STANFORD
GRADUATE SCHOOL OF BUSINESS
STANFORD SOCIAL INNOVATION *review*

What Works

Behind the Glitter
Tiffany and Co. moves to get African "conflict diamonds" out of its stores

By Matthew Schuerman

Stanford Social Innovation Review
Fall 2004

STANFORD
GRADUATE SCHOOL OF BUSINESS
Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, **www.ssireview.com**

what works

Strategies, Approaches, Developments

CORPORATE RESPONSIBILITY

Behind the Glitter

Tiffany & Co. moves to get African "conflict diamonds" out of its stores *by Matthew Schuerman*

Rebels in African countries mined diamonds to finance their insurgencies throughout the 1990s, but American jewelry companies didn't understand what the practice had to do with them until late 1998. That was when Global Witness, a London-based human rights organization, issued a report detailing the trade in "conflict diamonds" and the death and destruction it had caused in Angola.

"I was stunned," recalled Tiffany & Co. CEO Michael Kowalski. "We had a vague understanding that this was going on in some countries, but we never connected the dots."

Kowalski grasped almost immediately that as nongovernmental organizations and the media spread the word, conflict diamonds could quickly become as controversial as fur clothing. He knew he had to react fast, before any consumer campaign got that far. "We're aware of our brand standing," Kowalski said. "If people are going to look to us for leadership, they are also going to hold us responsible as a target. It wasn't hard for us to imagine the NGO community focusing on us."

"It wasn't hard for us to imagine the NGO community focusing on us."

Tiffany subsequently played a major role in establishing a system adhered to by trading countries and the jewelry industry to keep conflict diamonds out of the legitimate diamond supply. The company went further by instituting its own controls and in fact was recognized by Global Witness in April as having the most promising policy against conflict diamonds among 31 American jewelry retailers surveyed.

How much it cost one of the world's best-known jewelers to take an aggressive stance toward conflict diamonds is unclear, but the alternative would almost certainly have been expensive. Even before human rights groups began to stage protests outside Tiffany stores in late 2000, Kowalski secured guarantees from his handful of suppliers that they were, to the best of their knowledge, selling him legitimate diamonds.

"We did some research with our customers and there was very little awareness," he recalled. "What we did find was that when people were educated about it, they did become concerned. In the absence of any sort of action on our part, we knew it had the potential to become catastrophic."

In 2000, the World Diamond Council, an industry group, estimated that 4 percent of the world's diamonds came from conflict areas, but estimates are necessarily hazy. A diamond passes though so many hands as it is mined, cut, polished, turned into jewelry, and sold that it is virtually impossible, without scientific analysis, to trace a stone back to its source. Kowalski, who has been CEO since 1983, thought Tiffany was selling very few conflict diamonds in the first place, in large part because the company needed the sort of steady supply that he said only pit mines could provide. Pit mines are expensive operations usually run by government-sanctioned companies, while conflict diamonds tend to come from riverbanks where wildcatters connected to rebel groups prospect.

But given the complex nature of the trade and the virtual untraceability of individual diamonds, Kowalski, along with other jewelers, middlemen, and countries that trade in diamonds, knew they had to establish global controls. The result was the Kimberley Process (named after the South African city in which the accord was signed), which went into full effect in July 2003. Countries that export rough diamonds certify that each bag they ship derives from a legitimate source. The other countries in the accord can only import certified diamonds. A related agreement among diamond traders, polishers, and jewelers stipulates that each batch of diamonds must come with an invoice on which is stamped a guarantee of certification.

Human rights activists are not entirely convinced the Kimberley Process is effective, as its strongest controls apply only to rough diamonds. Dealers and jewelers are only supposed to buy cut and polished stones that are guaranteed Kimberley-certified, but no independent monitors check the veracity of those warranties or whether companies ever trade outside the system.

"We do want to see the industry go beyond self-regulation, which is what it comes down to right now, and have some sort of auditing procedure to make sure the system of warranties is working," said Corinna Gilfillan, a campaigner for Global Witness. Still, Gilfillan applauded in July when the Democratic Republic of the Congo was suspended from membership after Kimberley Process inspectors found that the nation's exports far outstripped the number of diamonds it could have obtained through mining.

A spokeswoman for Tiffany said the company believes that the Kimberley Process is still in the early stage, and should be evaluated by all stakeholders. "If it appears that certain changes are necessary, Tiffany & Co. will lend support," she said.

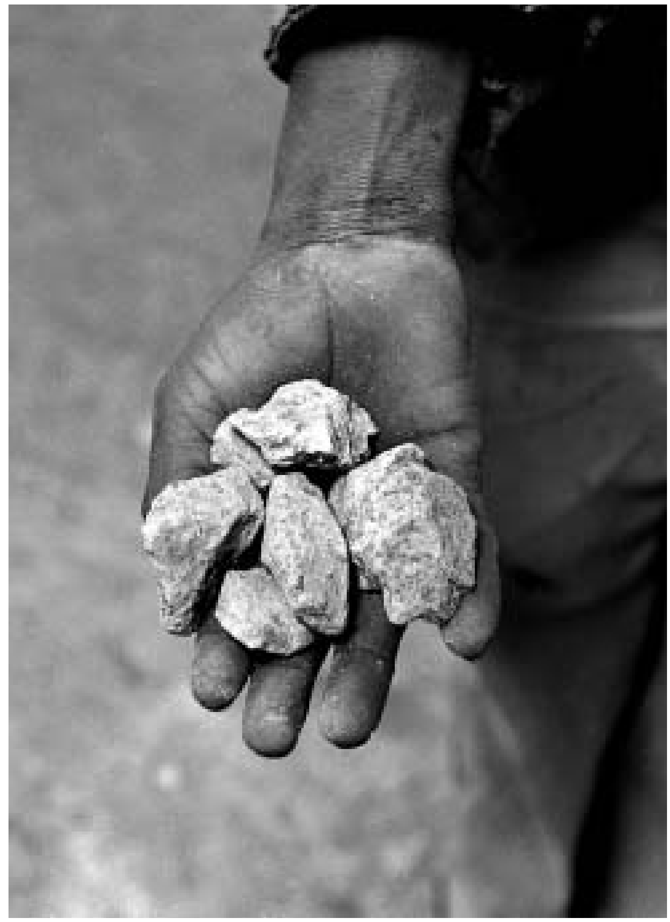
Since the Kimberley Process applies to all jewelers equally, no one should have a competitive advantage. Tiffany's major costs, Kowalski said, stem from its efforts to acquire diamonds from Canada, which began before the controversy over conflict diamonds erupted but will help flush them out of the company's supply system.

In 1999, after several years of negotiations, Tiffany paid $70 million for a stake in one of the first diamond mines in Canada, a latecomer to the diamond-mining game that is expected to have a large supply of high-quality stones. The arrangement, under which Tiffany has committed to purchasing $50 million of diamonds annually for the next 10 years, will give the jeweler greater control over the raw materials it needs to do business. Tiffany won't put a price tag on it, but paying First World wages to employees and operating in the tundra carries higher costs. But it also gives the jeweler the ability, for the first time, to trace at least some of the diamonds in its stores back to their mines of origin.

Global Witness cautioned that its April survey of retailers evaluated the policies that companies gave them, but did not investigate how well those policies are enforced. Tiffany scored points in part because its Canadian mine guarantees a clean source for an estimated quarter of its rough diamonds. Also, the company is negotiating mine-specific agreements with other suppliers so that eventually it can trace the origins of all its diamonds.

"We want to be able to tell the customer this diamond comes from this mine and we've seen it and we trust it," Kowalski said. "We care about all aspects of responsible mining activity: no environmental damage, no child labor."

Tiffany isn't bragging about the Global Witness report. Indeed, the activist group also chastised the company. When a tester went into a Los Angeles store and asked about the Kimberley Process, the salesperson gave out a copy of a store policy on conflict diamonds written two-and-a-half years before the international agreement went into effect. Global Witness said the oversight shows that Tiffany's stand against conflict diamonds has yet to permeate all levels of the company. Kowalski responded that sales clerks do not need to know the intricacies of diamond trading.



The strongest controls in the Kimberley Process apply to rough diamonds, like those shown here.

PHOTOGRAPH BY GETTY IMAGES

But as Africa's civil wars wane, the question of where a diamond has been dug up is becoming less volatile. Consequently, Tiffany is beginning to take public stands on other mining issues. In March, it placed an ad in the *Washington Post* criticizing the Bush administration for permitting a copper and silver mining project in Montana that could endanger the environment. Kowalski does not believe his customers think much about such issues, but the conflict diamond flare-up taught him how to get out in front of a controversy.

"The elimination of the negative is certainly important," he said. "We felt we could do something to prevent adverse customer reaction to the product, whether it was deserved or not deserved. So why not do something about it?" □