



Tiffany & Co: A Case Study in Diamonds and Social Responsibility

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Michael J. Kowalski, chairman and CEO of Tiffany & Co., the world-famous luxury jeweler and specialty retailer, wasted no time correcting what he called a "misperception" about his company's products. "Jewelry is not discretionary," Kowalski began when he recently addressed MBA students in Wharton marketing professor [Stephen J. Hoch's](#) marketing class and in four other classrooms participating via videoconferencing hookups. "It fulfills a need for human adornment."

TIFFANY & CO.

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Following a quick burst of laughter, Kowalski and the students returned to the morning's more serious discussion, a case study called "Tiffany & Co.: A New Gold Standard." Written by Wharton second-year graduate student Miriam Zalzman, the study was triggered by Kowalski's open letter advertisement to Dale Bosworth, chief of the U. S. Forest Service, published in *The Washington Post* on March 24, 2004.

In the letter, Kowalski criticized the government's reliance on an antiquated law used to grant approval for the development of a silver mine – to be called Rock Creek Mine – in Montana's Kootenai National Forest. Kowalski cited the environmental hazards that the proposed copper and silver mine would produce, ranging from millions of gallons of waste water to "vast quantities of mine tailings – a polite term for toxic sludge." As Kowalski wrote in his letter: "Minerals should – and can – be extracted, processed and used in ways that are environmentally and socially responsible. Government and industry each has a role to play in shaping sensible measures to achieve this goal."

Kowalski's letter, noted the case study, was not the first time the company has expressed disagreement with the federal government's decision to permit mining in environmentally sensitive areas. Indeed, over the last decade Tiffany & Co. has "expressed concern over mine suitability, antiquated federal regulation, and the responsibility of the mining and jewelry industry to promote change." But this particular letter had come at a critical moment – right after the U.S. Department of Agriculture had approved Rock Creek Mine and after several non-governmental organizations (NGOs) had launched a campaign to publicize the environmental and social impact of the gold mining industry. According to the case study, the letter not only served as a call for reform in U.S. mining regulation, but also "implicitly communicated that Tiffany & Co. is committed to 'responsibly-mined' minerals and metals."

Tiffany's public appeal for mining reform posed many questions for the Tiffany management team. How should Tiffany proceed in its campaign to promote responsible mining for both silver and gold? Known as the company that "brings beauty into the lives of its customers," would Tiffany's environmental efforts threaten its brand equity? How would consumers respond? What about shareholders? And would Tiffany's public commitment to responsibly-mined minerals and metals keep NGOs from attacking the Tiffany brand, or would the company's efforts serve as a lightning rod for NGO attacks? "The Tiffany management team," according to the case study, "was uncertain how to proceed."

Doing Nothing vs. Doing Something

To begin the case review discussion of these issues, Hoch led his students through an exercise designed to discuss the risks that Tiffany faced in pursuing one of two scenarios: Doing Nothing versus Doing Something. Doing Nothing, various class members concluded, offered a range of consequences and risks:

- Potentially damages brand equity, leaving Tiffany open to attack by an NGO or another organization and making the company vulnerable to criticism. As the case study noted, "Targeting brands was like discovering gunpowder for environmentalists."
- Forces the company to operate from a stance of damage control, responding to agendas framed by others; forces company into a position of responding only "after the fact" at a time when rumor mills threaten to diminish any company response.
- Creates a negative perception of the company for its own employees and lowers employee morale.
- Creates the potential for a crisis of consumer confidence, which translates into a risk for sales.
- Brings into question Tiffany's commitment to being an ecology-minded company, creating a negative "halo" for the company. The silent, subtle approach might actually compromise Tiffany's existing environmental strategies and its ability to attract socially responsible investors.

But Doing Something, the students noted, brings risks, to

- Increases costs incurred by ensuring that metals are procured from valid sources and pronounced "clean." Increases costs incurred by advertising to show that you are taking a stand for responsible mining and environmental protection.
- Attracts attention to what may be a "non-problem." As the case study noted, "Kowalski felt that consumers were currently unaware of the issues associated with precious metals..."
- Fosters even more scrutiny to determine just how committed Tiffany is to the "green" agenda. For instance, Tiffany is committed to a progressive "chain of custody" for its gold and silver sourcing, but has not yet amended platinum sourcing (although Kowalski favors adding platinum to the agenda at some later date). This raises the potential for a discussion of Tiffany's "degrees of clean" when it comes to environmental issues, students noted.
- Cheapens the brand by aligning Tiffany with other "green" companies. For instance, what do Tiffany diamonds have in common with Ben and Jerry's Ice Cream?
- Antagonizes customers who do not want environmental concerns to "ruin the moment." Distracts from "selling dreams." Clouds Tiffany's message about what they are selling – which for generations has been the perception of wealth, luxury and a wonderful life.
- Raises questions about returns for shareholders. Does this protect the brand in the long run, or open up expensive problems?
- Raises prices of products.
- Draws a line between customers' divergent environmental sensitivities. For instance, will mining issues influence customers in the Western states more than Eastern ones?
- Creates concern over Tiffany's role with NGOs, their goals and agendas. Should Tiffany advocate NGO goals? What power should Tiffany have to tell NGOs what agendas to seek in exchange for the company's cooperation? Alignment with NGOs forces the company into a position it cannot always control.
- Focuses attention on Tiffany, running the risk that the company will "stand alone" among its competitors.

When the students' Do Nothing vs. Do Something lists were complete, Hoch turned the discussion over to Kowalski, a Wharton graduate who first joined Tiffany & Co. in 1983 and was named president in 1996, CEO in 1999 and chairman in 2002. To the issues articulated by the students, Kowalski then went on to add a little more "color. Specifically, I want to place this in the context of our company's mission statement, how we think about what we do, and try to go to the heart of what we did and why we did it,

because quite honestly, until a few weeks ago, in terms of the retail jewelry industry, we were the only ones addressing this subject. It's fair to say that most consumers are not aware. I didn't say that they don't care; I said they aren't aware."

First, Kowalski noted, is Tiffany's mission, which is "to bring beauty into the lives of our customers [by] creating beautiful objects." The company's clients "acquire those objects to celebrate all of life's milestones – whether engagement, graduation, birth, promotion or wedding anniversary ... That is extremely important in the context of what we are talking about here. It places some very special demands on our products. It obviously means that the quality and the craftsmanship [must] stand the test of time, and hopefully will be passed along from one generation to the next ... We absolutely believe," Kowalski added, "that due to the nature of what we do, because of the emotional nature of what we do, we have to be socially responsible. That's precisely what our customers expect [from us]."

Founded in New York City in 1837 and now operating out of 148 locations in 17 countries, Tiffany reports an average daily revenue just below \$5.5 million. In 2003, net sales increased by 17% to exceed the \$2 billion mark; its brand identity alone was recently valued at \$3.64 billion by *BusinessWeek*.

Encouraging Others to Do the Same

In the case study presented to the marketing classes, Kowalski laid out Tiffany's advocacy strategy over the past nine years, including its attempts to reduce the risk of environmental hazards (such as the cyanide contamination and acid drainage associated with gold mining), to source gold and silver from more responsible mining operations, and to create a "chain of custody" for its gold and silver (a process that allows products to be traced directly to a commodity's source). In the late 1990s, the issue of conflict diamonds was raised. Tiffany was a member of the World Diamond Council, which pledged to eliminate the trade of diamonds in underdeveloped countries where it contributes to conflict and exploitation and create a "chain of custody" for diamonds.

"If you want to anger people [at Tiffany], just suggest that they compromise quality or craftsmanship, or that they compromise service – or, in this case, that we compromised our social responsibility," Kowalski told the students. "That is something that we don't do."

Kowalski also said Tiffany did not expect and was surprised by the response generated by the publication of the Rock Creek open letter advertising in *The Washington Post*. He considers Tiffany's position to be "a-political" because, "unlike other environmental issues today, mining issues traditionally cut across party lines." All of that changed when newspaper headlines began announcing, "Tiffany Battles Administration over Mining Reform." "It was something that we certainly didn't anticipate," Kowalski noted.

Tiffany, however, has no plans to back away from the controversy. "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 jeweler in the past by basically putting mining reform back on the national political agenda through our open letter ad in *The Washington Post*."

Standing in front of the lists of risks associated with Do Nothing and Do Something strategies, Kowalski made it clear that he prefers the risks of doing something. Why? "Our motivation to date has been primarily defensive, with a fair measure of altruism thrown in," he admitted. "But putting our own house in order probably isn't enough. Now we have to step up and step out and exercise industry leadership." According to Kowalski, Tiffany is prepared not only to be accountable when it comes to its own environmental issues but to encourage other retail companies like Wal-Mart, and other jewelers like

Rolex, to do the same.

"On the one hand, I feel great about this. If the mining companies and the NGOs go to war over the issues of mining reform, then I think ... the battles are going to be fought on the sidewalks in front of Tiffany. And that's really what we have been trying to avoid. But on the other hand, I fear that the NGO strategy is just to attack, attack, attack. Between 11% and 12% of our worldwide sales are done at the corner of 57th Street and Fifth Avenue. So imagine a sustained NGO protest, day after day, week after week, month after month. That is a frightening possibility. It's the ultimate risk."

Kowalski acknowledged that Tiffany commits a lot of resources to working behind the scenes on mining reform. At an upcoming global conference on mining, for instance, "we will oppose any sham mining reform, but we may not publicize or go public with any of this." What the company would like to see, perhaps five years down the road, he said, is a third-party certificate program for "good gold," along with mining certification: "It's a market-driven solution. It's not about government regulation. It's about like-minded people making an assessment about their customers. We are not miners – we do not operate mines. But what we are trying to do is put pressure on the mining industry by saying, 'Make your R&D investments, do what it takes to do it right and if you do, there will be a market for it.'"

When questioned, Kowalski acknowledged that the company's response to environmental issues has not always been associated with leadership qualities. In the mid-1990s, when "conflict diamonds" first became an issue, "we felt as an industry that we blew it," he said. "We should have seen it coming, we should have acted sooner, and we said to ourselves, 'Never again!'"

Now that Tiffany has established a "chain of custody" for its diamonds, the company has also turned its attention to the issue of lab-created diamonds vs. the natural diamonds that Tiffany sells. "I think our greatest fear is that manufactured diamonds could affect the supply chain, and consumers will purchase a manufactured or lab diamond without being aware of what they are doing. We are working very hard to make sure that manufactured diamonds are identified. And we would direct a fairly emotional campaign. 'Natural diamonds are two billion years in the making. What kind of man would give a loved one a lab diamond?' We would be ruthless," Kowalski noted, to much laughter.

Do investors, one student asked, ever criticize Kowalski 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," he said. "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."

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