect the reputation of the industry and also provide a baseline for best practices that should ratchet-up over time. It also allows the company a seat at the table while these standards are being defined. By contributing to institution-building directly, *Tiffany* can use its instrumental power to enhance its structural power by ensuring their input into shaping the parameters of the debate.

There are, however, downsides to these governance institutions. As previously mentioned, certification institutions are often subject to the lowest common denominator for standards amongst their founding members. This is true for any voluntary, membership-based organisation. While there will almost certainly be intense bargaining involved when devising the standards, certification institutions have trouble asking firms to contribute past the ability of its weakest member. A related concern voiced by industry and non-profit organisations alike is that certification may stifle innovation when it comes to sustainability. Again, variation amongst firms means that there are unique circumstances faced by individual firms and standardisation processes may have the perverse effect of dis-incentivising institutional entrepreneurship within companies.

*Wal-Mart and the diversified jewellers*

Diversified retailers competing on price do not carry the same relative, intangible value in their brands as specialty jewellers. What they do tend to possess is market power and lots of it. These firms have the latent ability to shift processes in multiple supply chains; they lead with their procurement policies. *Wal-Mart*, through a history of conflict on labour issues, probably does not possess the persuasive voice that *Brilliant Earth* and *Tiffany* do on nonmarket issues. But the persuasiveness of their market policies is unrivalled. Their market power relative to their suppliers is perhaps the greatest the world has ever known (Fishman, 2003). This asymmetrical relationship allows the company to dictate practices in virtually every product range they carry. By harnessing this market power and steering it toward sustainability, this could constitute a coup for the environmental movement. There are, of course, many downsides to such a unilateral approach. The processes at the input stage of defining their sustainability initiatives in general, and the criteria for the 'Love, Earth' line of jewellery in particular, is opaque and exclusive. While the output of these efforts, such as the 'Love, Earth' sustainability criteria, are quite innovative and effective in many instances, they will have trouble gaining widespread support due to this lack of input legitimacy.

*Wal-Mart* responded to the political environment surrounding gold mining in line with its wider sustainability movement that maintains the goal of creating a culture of sustainability throughout its vast network of suppliers and retail outlets, mainstreaming the concept throughout its operations. The influence this retail behemoth wields is truly unprecedented in the retail world due to the extreme market power the company has developed. Their focus on bringing along suppliers by helping them adjust their practices instead of simply switching to suppliers that already meet their evolving criteria for sustainability has the potential to create ripple effects throughout entire industries. Additionally, their unapologetic business approach to sustainability increases the likelihood

these improved processes stay intact even when times are economically challenging as they are based on discovering value and not creating costs.

As the world's largest retailer, *Wal-Mart* enjoys almost unprecedented market power and so its procurement practices have the potential to shift industry practices in multiple sectors. By making sustainability part of their buying criteria, the company incentivises its suppliers to work toward products with less negative and more positive impacts on the environment. One could wish they were pushing their suppliers harder for faster change in certain areas, but by bringing them along instead of simply forcing them out, the company is utilising its market power and considerable resources to shepherd change across industries.

*Wal-Mart's* approach to supply chain control transfers cost and risk upstream by fostering competition amongst potential suppliers while preserving the autonomy of the company. By driving change in the direction demanded by society, their engagement with social and environmental issues is protecting the company from accusations of negligence, yet it is also avoiding any hard limits exogenously imposed on the company. In this way, *Wal-Mart* avoids changes that might put their competitive advantage at risk and preserves control over the process and the resulting costs of mitigation.

Although the company claims their business approach avoids simply creating niche markets for higher priced, sustainable goods, the reality of their flagship sustainable jewellery line is exactly this – a niche line of environmentally and socially responsible jewellery. The 'Love, Earth' line is not available in all stores and the remainder of their jewellery continues to be largely untraced and unevaluated against these higher standards. In their defence, this is a starting point in a longer-term goal to bring the majority of their jewellery in line with best practices once they improve upon their supply chain traceability.

Another issue concerns their ability to embed sustainability throughout their operations in a way that makes these higher standards irreversible. The change in leadership

at the top of the company may put this to a test, as the new CEO has publically signalled his view of sustainability as sometimes ‘distracting’ from their core business model of bringing products to market at the lowest price possible. His comments, cited earlier, indicate that he does not believe that all of the company’s sustainability initiatives have in fact created value and it remains to be seen if positive change in this area will continue on pace under his tenure. This serves as a reminder that opportunity windows may also contract through changes in the economic or institutional environment and, importantly, how these changes are interpreted by leadership.

The different types of firms studied in this thesis all had leadership present within the firm and, critically, all these leaders had opportunities to mobilise the firm’s resources within the structural constraints of their organisational environments. While limited in different ways, all three cases demonstrate a multifaceted capacity to contribute to the creation of private regulation, resulting in a division of labour of sorts. The hope for both business and civil society actors alike is that this piecemeal approach, leading to a diverse array of initiatives, might somehow fit together someday, offering comprehensive coverage of the social and environmental issues facing the industry.

## **CONCLUSION**

This chapter brought together the data from the individual case chapters and analysed the findings through a cross-case comparison. It began by comparing across the different categories of firms and utilised the IOS model to explain the patterns of variation that emerged, most of which can be explained through the economic dimensions of the opportunities available to institutional entrepreneurs. But, it notes that there were differences within categories not always reflected in the table of results, specifically, there was variation in the timing and depth of engagement, particularly within the more conventional categories

of specialty and diversified jewellers. The analysis controls for the effects of benchmarking and isomorphism through its focus on lead firms, comparing the historical accounts of each firm's political mobilisation. As the nature of risk in general, and of the threat posed by civil society contestation in particular, tends to be of an intangible nature, business actors will interpret this threat in different ways. As such, the institutional dimensions came to the forefront.

The findings indicate that the history of interaction with civil society on different but related issues played a large role leading up to each firm's engagement with the politics of gold. It suggests that a history of interaction with civil society and the resulting process of institutional learning played a critical part in these firms becoming leaders in the industry. Applying the IOS model further clarified the mechanisms by which this process could be accounted for as past engagement created systems and embedded norms that expanded the prospective window for political mobilisation. In this way, interaction with civil society, even in the past, can be said to have an enabling effect on the political agency of institutional entrepreneurs within firms. The mechanisms through which this enabling process operates was further clarified by comparing the ways in which business actors mobilised the resources of their respective firms to shape the institutional environment in ways that further expanded the opportunities for political engagement with social and environmental issues moving forward.

Additionally, all three firms have the potential to act as role models for other firms. They do so by expanding the opportunity window for others to follow in their footsteps. They increase the risk for those companies that resist civil society demands by de-legitimising this resistance and increasing the likelihood these outliers will be directly targeted in the future. At the same time, they increase the opportunities for companies to mimic their political engagement by reducing the risk for late-comers as far as potential backlash or wasted

resources. They reduce the cost to followers who can now skip the experimentation stage and implement similar policies with cost certainty. And these leaders expand institutional opportunities by increasing the legitimacy of corporate political mobilisation on these issues and others, diffusing norms of engagement through learning networks, benchmarking, and isomorphic pressures.

Having found these similarities, the fact remains that all of the lead firms under examination demonstrated very different preferences for institutions and partners. Their differing approaches have varying impacts on the market and, ultimately, on the issues of concern to activists. Each firm displayed a variety of strengths and limitations, and each holds the potential to lead in different ways. While not one of the firms has thus far acquiesced significant operational autonomy to activists, they are each limited in their ability to control the private institution-building process, not only by the civil society activists, but also by firm resources and the ability of institutional entrepreneurs to mobilise these resources while working within the constraints imposed by market forces. Therefore, the final section analysed the consequences of this variation by comparing the impacts of the different forms of political mobilisation championed by each firm.

Despite the very intangible nature of the civil society threat, it enabled institutional entrepreneurs from the private sector to take advantage of the opportunities present and drive the private regulatory process forward. Leadership was a key element and this leadership seemed to be nurtured and enabled by past interactions with civil society contestation, findings which resonate with those of past studies emphasising the impact of private actor politics on social learning and norm diffusion (see, for example, Keck & Sikkink, 1998; Risse et al., 2002; Pattberg, 2005a, 2006; Schleifer, 2010). As evident from the resistance of firms like *Rolex* and *Macy's*, firms did not need to engage deeply with these issues and the IOS model helps explain how the lead firms came to lead. These findings suggest there could be a

cumulative effect to civil society contestation as activists loosen the structural constraints, expanding the opportunity window for the institutional entrepreneurs they also helped create. In other words, we seem to be witnessing a kind of cooperation through contestation as activists enable business actor agency and these actors mobilise firm resources to institutionalise changes in policy and practice, further expanding the opportunity window for future engagement. Naturally, there are limits to the impacts these business actors might have, but there is evidence of a division of labour taking shape amongst business actors and between business actors and civil society activists.

## **CHAPTER 8 – CONCLUSION**

### **INTRODUCTION**

The concluding chapter revisits the core argument and research question before discussing the advantages of the theoretical approach and analytical model utilised in the study. It then focuses on the findings, distilling some insights for the study of business power and private regulation and offering some policy implications moving forward. The thesis concludes by offering some direction for future research.

Business actors face different opportunities for political leverage during the private institution-building process depending on the nature of the industrial environment within which they are embedded. The perspective developed in this thesis can help explain the variation observed in firm responses to activist contestation while informing debates over the broader implications of contentious politics outside state institutions and the apparent movement toward private regulatory initiatives. While market forces privilege ‘business interests’, and business power safeguards the autonomy of industry, through learning and leadership there appears to be a cumulative effect to contentious politics that has the potential to ratchet-up private regulation in both its depth and breadth of coverage.

### **THE DEBATE AND RESEARCH QUESTION REVISITED**

This study has been presented as a contribution to the debate currently taking place in IR/IPE surrounding the implications of the increasing privatisation of social and environmental regulation in the global economy. One prominent perspective emphasises the political power of business actors and their ability to neutralise threats to their business interests by co-opting



and domesticating attempts to limit their autonomy. A second popular perspective emphasises the ability of civil society actors to fill the gaps in global governance through their newfound power and innovative market-based strategies. In a way, the findings of this thesis suggest both perspectives are correct. The tangible leverage civil society activists have been able to achieve surrounding the politics of gold is limited and business actors have largely been able to maintain their autonomy and control the non-state institution-building process; however, the results indicate that this business-led, piecemeal approach still has the potential to result in comprehensive regulatory coverage.

When attempting to evaluate the impact of the apparent movement toward private regulatory initiatives, the first observation one needs to make is that there is significant variation in the form and function of these initiatives. Some emerging institutions offer robust commitments while some simply vague promises. Many contain sweeping assurances across regions and issue areas while others are narrowly specific on both counts. They differ in their creation, membership, monitoring, and enforcement. Therefore, there should be no wonder why there is a vast literature chronicling the differences in the form, function, and impact of these proliferating initiatives.

This study enters the field by attempting to explain variation in how firms respond to civil society contestation, offering a narrative that emphasises the political power of business actors vis-à-vis the numerous countervailing forces that mitigate their political leverage during the creation of private regulation. In so doing, it contributes to debates revolving around the promise and peril of private regulation by offering a nuanced account of the role, influence, and impact of business actors as they attempt to mobilise the resources of their firm and industry to shape the regulatory landscape.

It shows that corporate political mobilisation around any given environmental or social issue not only varies greatly across industries, but also amongst firms within industries.

As such, the core research question asked to what extent the industry operating environment impacts upon the ways in which business actors respond to civil society pressure in a particular market. The answer offered in this thesis is that institutional entrepreneurs within firms, who activists empower, are faced with different opportunities to mobilise the firm's resources for political purposes. These opportunities vary with the operating environment within which these business actors are embedded or, in other words, with the opportunity structures present for that particular type of firm. The actual political influence of these actors on the process is a function of the political resources of the firm and the ability of these institutional entrepreneurs to leverage them.

## **THE THEORY**

The thesis argues that the ability for business actors to control the non-state institution-building process is limited by various countervailing forces. However, contrary to popular understandings of private regulation, the autonomy of business actors to act politically is less hampered by the actions of activists from civil society and much more limited by the market structures in which they are embedded. In fact, activists from civil society actually increase the political influence of business actors in the non-state institution-building process by politicising the market, thereby expanding the opportunities for them to act politically without being punished by market forces. As activists increase risk to the companies, the acceptable expenditure on political mobilisation increases. When activists politicise the industry, they reframe social and environmental issues as market concerns. This reshapes the expectations of the market, legitimises the political aspirations of private sector institutional entrepreneurs, and facilitates the creation of institutions that expand the opportunity window for corporate political influence.

Those engaged in the study of IPE are well aware of the interplay between politics and economics. A large part of the discipline is committed to analysing how economic policies, especially those of public agencies, are filtered through political structures. This process inevitably eliminates some economically sound instruments that are perhaps not politically astute; or, at the very least, these economic ideas are shaped into policies that are able to pass through the political process, even if these reshaped policies may be second-best (see, for example, Yandle, 1983). In a similar manner, political policies, especially those originating from private sector organisations, are filtered through industry structures, eliminating those that do not adequately conform to a market logic or are not backed by a sound business case, even when these policies may be socially desirable. This limits the options for corporate political mobilisation when market conditions are stable and there is a regulatory equilibrium of sorts.

The goal of market-based campaigns is to create a crisis situation in which this equilibrium is unsettled. They aim to achieve this through shame tactics, a strategy that leaves some firms more vulnerable than others. Campaign strategists know this better than anyone and target those that they perceive to be the most susceptible. The goal of campaigners in the NDG campaign was to change mining practices on the ground. They targeted the market for gold jewellery as they believed they could gain leverage through the nature of the commodity and the gold supply chain for jewellery. The end-use market is relatively concentrated with a dominant portion of demand for gold emanating from the jewellery industry. It is highly visible in these same end-use products. As a luxury item, it is not a necessity but, rather, desired for its cultural significance and the status it conveys. In this way, campaigners politicised the market and jewellers mobilised politically to meet the challenge.

Through empirical investigation, this thesis has shown that the NDG campaign has accomplished a great deal and it certainly punches above its weight. However, when

evaluating the political landscape of the jewellery market, we must temper what we attribute to the direct effect of the NDG campaign. The evidence presented in this thesis suggests that the campaign is certainly shaping outcomes, but the politicisation of the market happened much earlier. Without the ‘conflict diamonds’ controversy, it seems doubtful that ‘dirty gold’ would have gained the traction it has. It helped create the market for ethical jewellers and explains the swift response of most specialised jewellers. Likewise with the diversified jewellers, it seems doubtful that *Wal-Mart* would have mobilised without the political pressures and concomitant risk emanating from other issue areas. In other words, the market was already partially politicised pre-campaign. It was through the opportunity window created by on-going activist pressure across issue areas that internal institutional entrepreneurs drove the idea of ‘ethical’ or ‘responsible’ jewellery, the consolidation of supply chains, and the creation of industry-led organisations and initiatives.

So business actors working within the market are embedded agents who are subject to the structural constraints of the market. Activist pressure has an enabling effect by providing these business actors with a business case for mobilising firm resources for political purposes. Business, through the actions of institutional entrepreneurs mobilising the resources of their respective firms, lead the process of private institution-building. These efforts are, however, still channelled through the structural constraints of the institutions in which these actors are embedded. As activists maintain pressure through continued contestation, they keep the opportunity window open, empowering these institutional entrepreneurs with policymaking ability. This is not to say that their political leverage and options for policy innovation are not without limits. Even the most forward thinking institutional entrepreneurs will eventually be reined-in by market forces. It is variation in the opportunities and limits available at the firm-level that accounts for the patterned variation in political strategies across the different types of firms.

The structural forces operating in markets, as used in this thesis, refer to the inexorable push toward policies favourable to ‘business interests’ or, in other words, to maintain a positive environment for profit and shareholder value maximisation. These market forces do not necessarily offer a privileged position to the political interests of individual business actors, but a privileged position for the perceived interests of investors and the general goals of maximising profits and shareholder value. There are latent policy leaders occupying various positions within the private sector. These managers, both the passive and entrepreneurial policymaking varieties, are restrained from using firm resources by the structural forces of the market, not unlike policymakers occupying positions within the state are restrained from implementing policies unfavourable to the general interest of business. In other words, policymakers in both the public and private sector risk being sanctioned by market forces.

Across the cases, there was ample evidence that many managers embrace policymaking roles once they are provided with the political space and mandate or, in other words, once they are given the business case for political action and the perceived boundaries between market and non-market strategies become increasingly blurred. The collaboration through contestation between actors from industry and civil society, over an extended time period and across issue areas, facilitates the institutionalisation of systems to engage with political issues, embeds social and environmental norms into corporate culture, and moves these concerns up the organisational hierarchy of interests, all of which have the effect of widening the opportunity window for future institutional entrepreneurs.

This brings us to another finding that should be of interest to IPE scholars, namely, that theories treating business as a monolithic bloc, those treating firms as unitary actors, and those that anthropomorphise ‘the firm’ will miss these processes. They will not pick up on the enabling conditions activists create for individuals from the private sector to escape ‘the

paradox of embedded agency' and harness the resources of the firm, wielding the firm's instrumental power to lead the process of institutional change. These are processes that can only be adequately explained by approaches to business power that apply analytical models to managers, and not to 'the firm' or to 'business'. Such an approach rejects the assumption that business power is only used to thwart, avoid, or otherwise weaken regulation in the state system; it can also be used to build non-state institutions. Granted, in both cases, much of the goal consists of maintaining operational autonomy and favourable conditions for the firm, but business power wielded by institutional entrepreneurs from the private sector can account for a significant portion of the emergence, development, and impact of these non-state institutions. Business interests may shape the process, but it is the institutional entrepreneurs within business that interpret and operationalize these interests.

So while studies that utilise structural frameworks have garnered criticism for facilitating overly path dependent or deterministic accounts, this study has shown how agency may still play an integral role in structural explanations. In this way, the historical narrative is able to focus on the actions of individual agents while the structural constraints at the firm-level provide patterns from which we can generalise across cases. The next section revisits the model developed for this purpose.

## **THE MODEL**

By investigating the creation of private environmental and social regulation at the retail node of the global gold commodity chain, this thesis has brought a business power lens to the study of non-state institution-building. It has highlighted the cooperation and contestation between non-state actors, notably firms and NGOs, and contextualised these interactions within the structures of industry. It has altered an analytical model built for the study of social

movements and mobilised it to study the political activities of business actors, seeking to present them as potentially proactive political actors in the non-state institution-building process. Importantly, the model represents the structural opportunities available to business actors themselves – the individuals within industry who drive the process forward – instead of conceptualising ‘the firm’, ‘industry’, or ‘business’ as cohesive units. Such a model, based on embedded agency, allows for consideration of both the patterns of action that emerge in the industry and the institutional entrepreneurship demonstrated by the actors who lead the process.

The IOS model has both economic and institutional dimensions and each includes more and less tangible elements. The intangible nature of risk and culture have proven to be important elements of the analysis as the need to interpret these opportunities pushes the institutional factors of leadership and learning to the forefront. Together these dimensions – the exposure to risk, cost of compliance, corporate culture, and leadership structure of the firm – define the parameters of the opportunity window available for business actors to mobilise politically.

	Economic	Institutional
Intangible	Exposure to risk	Corporate culture
Tangible	Cost of compliance	Leadership structure

Table 16: IOS model indicating the more and less tangible elements of opportunities

In order to facilitate a systematic and cross-firm study of these dimensions, the model introduced indicators for each variable. Exposure to risk was estimated by the level of branding and reliance on the politicised product, corporate culture by the artefacts and espoused beliefs of the firm, cost of compliance by the firm's sourcing strategy and ability to pass on or absorb costs, and the leadership structure by the organisation of ownership and position of internal institutional entrepreneurs within the firm.

This IOS model was then applied to lead firms in each of the three major divisions within the US jewellery industry, namely, the ethical jewellers, specialty jewellers, and diversified jewellers. The goal was to examine the structured agency at play when business actors mobilise the power of their firms in response to the politicisation of the market. The framework offered a new perspective on the emergence, development, and impact of corporate political mobilisation from the perspective of different firms occupying the same node in the commodity chain and, ultimately, a new perspective on the role of business actors in non-state institution-building.

## **THE FINDINGS**

There seem to be two key mechanisms by which regulatory initiatives emerge outside of state institutions, namely, crisis and leadership. The findings in this thesis have shown that business actors can be earnest political players outside of state institutions, mobilising the resources of the industry for political purposes, with tangible results to show for these efforts. However, these efforts are enabled by activist contestation and, therefore, the fledgling regulatory institutions would surely not have emerged without the concerted efforts of these civil society actors. They created the crisis, or exogenous shock, necessary to destabilise the regulatory equilibrium in the market.



The other key mechanism is leadership and, more specifically, the leadership of industry actors. It is evident from the cases examined here that any type of firm can contribute to the non-state regulatory framework, albeit in different ways. The key difference between those that have led the process and those that have either followed or resisted altogether comes down to leadership. Civil society actors create the opportunity to act, but there needs to be leadership present within the industry to drive the process forward. However, there is also evidence that this leadership can be fashioned from a history of interaction and learning while these same processes enable latent leaders to alter the institutions in which they are embedded.

Building from these core findings, the preceding analysis suggests six lessons for those debating the implications of the seemingly increasing emergence of private social and environmental regulation through the actions of non-state actors:

- 1) Activists *create* opportunities and *empower* institutional entrepreneurs
- 2) Business power can also be used to expand the opportunity window
- 3) Cross-fertilisation expands opportunities across issue areas
- 4) Business actors may control the process, but are not always defiant
- 5) There is a division of labour within civil society, within industry, and between the two
- 6) Variation in firm responses to activist pressure may lead to comprehensive coverage

*1) Activists create opportunities and empower institutional entrepreneurs*

During the non-state institution-building process, activists *create* the political space for business actors to later fill using the instrumental power of the firm. There has been a tendency in the social movement literature to treat POS/IOSs as already existing structural

conditions in the system under investigation. This study has shown that the perceived exposure to risk, the cost of compliance, the corporate culture, and to some extent the position of those tasked with the project of dealing with these issues have all been affected by past and repeated civil society contestation with the effect being an expanded opportunity window for future political mobilisation. Civil society activists need only breathe word of a potential campaign to create risk, costs of compliance are reduced with past systems in place, political issues such as sustainability become accepted as legitimate and embedded in the culture of the firm, and the position of internal champions within the company improves as leadership buys in while CSR departments and networks are created and given expanded mandates.

While actors may emerge as leaders for a number of reasons at the level of the individual, there are also opportunities that evolve at the level of the organisation. The cases have demonstrated the ways in which these opportunities can be built through on-going interaction between firms and civil society activists. Activists enable leaders to mobilise the resources of the firm by giving them a business case for doing so. But these activists also create and expand the opportunities for political leadership in the private sector through issue framing and placing social and environmental concerns on the business agenda.

## *2) Business power can also be used to expand the opportunity window*

However, this thesis has stressed that the engine powering these processes has been the instrumental power of firms themselves. The findings suggest that activists may be the impetus behind corporate political mobilisation, but the direct mechanism for expanding the opportunity windows within firm structures was business power wielded by institutional entrepreneurs within the firm itself.

Business actors translate the issues activists bring to them into policies and actionable practices. They wield the instrumental power of the firm to realign the firm's interests and practices with the new expectations of the market. These institutional entrepreneurs develop systems that reflect these new interests and practices, expanding the opportunity window for future leadership. Activist-initiated, social and environmental risk becomes more tangible based on past experience. Mitigation technologies and practices are constructed and the marginal cost of future compliance declines. Social and environmental norms are institutionalised throughout the company, reducing the potential for future resistance. Norms climb the leadership ladder to senior management or those that are tasked with these issues become more influential themselves. Overall, the presence of leadership poised to take advantage of the enabling conditions that activists present to them becomes more likely.

### *3) Cross-fertilisation expands opportunities across issue areas*

Therefore, the findings suggest that there can be a cumulative effect to civil society contestation as the actions taken and institutions constructed for today's issues expand the opportunities, along both the economic and institutional dimensions, to respond proactively to future issues. However, the findings also suggest that even civil society campaigns that target different issue areas can expand the opportunities for private sector leadership as cross-issue learning takes place and systems created by activists and business actors may translate across issue areas. The cases have clearly shown this potential for cross-fertilisation as activist pressure in other spheres of industry activity expanded the opportunities for proactive political mobilisation in response to 'dirty gold'.

Perhaps the most stark example within the study came from *Wal-Mart*, in which civil society contestation focused on labour issues gave rise to action on environmental issues,

moving from wages and unionisation to eco-efficiency and supply chain risk. We witnessed something similar in the other two cases with both categories of companies driving their responsible gold strategies into the systems and markets created by ‘conflict diamonds’.

A further example worth noting is how the issue of ‘conflict gold’ is now being driven through the opportunity window that was created by ‘conflict diamonds’ and further expanded by ‘dirty gold’. While civil society contestation surrounding the issue of ‘dirty gold’ had not led to an across-the-board mobilisation of mining companies, as the threat to jewellers does not seem to extend upstream to miners (see chapter three), the issue of ‘conflict gold’ has gotten the attention of the miners. Through their political organisation, the WGC, the world’s major mining companies are attempting to distance themselves from ‘conflict gold’ and are developing their own chain of custody system. The seemingly robust traceability mechanisms being developed come from a recognition that these conflicts are going to keep arising, in different regions and different issue areas, and WGC members need a more universal system that is transferable and will protect them moving forward (WGC, personal communication, July 18, 2012).

So, we have witnessed ample evidence from the cases of the cross-issue and cumulative effect of activist contestation. While we must be careful not to exaggerate the potential of these activities, the IOS model has demonstrated the mechanisms by which institutional learning and operational systems reduce the marginal cost of future engagement and build a culture around social and environmental responsibility.

*4) Business actors may control the process, but are not always defiant*

By focusing on successful cases of civil society action and non-state regulation there has been a tendency to overestimate the ability of activist campaigns to leverage industry actors and underestimate the ability for business actors to control the non-state regulatory process. However, by focusing on civil society actors as the main countervailing force to the political influence of business actors, there is a tendency to overestimate the ability of business actors to mobilise politically and impose their will on industry practices, even on the practices of their own firm.

Further to this, there has been a temptation to conflate industry control over the process with weak regulation. While there are some good reasons to make such assumptions, the result is a tendency to underestimate the contribution of business actors to the governance of the supply chain. While the political efforts of institutional entrepreneurs certainly include a healthy element of self-interest, this does not negate the fact that these efforts constitute valuable contributions to the present and future regulation of practices up and down the chain.

It is notable that none of the jewellers has given up any policy or operational autonomy to activists despite taking notice of the campaign. Ethical jewellers have filled the gap by only procuring what they see as the highest standard materials, specialty jewellers rushed to create an industry-led certification to organise politically and neutralise the threat, and diversified jewellers have either done nothing or created a niche line of jewellery as they were never really at risk in the first place. In this way, the cases appear to confirm findings from different industries that suggest one of the main goals of firms is to maintain their autonomy and reduce the risk to their business interests and they will only acquiesce any of their autonomy if they absolutely have to (see, for example, Gereffi et al. 2001; Sasser 2003;

Sasser et al. 2006). Even *Tiffany*, a firm led by business actors who seemingly share a deeper social and ecological drive with the campaigners than most firms, helped found the RJC, which shut NGOs out of the inner policy circle.<sup>94</sup>

Once activists have created space for corporate political mobilisation, business actors have been able to control the process and maintain their operational autonomy. However, this fact alone does not automatically lead to weak policy. While business actors are limited by market forces particular to the type of firm in which they are embedded, those at the forefront, by definition, exhibit strong leadership and a deep engagement with the issues. The result is the proactive, and often productive, mobilisation of firm resources to alter the industrial landscape in ways that not only mitigate risk to the firm, but also address the issues of activist concern within the operating parameters the IOS model would suggest. This does not mean a corporate response will be the optimum response, but all of the cases examined demonstrated firm engagement in an on-going and evolving process. There is an ad hoc and experimental element to corporate political mobilisation, but the continuous negotiation and adjustment can be interpreted as a learning process, one that extends beyond these specific cases and issues.

While no firms in the industry have relinquished autonomy to the activists, the autonomy of institutional entrepreneurs within these firms continues to be limited by market forces. In other words, while it may appear that business actors have controlled the private institution-building process, their actions have in fact been channelled by the structural constraints present in the market. The extent to which business actors were able to mobilise industry resources for political purposes certainly involved significant agency, but this

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<sup>94</sup> The RJC invited interested parties to multiple consultative meeting and considered their concerns, but the fact remains that industry controls the process and, perhaps understandably, is loath to become subject to the whim of these NGOs. In fact, we can see that signing on to an NGO initiative may in fact increase the exposure of the firm from the perspective of those in the market.

agency was subject to the opportunities available to actors within their particular type of firm – an assertion backed up by the patterns present between and within categories of firms. When the constraints imposed on business actors by market forces and institutions are underestimated, the autonomy of business actors and their ability to control the private institution-building process has been severely exaggerated. It is this lack of autonomy that limits the potential impacts of proactive corporate political mobilisation. These findings resonate with studies emphasising the limits to CSR (Vogel, 2005) as well as those highlighting the difficulty managers face when attempting to balance their responsibilities to shareholders with their often conflicting responsibilities to the wider society (Mason & O'Mahony, 2008).

*5) There is a division of labour within civil society, within industry, and between the two*

The findings also remind us that different firms have different opportunities for political leverage and, therefore, have the capacity to make different contributions. While one might expect business actors to contribute to the social and environmental governance of their industry and supply chains, one will be perpetually disappointed if one expects them all to contribute in the same ways. Business actors have limited autonomy for political action when working within markets and this should temper expectations for what can be accomplished through these non-state initiatives.

There also appears to be a division of labour happening, between both civil society and business actors as well as between different firms. They all contribute in different ways to the tapestry of regulatory initiatives. Some create risk, others provide information, some leverage buying power, while others act as role models, and others still as lobbyists and advocates. The conventional narrative of business political mobilisation is generally one of a

defensive reaction to a perceived threat, be it unionisation, environmentalism, or some other countervailing force to unbridled business power. On the contrary, this thesis has shown instances of civil society activists actually facilitating the mobilisation of business actors. This has taken place through the political space that activists create for institutional entrepreneurs as mentioned above, but also through organising meetings between business actors and critiquing, though not trashing, the responses that industry actors innovate. In the cases examined within, civil society activists have sought to play a guiding role, but have otherwise allowed business to take control, spending firm resources and exercising firm leverage, as well as industry knowledge, to conceive of and institutionalise solutions. This could be interpreted as akin to the state allowing business a regulatory role to ease the burden of an overworked state, but in this case it preserves the resources of an underfunded sector. However, it is also more than this. Civil society groups tend to have a well-founded grasp of the impacts of an industry, but nobody understands the inner workings of the industry nor has the organisational clout necessary to shift industry practices like the industry actors themselves. So we see that civil society activists have played a huge part in mobilising business, not as a defensive front, but as partners with resources that can potentially be used to change practices industry-wide.

*6) Variation in responses to activist pressure may lead to comprehensive coverage*

And the results we are witnessing along the gold supply chain are a number of initiatives covering different aspects of the commodity chain that appear to be slowly improving in their robustness. The hope amongst institutional entrepreneurs from both industry and civil society is that these diverse regulatory contributions might eventually link together and form comprehensive coverage for the industry. There does appear to be some evidence to this



effect. Certainly the effect of leadership amongst business actors becomes amplified when ideas and practices diffuse through organisations, amongst organisations, and across industries. But there are also clear signs that groups working on different elements of the industry, those within their respective spheres of interests and influence, are contributing to different aspects of what might result in something more comprehensive over time. Along the gold commodity chain, IRMA hopes to certify mine sites and the WGC is working on a chain of custody from mine to refiner. The RJC has a chain of custody from refiner to jeweller and GeSI is working from refiner to the electronics industry. ARM is working on different ways to expand the market for FT/FM gold, working with FLO in Europe and Fairtrade USA in the US, while also negotiating pending agreements to link into the RJC chain of custody and industrial consumer base. There remains much work to be done, but the evolving standards certainly indicate that there is both a ratchet-up effect to existing standards and the possibility they will fit together at some point in the future.

So perhaps, in this case at least, it is less accurate to think of these initiatives as competing with one another and more productive to think of them as potentially complementary dimensions of an evolving regulatory landscape. So while business has been largely able to control the process of institution-building along the global gold commodity chain, this fact on its own does not negate progress toward robust regulation nor devalue the contributions of those leading the process.

Therefore, to recap in the context of the debate taking place over the promise and peril of private regulatory initiatives, the firms under investigation have been able to maintain control over the process, but through a combination of learning and leadership, they have been able to positively impact the process. Civil society contestation has appeared to have a cumulative effect over time and, through a division of labour based upon the opportunities available to institutional entrepreneurs embedded within different types of firms, there is at

least the potential for significant breadth of regulatory coverage. There truly does seem to be a sort of collaboration through contestation between institutional entrepreneurs from civil society and industry. Instead of a perspective that emphasises business power as a defiant force opposing industry regulation, the cases within have shown how business power can also be wielded to ratchet-up existing regulation and even to expand opportunities for future regulation.

## THE IMPLICATIONS FOR PRACTICE

There are a further four implications that can be drawn from these findings that are especially relevant for practitioners:

- 1) Risk need not be tangible to incentivise industry to respond
- 2) Once lead firms are onside others will likely follow
- 3) There may be trade-offs involved in both collaboration and contestation
- 4) Repeated or sustained contestation can help ratchet-up private regulation

### *1) Risk need not be tangible to incentivise industry to respond*

Through the politicisation of markets, activists do not necessarily need to create a tangible threat; merely being exposed to a potential threat is often enough to open the opportunity window. The crisis situation that activists created in the jewellery industry has been shown to be a very intangible threat indeed. However, risk is inherently intangible and markets will often discipline those exposed to it. Simply the threat of exposure is often sufficient to

expand the opportunity window enough for institutional entrepreneurs in the private sector to drive the private regulatory process forward.

As we have seen, it is the intangible nature of risk that necessitates interpretation and it is this interpretative element that grants institutional entrepreneurs significant discretionary power in policymaking. The lesson is that if activists create risk by politicising the market, simply by threatening to target firms within it, often there will be a latent leader ready to champion the necessary change.

*2) Once lead firms are onside others will probably follow*

Additionally, it appears from the cases examined here that all campaigners really need is to get one lead firm on-board and others will follow. Therefore, it follows that if they can get one latent leader, occupying the right position in the right firm, it has the potential to be a game changer for the industry.

The IOS model helped us understand the mechanisms by which lead firms increase the opportunities for others to follow in their footsteps while the empirical findings improved our understanding of the model itself by detailing the mechanisms underpinning the theory. Along the economic dimension, they increase the risk of resisting, decrease the risk of engaging, and reduce the costs of implementation by offering a model to mimic. Along the institutional dimension, they increase the legitimacy of proactive policies while diffusing social and environmental norms through learning networks, benchmarking, and isomorphic pressures. Lead firms, through these processes, amplify the cumulative effects of activist contestation by diffusing these practices and norms across the industry.

Therefore, activists have partners – in fact, need partners – within the business community and these cases have revealed a symbiotic relationship of sorts. Only when institutional entrepreneurs from civil society and industry work together do they create and act upon opportunities to mobilise the resources of the private sector for political purposes. Activists are necessary to not only bring the issues to the attention of business actors, but to give latent leaders the business case they need to escape the structural constraints of market requisites. And only through the efforts of internal champions within firms is this intangible risk transformed into corporate engagement. The firms that lacked this leadership either did not move or moved much more slowly. The same can be said for those that lacked the business case.

*3) There may be trade-offs involved in both collaboration and contestation*

The findings also remind us that there are trade-offs involved in private institution-building through the cooperation and contestation of firms and NGOs. Some scholars have voiced concerns over the creation of interdependence between firms and NGOs that could lead to a domestication of both radical campaign strategies and their social and ecological values that do not easily mesh with a market-oriented logic (Falkner, 2003; Ford, 2005; Taylor, 2005; Klooster, 2010). It is easy to see the potential for this in the jewellery supply chain. NGOs that have bought into *Wal-Mart's* market-driven sustainability initiative have been rewarded with insider knowledge and influence. Although NGOs working with *Wal-Mart*, such as EDF, make it clear that they do not accept funding from the company (EDF, personal communication, August 16, 2011), the relationship allows them to deliver 'wins' to their funders and so there is certainly an indirect financial benefit to this relationship. Additionally, although *Wal-Mart* cannot use its instrumental power to compel favourable treatment from

these NGOs, they wield enormous structural power in the relationship as these NGOs have significant resources invested in their association with the company and its willingness to work closely with these groups. *Wal-Mart* has shown that NGOs that do not play by their rules are shut out, which is exactly what happened when the NDG campaigners gave *Wal-Mart* a low score on their report cards and criticised their 'Love, Earth' line of jewellery. Another reading of the NDG example, however, also demonstrates the willingness of many NGOs to break away from this cosy relationship and retract the civil society legitimacy the companies so desire.

#### *4) Repeated or sustained contestation can help ratchet-up private regulation*

In fact, continued or repeated activist pressure also incentivises business actors to develop more elaborate systems for dealing with social and environmental issues as a cost effective way of protecting their interests moving forward, as opposed to quick-fix solutions that would need to be repeated as new issues in these or other areas arise. This implies that, along with the cumulative effect of activist pressure, the key mechanism to ratchet-up private regulation and industry practices is to keep the industry politicised so institutional entrepreneurs from civil society and industry might leverage the risk into further opportunities and action.

The findings indirectly suggest that when the market lacks this politicised element and when the risk dissipates, either through a discontinuation of activist pressure or a disinterest by business actors and consumers, the business case for mitigating the impacts of corporate activity in the sector also disappears. Once the risk dissipates, the fissure that appeared in the structural constraints of the market will be filled with industry-led directives and a regulatory equilibrium will again be reached. When this happens, we can expect the IOSs of firms to contract as the market again demands less expenditure on political issues. If the goal is to

engage the resources of the private sector to ratchet-up the social and environmental regulatory architecture in the industry, activists need to keep these structural constraints fractured. In other words, they need to keep the market politicised. Only while politicised, will business actors retain the mandate to mobilise politically and engage in the institution-building process.

## **FUTURE RESEARCH DIRECTIONS**

This study applied a combination of historical process-tracing and comparative methods to investigate the causal mechanisms linking firm structures to the responses of different jewellers to the politicisation of their market. While this theory-guided, historical approach is the most appropriate for explaining the complex causality at work in such social phenomena, it is not as proficient at ruling out alternative theories (Büthe, 2002). In other words, the research design utilised in this thesis is perhaps better at generating theory than it is at testing theory (Büthe, 2002; Falletti, 2006). Although a research design set up to rigorously test the relative causal significance of individual variables would not have been able to account for the processes leading to the findings of this thesis, this study could set up productive theory-testing projects through large-N studies using more cases or a small-n analyses with cases chosen to limit and vary the explanatory variables. In this way, the approach, model, and findings offered here could be tested and refined.

While this study represents somewhat of a ‘non-case’ in that industry-led initiatives dominate the regulatory landscape to this point, it will be important to continue to include a variety of cases in the literature, including some less successful campaigns in which industry perhaps did not move at all when confronted by activist efforts. Even in industries where there has been significant engagement by firms, there are usually some laggards. The

jewellery industry is a perfect example of this and, although this study documented their disinterest and took some steps toward explaining it, these firms were not the focus and so robust findings on why they resisted could not be offered. While the difficulties in studying defiant firms remains extremely daunting, further efforts in this area, especially accounts that include the business actor perspective, would be productive (see, for example, Sasser et al., 2006).

It will be extremely interesting to continue observing the events unfolding in the jewellery industry and along the gold supply chain. The WGC and RJC standards are constantly improving, but continue to lack a certain amount of legitimacy due to their industry-led development. The landscape may change drastically once IRMA is launched. It will be very telling to see if industry actors embrace this multi-stakeholder initiative and how it will interface with those second-party initiatives that cover particular strands of the gold commodity chain, namely the RJC and GeSI. Now that the industry has been thoroughly politicised anew with the launching of *Dodd-Frank*, the regulatory landscape will continue to evolve and the contentious politics played out amongst business actors and activists will be at the forefront, leading the institution-building process.

The findings of this thesis have provided debates over the promise and peril of the rise in private regulation with a case for cautious optimism. Firms have controlled the process of non-state institution-building in the cases examined and have, therefore, tailored their responses to the perceived requisites of their business model and market. By examining the responses of any one firm at a given moment, those hoping for robust and comprehensive coverage would almost certainly be left wanting. However, there is also evidence of a cumulative effect to civil society contestation and the concomitant mobilisation of industry actors; through learning and leadership, institutional entrepreneurs have emerged from the private sector to drive the process forward. They have wielded the power of their firms in

ways that have had an immediate impact while expanding the opportunities for future political mobilisation. It is hoped, and not without basis, that the disparate initiatives launched through the mobilisation of different actors from industry and civil society will come to complement one another, leading to increasingly comprehensive regulatory coverage outside the state system.



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Organisation	Website
Alliance for Responsible Mining (ARM)	<a href="http://Communitymining.org">Communitymining.org</a>
Brilliant Earth	<a href="http://Brilliantearth.com">Brilliantearth.com</a>
Conservation International	<a href="http://Conservation.org">Conservation.org</a>
CRED Jewellery	<a href="http://Credjewellery.com">Credjewellery.com</a>
Diamond Development Initiative (DDI)	<a href="http://Ddiglobal.org">Ddiglobal.org</a>
Earthworks	<a href="http://Earthworksaction.org">Earthworksaction.org</a>
Enough	<a href="http://Enoughproject.org">Enoughproject.org</a>
Environmental Defence Fund	<a href="http://Edf.org">Edf.org</a>
Fair Jewellery Action	<a href="http://Fairjewelry.org">Fairjewelry.org</a>
Global Witness	<a href="http://Globalwitness.org">Globalwitness.org</a>
IRMA	<a href="http://Responsiblemining.net">Responsiblemining.net</a>
London Bullion Market Association	<a href="http://Lbma.org.uk">Lbma.org.uk</a>
Love, Earth (Wal-Mart)	<a href="http://Loveearthinfo.com">Loveearthinfo.com</a>
Make IT Fair	<a href="http://Makeitfair.org">Makeitfair.org</a>
Making Change at Wal-Mart	<a href="http://Makingchangeatwalmart.org">Makingchangeatwalmart.org</a>
No Dirty Gold	<a href="http://Nodirtygold.org">Nodirtygold.org</a>
Reflective Images	<a href="http://Celticjewelry.com">Celticjewelry.com</a>
Responsible Jewellery Council	<a href="http://Responsiblejewellery.com">Responsiblejewellery.com</a>
Tiffany & Co.	<a href="http://Tiffany.com">Tiffany.com</a>
Wal-Mart	<a href="http://Walmartstores.com">Walmartstores.com</a>
World Diamond Council (WDC)	<a href="http://Worlddiamondcouncil.org">Worlddiamondcouncil.org</a>
World Gold Council	<a href="http://Gold.org">Gold.org</a>



## APPENDIX A – LIST OF STANDARDS

### Standards & initiatives related to the jewellery supply chain

- **Awareness and Preparedness for Emergencies at the Local Level (APELL) for Mining**
- **Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal**
- **Diamond Development Initiative**
- **Essential Guide to Implementing the Kimberley Process, by the World Diamond Council**
- **Ethical Trading Initiative**
- **Extractive Industries Transparency Initiative**
- **Fairtrade/Fairmined Gold Standard**
- **Financial Action Task Force standards against Money Laundering and the finance of terrorism**
- **Global Reporting Initiative**
- **Initiative for Responsible Mining Assurance**
- **International Council on Mining and Metals**
- **International Cyanide Management Code for the Gold Mining Industry**
- **International Diamond Council Rules for Grading Polished Diamonds (2008)**
- **International Finance Corporation (IFC) Performance Standards**
- **International Labour Organisation**
- **International Social and Environmental Accreditation and Labelling (ISEAL) Alliance**
- **Kimberley Process Certification Scheme**
- **No Dirty Gold Golden Rules**
- **Responsible Jewellery Council Certification Scheme**
- **SA8000 Certification**
- **The World Jewellery Confederation (CIBJO) regulations for product integrity and disclosure**
- **UNEP Global Mercury Partnership**
- **United Nations Global Compact**
- **Universal Declaration of Human Rights**
- **Voluntary Principles on Security and Human Rights**
- **World Bank Group Environmental, Health and Safety Guidelines**
- **World Conservation Union (IUCN) Red List of Threatened Species**
- **World Gold Council Conflict Free Standard**
- **World Heritage Convention**

Adapted (and updated) from the RJC website at [responsiblejewellery.org](http://responsiblejewellery.org)

## APPENDIX B – KEY FINANCIALS FOR PUBLIC COMPANIES

<b>Brilliant Earth</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	Revenues	Unavailable	--	--	--	--
	Net Income	Unavailable	--	--	--	--
	Profit Margin	Unavailable	--	--	--	--
	Total Assets	Unavailable	--	--	--	--
	Total Liabilities	Unavailable	--	--	--	--
	Employees	Unavailable	--	--	--	--

*Brilliant Earth: Key Financials are not publicly available.*

<b>Tiffany &amp; Co.</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	Revenues	1,928.9	2,127.6	2,312.8	2,560.7	2,938.8
	Net Income	215.5	304.3	254.7	253.9	303.8
	Profit Margin	11.2%	14.3%	11.0%	9.9%	10.3%
	Total Assets	2,391.1	2,666.1	2,777.3	2,845.5	2,922.2
	Total Liabilities	922.9	965.0	946.4	1,040.6	1,284.8
	Employees	6,900	7,300	7,100	8,700	8,800

*Tiffany & Company: Key Financials, USD Millions (Source: Company Filings; Datamonitor, 2009).*

<b>Wal-Mart</b>		<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	Revenues	281,488.0	308,945.0	344,992.0	374,307.0	401,204.0
	Net Income	10,267.0	11,231.0	11,284.0	12,731.0	13,400.0
	Profit Margin	3.6%	3.6%	3.3%	3.4%	3.3%
	Total Assets	117,139.0	135,624.0	151,193.0	163,514.0	163,429.0
	Total Liabilities	67,743.0	82,453.0	89,620.0	98,906.0	98,144.0
	Employees	1,700,000	1,800,000	1,900,000	2,100,000	2,095,000

*Wal-Mart Stores, Inc: Key Financials, USD Millions (Source: Company Filings; Datamonitor, 2009).*