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A CASE STUDY OF MERINO WOOL AND MULESING

presented by

ROSS K. BOWMAR

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**ALTERNATIVE STRATEGIC RESPONSES TO ANIMAL WELFARE
ADVOCACY:
A CASE STUDY OF MERINO WOOL AND MULESING**

By

Ross K. Bowmar

A THESIS

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ABSTRACT

ALTERNATIVE STRATEGIC RESPONSES TO ANIMAL WELFARE ADVOCACY: A CASE STUDY OF MERINO WOOL AND MULESING

By

Ross K. Bowmar

Consumers, managers and policy makers are becoming increasingly concerned about animal welfare issues. A key driver has been animal welfare advocacy groups whose campaigns have directly challenged not only farmers' practices, but also their consumers at the retail interface. This shift has forced producers to defend their traditional practices against foreign consumers and media with limited knowledge of the rationale for these practices. Advocacy groups have successfully exploited this disconnect to their advantage and the detriment of many channel stakeholders.

As a result channel stakeholders are now searching to identify the appropriate strategic responses to different animal welfare challenges, as an inappropriate response can have adverse performance and viability implications. The challenge is little research has been conducted on the alternative strategic responses available to channel stakeholders. This thesis attempts to begin filling this knowledge gap by conducting a comparative institutional analysis of PETA's demands to cease mulesing and the alternative strategic responses the Australian and New Zealand merino wool industries took and the resulting implications. The findings suggest that the industry, institutional and market interactions are complex and directly constrain and determine the set of alternative strategic responses available to deal with animal welfare issues.

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CHAPTER 1: GENERAL INTRODUCTION

Consumers growing awareness and concerns about animal welfare issues are having an increasing impact on their purchasing decisions. These concerns result from a growing multi-generational societal disconnect that has developed over the past century between consumers understanding of the products they eat and wear and the processes by which they are produced (Olin, 1999). This societal disconnect has been accelerated by: increasing industrialization of agriculture; continued urbanization of consumers; and the rapid expansion of access to modern communications technology and related media (Olin, 1999; Evans, 2007). Recognizing that these transformational processes were occurring, animal welfare advocacy groups have successfully exploited them to influence consumers purchasing and political decisions and challenge traditional agricultural practices.

Animal welfare advocacy groups construct influence through a variety of campaign techniques, including mainstream media, celebrity spokespeople, boycotts and demonstrations. Often these campaigns use graphically shocking material to appeal to the public's emotions and generate support for change (see appendix 1). As a result, in the USA, alone we have seen a substantial increase in the number, success and impact off advocacy group challenges on animal agriculture. Recent examples include the Proposition Two referendum in California over the space provided in cages for hens (Sumner, et.al. 2008) and Humane Society United States (HSUS) 2009 threats in Michigan to impose a similar proposition on gestation crates and cages in the laying hen, veal and pork industries (Byrum, 2009). In both cases the advocacy group successfully forced the alteration of regulations and legislation, thereby forcing farmers

to change their production practices. The costs of these regulatory changes are still to be determined, but recent economic estimates indicate that they will at the least substantially increase the cost of production, if not the extinction of these industries within each affected state (Sumner et al, 2008). Such challenges are not limited to the United States, other examples include challenges to the practice of mulesing in Australasia and confinement agriculture in Europe and New Zealand (PETA, 2008d; www.savethesheep.com)

As a result farmers, associations and channel stakeholders are actively searching to identify the appropriate strategic responses available to them to deal with these animal welfare advocacy attacks. But to date this research has primarily focused on: technical responses, such as stress relief and alternative practices; consumer responses, such as willingness to pay; and the implications for public policy.

The initial results of this study were presented and debated at three international interdisciplinary conferences. These conferences drew experts from across the animal science, animal welfare, food safety, food manufacturing and distribution, and economics: the Socially Sustainable Egg Production group (November 2008), provided an interdisciplinary multi-university research group whose work to present has predominantly focused on technical issues, such as development of alternative practices, willingness to pay and perceptions; the Commodity Promotion Research Committee (NEC-63) and Food and Agricultural Policy Section of the Agricultural and Applied Economics Association (FAMPS) conference (February 2009) whose research focused on Promotion Through Consumer Information of Food Credence Attributes¹; and the

¹ Credence attributes are those that are unable to be easily identified and are independent of the consumer's post consumption experience (Darby and Karni, 1973).

most recently the Food Distribution Research Society conference (November 2009) on Values Based Food Supply Chains: The Role of Transparency, Trust and Consumer Activism. These conferences and presented papers provided a wealth of knowledge studies however they failed to address the questions about how firms and industries should strategically respond to these animal welfare issues, particularly attacks that challenge the status quo; animal production practices that have passed the test of time as they have been developed and successfully proven over multiple generations. This call to arms was reinforced by Jim Byrum President of Michigan Agri-Business Association at his public address at Michigan State University on the reality of discussion with HSUS, and the negotiated agreement with the Michigan Pork and Egg Producers on animal care; in which he personally appealed for MSU researchers to assist in finding appropriate strategic responses for industry to deal with animal welfare issues.

This study begins to fill the literature gap on identifying the alternative strategic responses available to farmers, value chain stakeholders and industry for dealing with the various animal welfare issues that they are currently and likely to confront in the future. The choice of appropriate strategic response to each animal welfare issues is likely to have important implications for a firm's, value chain's and an industry's short-term performance and long-term viability. Thus identifying the alternative strategic responses available to stakeholders for dealing with animal welfare issues and defending against advocacy group attacks has become an increasing priority of both managers and policy makers alike.

This thesis conducts a comparative institutional analysis using the instrumental animal welfare case of PETA's campaign to end the practice of mulesing in the merino wool industry. Specifically, this thesis will analyze the alternative strategic responses of the

Australian and New Zealand merino wool industries and their respective farmer associations to PETA's demands, and the resulting debate, actions and implications. The findings indicate that the relative industry, institutional and market characteristics and their associated interactions are extremely complex however they help explain the constraints that determine the strategic responses available to industry to deal with this specific animal welfare issue.

CHAPTER 2: ALTERNATIVE STRATEGIC RESPONSES TO ANIMAL WELFARE ADVOCACY: THE CASE OF PETA, MERINO WOOL AND THE PRACTICE OF MULESING

2.1 Introduction

Increasingly the global food and fiber industry is being challenged by various consumer advocacy groups about the appropriateness of the animal production and processing practices used by industry members to produce the raw inputs. These advocacy groups believe that suppliers should be held responsible and accountable for ensuring that the products consumers purchase are produced in a manner that meets their respective group's ethical, environmental and social standards (Thomas, 2006; Innes, 2006). These advocacy group criticisms often call for radical changes to the traditional animal production practices that farmers and other channel members have used and trusted for years, as they have passed the test of time while being passed from generation to generation. The forms of criticisms and challenges often differ dramatically between advocacy group depending on their groups beliefs about animal rights and animal welfare² (Guither & Curtis, 1983; Guither, 1998).

A key factor behind this growing disconnect between urban consumers and rural agricultural populations has been the recent industrial transformation of animal agriculture from a family enterprise emphasizing animal husbandry to an industrial

² Animal rights and animal welfare have related but different focuses. Animal rights activists are concerned with ending the human exploitation of animals whereas animal welfare activists are concerned with preventing the cruelty and suffering of animals (Guither and Curtis, 1983; Guither, 1998).

activity involving animal production (Rollin, 1996). This shift has created huge economic benefits in lowering the cost of food to consumers but at the same time it has resulted in the creation of a psychological disconnect between the packaged food we eat and clothes we wear and the production practices used to create them (Olin, 1999).

This growing separation and disconnect between consumers knowledge of their food and their associated production practices has created an opportunity for various groups, including activists, to fill the gap in the provision of both positive and negative information about these food products and their associated credence attributes³ (Feddersen & Gilligan, 2001). As a result, various private and public groups, including advocacy groups, are conducting campaigns challenging the validity of traditional agricultural production practices.

Traditionally, campaigns directly challenged those conducting the undesirable practice. Today however the campaigns indirectly target the practice through boycotts at the consumer and retailer interface. The move to an indirect nature has allowed campaign focus to shift from the domestic to foreign market place. In the foreign market place campaigns gain greater traction as the population has a reduced understanding of the rationale for these practices and direct economic effects cannot be felt. As opposed to the domestic market where people may have a greater understanding of the problem and awareness of the tradeoffs between the economy and animal welfare.

As a result farmers and agribusiness increasingly find themselves defending their traditional production practices in the foreign public domain. Often this defense is

³ Credence attributes are those attributes that are not easily identified by consumers and are independent of the consumer's post consumption experience (Darby and Karni, 1973). Examples include organic, range free, and fair trade attributes.

centered on economic merits as advocacy campaigns call for the adoption of uneconomically viable animal welfare specifications. However, the economic factor gains little traction in the consumers mind, despite the fact it may result in industry extinction. Recent examples of such challenges include the Proposition Two referendum in California over the space provided in cages for hens (Sumner, et.al. 2008) and HSUS 2009 threats in Ohio and Michigan to impose a similar proposition on gestation crates and cages in the laying hen, veal and pork industries (Byrum, 2009).

To effectively counteract these advocacy actions, industry and policy makers require a better understanding of strategic options available to address them. However, existing literature has focused on technical solutions and the consumer and policy implications of the solutions. But the question remains on how farmers, value chains and agribusiness industries should strategically respond when actually faced with a challenge of their traditional practices. The challenge relates to the complex interactions between the relevant actors, institutions and business environment. Thus leading scholars, Olin (1999), Andrews and Edwards (2004) and Zald (2008) argued for more case based research on advocacy groups and their interactions with their selected targets.

Recognizing this gap, this chapter conducts a comparative institutional analysis (Aoki, 2001) of the instrumental case of the alternative responses by the Australian and New Zealand merino industries to the advocacy campaign by People for the Ethical Treatment of Animals (PETA) against the practice of mulesing (see appendix 1). Beginning in January 2004, PETA has successfully targeted the merino wool industry's use of mulesing by encouraging consumers in Europe and North American to directly boycott clothing retailers and manufacturers who did not purchase mulesing-free wool for

the production of their garments (www.savethesheep.com). The boycott had a substantial impact on international retailers and manufacturers with many publically announcing that they would immediately cease purchasing mulesed wool. This created substantial turmoil throughout the global merino wool industry.

Both the Australian and New Zealand merino industries quickly responded by publically announcing that they would commit to end mulesing by 2010, however each industry followed very different strategies in an attempt to achieve this goal and with very different results. The Australian merino industry took a very public, adversarial and legalistic approach of directly challenging PETA in court while concurrently searching for alternative technical solutions to mulesing. Both of these approaches have failed and the Australian industry remains in a protracted internal and external fight about what are the appropriate next steps. Conversely, the New Zealand merino industry cooperated with their channel partners to privately diffuse the issue and co-collaborate in the creation of a certified responsible farming accreditation program. Collectively, all of the channel partners are now exploiting market opportunities that have resulted. Thus a paradox exists: why did the merino growers and their respective grower associations from two neighboring countries with very similar cultures take very different strategic responses to the same animal welfare advocacy problem – ending the practice of mulesing – and end up with two very different outcomes?

Using a grounded theory methodology (Glaser and Strauss, 1967; Strauss and Corbin, 1994) this paper analyzing the instrumental case described above. First, the PETA campaign and then the responses of the Australian and New Zealand merino wool industries are synthesized and analyzed. The critical factors are then separated out under

four broad groupings of characteristics (industry, institutional and market factors and approach to PETA pressure). Eight propositions are then developed from the economics, sociology and management literature to explain the different observed responses and outcomes. The resulting propositions indicate a complex question and one that requires further research.

The remainder of this chapter is structured as follows. Section two provides an overview of the grounded theory methodology study and section three discusses how the data was collected for the analysis. An introduction to merino sheep, wool and mulesing is provided in section four. This is followed in sections five and six which provide detailed descriptions of PETA and their “Boycott Australian Wool” campaign and the responses of the Australian and New Zealand merino wool industries respectively. Section seven then conducts a grounded theory analysis of the case by synthesizing and characterizing the two responses and then subsequently mapping the key findings to existing theory to develop explanations for the observed responses and outcomes, before developing a series of testable research propositions. Finally, section eight develops a series of conclusions and opportunities for future research.

2.2 Methodology

To analyze the paradox presented in this instrumental case, a comparative institutional analysis (Aoki, 2001) is employed using grounded theory. “Grounded Theory” is a general qualitative research methodology that follows an inductive theory development process rather than deductive theory testing process (Glaser and Strauss, 1967; Strauss and Corbin, 1994; Dey, 1999). Research methodologists argue that grounded theory is the most appropriate research method for conducting exploratory,

discovery, and inductive logic research for analyzing instrumental cases such as this (Patton, 1987; Westgren and Zering, 1998; Yin, 2003). This inductive research approach uses an iterative process that sequentially rotates between data collection, conceptualization, and analysis until the observed relationships can be theoretically explained (Strauss and Corbin, 1994; Dey, 1999). The process allows new theoretical constructs to be generated from the data or if existing theories appear relevant to the area, then these may be extended or modified as the data are played against them (Strauss and Corbin, 1994).

Grounded theorists argue that it is an interpretive process that must include the perspectives of those studied in order to reduce researcher bias (Strauss and Corbin, 1994). Such interpretations are sought for gaining a greater understanding of the actions of those being studied. However those who use grounded theory procedures must also accept responsibility for interpreting what is observed, heard, or read, and not merely voicing the viewpoint of those studied (Strauss and Corbin, 1994).

Limitations exist in grounded theory development as it is limited by the scope and nature of the case study and there is also a possibility for unfocused relationships to develop between variables and factors for unskilled researchers (Glaser and Strauss, 1967). Nevertheless, the methodology is superior to the alternatives as it allows for topics to be examined in a natural, whole agricultural system context (Woodford, 2000). Thereby providing the researcher greater likelihood of capturing all of the interactions between various characteristics and their associated interactions. Furthermore, as Eisenhardt (1989) states, the process of building theories from a grounded case study research approach is especially appropriate to exploring new topic areas. Additionally,

these forms of qualitative institutional analyses can often be carried out without the need of elaborate mathematical apparatus or marginal calculation while the specific issues and problems get appropriately framed for later analytical and empirical research (Simon 1978 in Williamson 1991). Accordingly, Eisenhardt states that convincing grounding in the evidence is the key criteria for evaluating this type of research.

Data sources for grounded theory are the same as for other methods of qualitative research (Strauss and Corbin, 1994; Yin, 2003) and can comprise archival records, interviews and surveys. Once collected the raw data is synthesized, categorized, conceptualized, analyzed and mapped to existing theory (Yin, 2003).

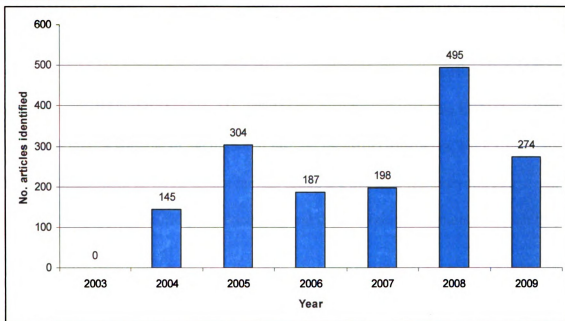
2.3 Data Collection

Data used for this study was archival records collected from publically available sources. These sources included news articles, journal articles, newsletters, industry reports and publications and general web content. The sources were primarily identified through internet search engines. A google alert was established using the term ‘mulesing’ which provided daily updates on publically available material entering the web. Contacts within industry informed the researcher of additional forms of publically available information.

Additionally LexisNexis computer software was used to conduct a detailed archival search. LexisNexis offers a widely used, searchable, and identically named archive of content from newspapers, magazines, legal documents, journal articles and other printed sources (www.lexisnexis.com). This search allowed holistic identification and location of all the relevant sources of information available related to merino sheep

and mulesing. An example search and the results by year for the term “mulesing” is presented in Figure 1 below. Other search terms used were “wool”, “merino”, “lamb”, “sheep”, “clothing”, “animal care”, “animal husbandry”, “animal welfare” and “animal well-being”.

Figure 1. Lexisnexis results for “mulesing” in major U.S. and World Publications



Once initial raw data was sourced, observations were synthesized out and categorized under key concepts. These concepts were analyzed and mapped into the literature from a wide range of scholarly fields, including economics, sociology, political science, and animal science, in search of existing theories to explain the concepts identified. Concepts that appeared to be explained by existing literature were further investigated and strengthened through further data collection. Those concepts that appeared to be unexplained were further investigated to provide insight. All concepts were then framed as testable research propositions to develop a pathway for future

research. The process of writing this thesis followed a grounded theory research process that involved an iterative process of continually returning to data collection up to the point the final words were written.

2.4 The Merino Wool Industry and Mulesing

The Merino breed of sheep is famous for its ability to thrive in extreme climates. As a result of their unique genetic traits and extreme environment, merino sheep produce a superfine, soft wool that is capable of being spun and woven into the highest quality of yarns and fabrics suitable in the high-end fashion industry (Australian Wool Corporation, 1990). The problem however is that merino sheep are prone to flystrike due to a combination of their naturally wrinkled skin and the natural environment in which they often live (see appendix 2).

Flystrike is the common name given to the consequences of the *Lucilia cuprina* fly laying clusters of about 250 eggs in damp fleece usually around the breech of merino sheep. The flies are attracted by the ammonium in urine (Dorrian, 2006). The eggs subsequently hatch into larvae (maggots) which feed off the flesh of the sheep in order to grow. This feeding creates painful wounds, causing the sheep considerable pain, stress and suffering from blood poisoning and infection. And in many cases a lonely death if not treated early, as affected sheep will self-ostracize themselves from the flock once flystruck in an attempt to protect their peers. This self-ostracization makes it difficult for farmers to find affected animals on large properties where merino sheep often graze (NSW Department of Primary Industries, 2005; Primary Industries Ministerial Council, 2006).

The practice of mulesing (see appendix 3) was developed in the early 1900's to reduce the risk of flystrike. It is named after Mr. J.W.H. Mules who found the practice by mistake while shearing a ewe with blade shears. During the shearing process he happened to remove skin from the sheep's hind end and later noticed that this sheep did not get flystruck. After performing this procedure on his other sheep, Mules noticed that it prevented the occurrence of flystrike (Ellis, 2005). The procedure was refined and experimented with to demonstrate that it reduced flystrike. It was approved for use in Australia in the 1930s. It is thought that *Lucilia cuprina*, the fly primarily responsible for flystrike, was introduced into Australia in the nineteenth century from South Africa. It was only in the 1980s that the fly first appeared in New Zealand. Prior to this time flystrike was caused by other species of fly in New Zealand but not with the intensity of *Lucilia cuprina*.

Today, mulesing is defined as a surgical procedure involving the removal of strips of wrinkled wool-bearing skin from around the breech (backside) of merino sheep. The procedure creates a bare skin area, devoid of wrinkles or skin folds (Lee and Fisher, 2007). Consequently, less wool is available for contamination with either urine or faeces, and therefore the sheep is less attractive to flies (Lee & Fisher, 2007). The practice is performed as part of an integrated flystrike management system including crutching, shearing, worm control and strategic use of chemical, genetic selection and grazing management (Bayer Australia Ltd, 2008). Mulesing may be carried out up to 12 months of age, but preferably at lamb marking (2 to 12 weeks of age) in order to provide protection against breech and tail strike as early as possible in the life of the sheep and to confer lifetime protection (NSW Department of Primary Industries, 2005). Codes of practice and legislation have been developed that describe and mandate how and by

whom the procedure should be undertaken, usually a professional mulesing contractor who has completed the mandatory accreditation and training program (Primary Industries Ministerial Council, 2006).

Research has found the procedure can cause initial stress and discomfort to lambs for two weeks by which time healing is almost, if not entirely, complete (Shutt et al. 1987, Fell & Shutt 1989). Infections are rare and antiseptics are only applied when needed, but anesthesia and painkillers are not currently required (NSW Department of Primary Industries, 2005; Primary Industries Ministerial Council, 2006).

Alternative flystrike control methods are currently under development. These include: clips, needle-less intradermal, breeding breech-strike resistant sheep, integrated parasite management, blowfly genome project, and biocontrol of blowflies (AWI Limited, 2008).

At present, the Australian Government, the Royal Society for the Prevention of Cruelty to Animals (RSPCA) Australia and the Australian Veterinary Association accept mulesing as a necessary sheep husbandry procedure to prevent flystrike, as current scientific research shows it to be the most practical, effective and humane method available to many woolgrowers (www.woolisbest, 2008). It is estimated by the National Farmers Federation (www.nff.org.au) that without mulesing 3,000,000 sheep would die of flystrike each year. Animal rights activists disagree considering mulesing to be inhumane and unnecessary (PETA, 2004; www.savethesheep.com).

2.5 PETA and their campaign to Boycott Australian Wool

People for the Ethical treatment of Animals (PETA) is an international animal rights movement based in the USA, with over two million global members and supporters and annual revenues exceeding \$31 million USD. They focus on four main areas where they believe the largest number of animals suffer the most intensely for the longest periods of time: animals raised on factory farms; animals used for laboratory testing; animals used in the clothing trade; and in the entertainment industry (PETA, 2008a). PETA works through public education, cruelty investigations, research, animal rescue, legislation, special events, celebrity involvement, and protest campaigns. There campaigns have a proven track record, as previously they have been successful in getting firms such as McDonalds to change their procurement specifications after short and virulent boycott efforts (Zwerdling, 2002)

In January 2004, PETA began a campaign against the practice of mulesing on merino sheep by pressuring overseas apparel retailers to cease selling products containing Australia Wool from mulesed sheep (Weekly Times, 2009). The “Boycott Australian Wool” (exhibits in Appendix 1) campaign’s purpose was to end the practice of mulesing. They used an extensive radio, TV and print media campaign, public protests and well known celebrities to draw negative attention to the Australian wool growers’ mulesing practices. As a result of the pressure, growing consumer concerns and increased media visibility, American fashion retailer Abercrombie & Fitch Co, boycotted the use of Australian wool in October 2004 (Associated Press, 2007). Since then numerous other companies across the globe have individually and collectively joined the boycott,

including major retailers and branded manufacturers such as H&M, Perry Ellis, HUGO BOSS amongst others (www.savethesheep.com).

In a February 2008 statement, Frank Henke, Global Director of Social and Environmental Affairs for Adidas, told PETA:

“Adidas has given a clear briefing to its development and sourcing teams to not use merino wool from sources where mulesing practices are applied. Clip-mulesing is also rejected by our internal policy...we would select another material unless we obtain clear confirmation from the source that mulesing practices were stopped” (PETA, 2008c).

Similar sentiment was held by the Swedish retailer H&M who felt the AWI phasing out of mulesing was taking too long so it publically decided to buy only mulesing-free merino in a press release 8 February 2008:

“H&M does not accept mulesing, the surgical procedure carried out on merino sheep in Australia in order to prevent flystrike. The company has decided to direct its buying towards other countries of origin and other suppliers in Australia that can guarantee mulesing-free merino wool. H&M has worked for the abolition of mulesing for several years. Since 2005 there has been an agreement between the National Retail Federation (NRF), of which H&M is a member, and the Australian wool industry (Australian Wool Innovation) which means that mulesing will be replaced by more animal-friendly methods by 2010. The decision to concentrate our buying on products that use mulesing-free merino wool was taken because the company feels that the phase-out of the practice is proceeding too slowly.” (H&M, 2008).

Following H&M's announcement, 17 other major Swedish retailers made the same pledge and a coalition of 31 European retailers have since announced that they are considering or have decided to stop using wool from mulesed sheep (PETA, 2008b).

Initially some retailers, including Benetton, refused to back the campaign; instead they chose to support the Australian Wool Innovation's (AWI) legal and technological initiatives. These initiatives failed to change consumer perceptions or diminish support of the animal welfare groups' calls for change. Thus these actions ultimately hurt both Benetton and AWI (Associated Press, 2007). Since then Benetton has tried to distance itself from the Australian Wool industry without adhering to PETA's demands (United Colors of Benetton, 2008).

Conversely, PETA has also run campaigns supporting those who they view as taking a more proactive move away from the practices they see as cruel. In July 2007, PETA carried out a demonstration outside the New Zealand Consulate-General's office in Sydney, Australia, in support of the New Zealand Merino Industry (see exhibit in Appendix 4), their growers and the New Zealand Merino Company and thanked them for their efforts towards the cessation of the practice of mulesing (PETA, 2008c).

2.6 Different Responses to the PETA threat! Australia vs. New Zealand

2.6.1 The Australian Merino Wool Industry Response

Merino wool production and marketing is an important sector within Australia's rural economy. In 2006/2007, the industry produced over \$3 billion (AUD) in export earnings, second only to beef exports. The industry is comprised of 30,000 growers

farming 88 million merino sheep. Australia is the largest producer of wool, accounting for 80% of global merino wool production. China is the most significant market taking 67% of the clip, which is primarily used in manufacturing garments that are sold in the western world (AWI, 2008).

Most Australian wool (approximately 85%) is bought and sold through five open cry auction centers, the remaining 15% is sold 'privately' on-farm or to local wool handling facilities. Two major wool brokers handle up to 50% of the wool with the remainder handled by 40 to 50 smaller, independent handlers (AWI, 2008).

Australian Wool Innovation (AWI) is the Australian wool industry's primary research and development organization (www.wool.com). This is a grower owned company legislated and formed by government statute. AWI receives a 2% grower levy from the sale of all shorn greasy wool in Australia to then reinvest for the wool growers into research and development, innovation, and marketing. The Australian government then matches the wool growers levy contribution, capped at 0.5% of the gross national value of wool production (AWI, 2009, www.wool.com).

In response to the campaign *Boycott Australia Wool*, launched by PETA in January 2004 (see table 1 and table 2 for timeline of events to date), AWI initiated the formation of an industry working group to consider a coordinated industry response to mulesing. The entity was referred to as the *Australian Wool and Sheep Industry Taskforce* (AWSIT). This group initially consisted of representatives from: AWI, Australian Wool Industries Secretariat (AWIS) / Federation of Australian Wool Organizations (FAWO), International Wool Textile Organization (IWTO), The Woolmark Company (TWC) and WoolProducers. The group later expanded to include

the National Farmers' Federation (NFF), Meat & Livestock Australia (MLA), Sheepmeat Council of Australia (SCA), LiveCorp and the Australian Government, when PETA included live sheep exports in its campaign (AWSIT, 2006).

On behalf of the industry, AWSIT made a public commitment to retailers on November 8th 2004 to phase out the current practice of mulesing by December 31st 2010 (AWGA, November 8, 2004). According to AWI this commitment remains firmly in place and the industry is on track to deliver alternative methods for flystrike prevention by the end of December 2010 (www.woolisbest, 2008).

However, between 2004/5 and 2006/7, Australian Wool Innovation (AWI) Ltd has so far unsuccessfully spent over A\$10 million in the development of alternative flystrike prevention methods to ensure that Australia's sheep flock remains protected against flystrike after mulesing is phased out (www.woolisbest.com). As of 2008, only 23 percent of Australian merino wool growers had committed to stop mulesing by the end of 2010 (AWI, May, 2008). Hence the industry remains under a cloud of speculation and faces continuing boycotts concerning their lack of commitment to the proposal.

This AWI commitment came after the Australian wool industry was stunned by the October 18th 2004 news that Abercrombie and Fitch, the US fashion retailer, had boycotted Australian merino fiber in all of its 749 stores (AWGA, October 18, 2004). The industry was divided on what was the appropriate strategic response to the problem. A full spectrum of opinions existed. They ranged from the Australian Wool Growers Association (AWGA)⁴, at one end, who led a wool industry delegation to meet with PETA in New York to try and collaborate to co-create shared goals in finding alternative

⁴ AWGA is a self formed minority group of merino growers.

preventive measures to the threat of blowfly strike until the practice of mulesing could be phased out⁵, to the AWI controlled taskforce at the other end who fully opposed the right of any external organization (including PETA) to demand the imposition of controls or restrictions on how their members operated and adamantly defended in their view the rights of their grower members to conduct mulesing. This polarization of opinions about the appropriate strategic response escalated the already prevalent tension between the various Australian wool industry groups (AWGA, November 11, November 20, 2004, August 25, 2005). A public debate ensued as evident by continual referral to mulesing from varying perspectives in publically available media (AWGA, October 31, 2004).

In the end and without consulting the other non taskforce stakeholders, AWI decided to directly challenge the PETA attacks by pursuing an aggressive legal response (AWGA, November 14, 2004). The filing was on the grounds of a secondary boycott, provisions of the Trade Practices Act, section 45D and 45DB (AWGA, November 9, 2004). AWI were trying to remove the right for PETA to campaign for the boycott of mulesed wool (AWGA, November 9, 2004). AWI chairman said “We cannot stand by as the livelihood of Australia’s woolgrowers is threatened by these people peddling innuendo, half-truths and deception. They are damaging the industry. We believe what they are doing is illegal and we will ask the court to protect the Australian Merino wool industry” (AWGA, November 9, 2004).

Many groups opposed the filing, as clothing retailers had come under increasing market pressure. Clothing retailers had previously requested that the wool industry quietly and professionally handle the matter out of the public and media domain, arguing

⁵ PETA and AWGA agreed on a proposed timeline for the phase out of mulesing however it was dismissed by AWI and later AWGA were consigned to the fact it was unreasonable.

that this aggressive response was just fueling the debate. This view was supported by PETA who stated “the legal action in fact assisted the organization in keeping the story alive and generating publicity” (AWGA March 7, 2005).

The initial wool industry injunction was thrown out of court in 2005, however even then AWI did not give up and over the ensuing six months they unsuccessfully tried filing five other versions of the claim. AWI abandoned its allegations and legal actions against PETA in February 2006 and a settlement was finally reached between the AWI board and PETA in July 2007. The agreement was in effect an injunction against PETA targeting individual retailers according to the Chairman of AWI at the 2007 AGM. However, despite this agreement the international *Boycott Australian Wool* campaign continues on the PETA and related animal rights websites.

The chairman of AWI stated at the AGM in 2007 that “the current Australian wool price, and the extremely strong futures market in the face of an extremely strong Australian dollar, I think is testament to the fact that the market for Australian Merino wool is unimpeded and has been unimpeded in the last few years by these activities. I think this is unarguable” (McLachlan, 2007).

Prior to these revelations, AWI had also been investing woolgrower levy funds in a strategic initiative to develop alternative technical solutions to mulesing. With their public commitment to phase out mulesing, finding a technical solution was rapidly becoming the priority as the legal strategy faulted (Colditz, 2006). Their challenge was that many of the proposed technical solutions (although technically viable) were not viewed by the various animal rights groups as suitable alternatives to mulesing, i.e. clip

mulesing⁶. Some solutions did gain positive support by animal rights groups, such as pain relief, but they faced immense farmer resistance due to the costs and management challenges involved in implementation.

Additionally, AWI launched an unsuccessful marketing campaign aimed at repairing the Australian wool industry's tarnished image and to defend itself against the increasingly visual and brutally graphic attacks of animal welfare organizations about mulesing. The campaign included the "fly on the shoulder" advertising campaign in the US and European fashion industry print media. The problem was that the advertising campaign brought greater unwanted attention to an already volatile debate to an apparel industry that was generally unaware of and uneducated about the issue, previously. The negative promotion immediately led to questions about what mulesing is, thereby further fueling the debate about the rights and wrongs of these production practices amongst a community of socially concerned (and possibly ill-informed) industry leaders. The campaign was a public relations disaster (AWGA, 2005; ABC Rural, 2005).

As of 2008 PETA has vowed to "keep all campaign options open" if the mulesing deadline of December 31st 2010 is not adhered to (The New Zealand Farmers Weekly, 2008)

2.6.2 The New Zealand Merino Wool Industry Response

In contrast to Australia, the New Zealand (NZ) merino industry is relatively small, consisting of approximately 700 Merino growers managing 33 million sheep or about 5%

⁶ Clips restrict blood circulation resulting in removal of skin to give the same result as surgical mulesing.

of the NZ flock and accounting for 1.5% of the global merino wool produced. About 97% of the merino growers are in the South Island (McKinsey and Company, 2000); this is densely located compared to the Australian industry.

Over the 1990's the New Zealand merino industry completed a substantial and politically charged institutional transformation where they moved from the traditional highly-adversarial, commodity-based market structure driven by auctions and wool brokers – very similar to Australia's current model – to a market aligned and vertically integrated business structure comprising detailed market knowledge, long-term collaborative brand partnerships and contractual relationships. This transformation was driven by the NZ merino growers need increase returns for their higher quality merino wool by creating greater market identification and value for their customers. At the time, markets were discounting NZ merino wool by as much as 20% compared to their Australian counterparts. This was occurring for a number of reasons: the New Zealand wool market support programs had finally collapsed in 1989/1990 following the government removal of agricultural supports in 1984; the New Zealand Wool Board (NZWB) had left the International Wool Board in the early 1990's and with it lost the use rights to the "Woolmark" brand – traditionally seen within the market as the identifier for high quality clothing wools; New Zealand was seen as primarily a producer of coarse cross-bred carpet wools by global cliental; the NZWB was controlled by a large majority block of coarse cross-breed wool growers for whom wool production was a residual product to their main income source - meat production; the majority of wool producers (actually cross-bred lamb producers) wanted to minimize their investments in marketing and market development and focus their limited investments on creating a branded carpet wool industry, not high end clothing which is merino wools best use; crossed bred fleeces

had substantial contaminants (natural and artificial); high quality NZ merino wool was being pooled with lower quality cross-bred wool; and the merino growers livelihoods depended on wool sales, whereas wool sales were only a secondary revenue to cross-breed lamb producers.

At the beginning of the 1990s a few NZ merino growers recognized that they had a superior product that could gain a premium if marketed correctly. However, the NZ merino growers could not survive with the market structure and associated discounted prices at this time⁷. If they did not act immediately the whole NZ merino industry would be gone within a few years. Their challenge however was that they had no easy available market mechanisms by which to signal their high quality NZ merino wool to the marketplace or similarly allow buyers to screen for NZ merino wool. Thus a decade long process of transformation began.

The transformation involved a series of incremental organizational changes as the NZ merino growers attempted to move out from under the umbrella of the 'public' statutory control of the New Zealand Wool Board (NZWB) and create their own organization. The first step was the creation of Merino New Zealand Incorporated (MNZ Inc); a NZ merino grower controlled 'industry good' organization specific to merino industry but still within the NZWB. MNZ Inc was established to focus on promotion and management of the merino sectors special characteristics and to maximize opportunities for improving returns to merino growers. MNZ Inc acted as a facilitator in the market, working along-side traditional merino grower servicing and broking companies. The new organization successfully undertook increased commercial responsibility under the

⁷ NZ merino growers receive about 70 % of their income from wool sales, whereas cross-bred lamb producers hope to receive sufficient revenue from their wool sales to cover the costs of sharing.

NZWB. This process led to the NZ merino industry completely separating from the NZWB in 1998 and forming their own legal entity Merino New Zealand Limited (MNZ Ltd). This new organization took over the majority of MNZ Inc's functions. Finally in 2001, MNZ Ltd and Wrightson Ltd's fine wool business entered into a commercial joint venture, which led to the privatization of the activities of MNZ Ltd. This merger established the New Zealand Merino Company (NZMC), a privately held joint venture that leveraged MNZ Ltd's marketing expertise and supply chain knowledge, with Wrightson's grower relationships and selling expertise, and the NZWB owned New Zealand MerinoTM brand (Stevenson, 2004).

Today the integrated model is coordinated by The New Zealand Merino Company (NZMC), a joint venture between the New Zealand merino growers and PGGWrightson⁸ (a publicly listed farming services company). The NZMC acts as both a traditional wool broker but also increasingly as an integrated marketing facilitator assisting their international clients (branded fabric and clothing manufactures and retailers) in creating sustainable and mutually beneficial brand partnerships with NZ Merino growers. The NZMC also works to provide access to appropriate R&D, processing, procurement and marketing support to their clients (Stevenson, 2004).

Today the NZMC markets 90% of the national merino clip with over 50 percent marketed on long-term contracts with various high-end, branded, and exclusive specialty garment retailers and manufacturers (Stevenson, 2004). The NZMC takes a four percent levy on all wool sold (Stevenson, 2004).

⁸ PGGWrightson was the entity created as a result of a merger between Pyne Gould Guinness Ltd and Wrightson Ltd in 2005.

The new integrated approach has resulted in the underlying philosophy of many NZ merino wool growers changing from being adversarial price takers into collaborative brand partners as they have learnt to realign their businesses to their client's requirements and strive to achieve collective success for both themselves and their clients (Stevenson, 2004). The NZMC and their professional staff have been a critical knowledge and facilitation link between consumers, the branded retailers and manufacturers and their contracted wool growers (Stevenson, 2004). This alignment process has been a long and difficult process, but extremely successful with the likes of *Smartwool*TM and *Icebreaker*TM now entering into their second set of long-term five year contracts directly with growers (MAF, 2005).

When the mulesing issue arose in January 2004, the NZMC had already established strong, direct relationships between international retailers and manufacturing clients and their "brand partner" growers through these integrated long-term contractual relationships. These long standing contractual relationships allowed both NZMC and the growers to gain first hand knowledge of their international clients and their international customers' needs. Through these relationships they learnt that mulesing was only the tip of the iceberg, international consumers were becoming increasingly conscious and discriminate about their purchasing decisions based on a broad range of social, ethical and environmental issues. Consequently, the CEO and staff of the NZMC recognized that they needed to adopt a broader approach to the issue. As John Brackenridge, CEO of the NZMC stated "our differentiation needs to be bigger than non-mulesing" (Otago Daily Times, 2008).

However, like the Australian wool industry, the NZMC only adopted a policy deadline 2010 for the phase out of mulesing and only after the Australian industry had publically announced their intentions. The NZMC acknowledged that farmers should not be expected to immediately cease the practice of mulesing until viable alternatives were found. Consequently, the industry has invested in research and development of alternative methods of flystrike prevention, including trialing of pasture species, chemical trials, pesticide management and overall farm input management (Stevenson, 2004).

The introduction of the 2010 deadline still however created dissonance within the New Zealand merino industry. This was overcome to some extent by the NZMC facilitating a series of informational meetings between the growers and their overseas clients relating to the market demands. The dissonance was further overcome by the announcement of a \$30 million dollar contract from Smartwool to buy wool from New Zealand farmers who ended the practice of mulesing by the end of 2005 (MAF, 2005). The negative market publicity and resulting retailer and manufacturer responses created by the Boycott Australian Wool campaign over mulesing also proved to be the catalyst for the NZMC to develop and implement an ethically, social, environmentally responsible and sustainable private standard that could be branded and used to support their clients procurement and market needs. Thus the Zque program was born.

The Zque program⁹ was a natural evolutionary extension to many of the NZMC client, grower and market coordination, development and facilitation programs. As the NZMC state, the program is designed to create “a new fiber category ZqueTM ethical wool” (NZMC, 2009, www.zque.co.nz) that combines natural performance advantages of

⁹ Further details on the Zque program can be found at www.zque.co.nz.

NZ merino wool with a collaboratively created accreditation program that meets international standards and best practices for ensuring environmental, social and economic sustainability, animal welfare (non-mulesed) and traceability back to the source.

The Zque program was designed in collaboration with the NZMC's international clients (consumers, retailers and manufacturers) to provide them with a credible and enforceable product and process governance system that ensures participating NZ merino growers have the appropriate incentives to adopt and use the internationally demanded best management practices in the production of Zque certified wool. To enter into the Zque accreditation program merino growers have to meet all of the specifications outlined for practices for each of the brand programs aspects. These specifications are built on international consumer and industry needs, existing New Zealand government legislation, international organizations standards and alignment with third party accreditation requirements already in place within the New Zealand meat industry. The cost for NZ merino growers participating in the Zque programme are absorbed by the NZMC. The Zque program has the following major components:

Forward contracts – Long-term forward contracts are used to establish and define the legal basis for product specifications, production and delivery requirements, pricing and any other relevant factors between the client and NZ merino growers. The contract provides both client and growers a level of price and supply and demand security. Growers are only allowed to contract up to a percentage of the average annual production of the specified grade of wool.

Performance Requirements - Zque fiber is sourced from specific growers to optimize attributes according to fiber requirements of manufacturer and retailer brand partners. This produces 'fit for purpose' merino wool that optimizing the clients processing and product performance.

Animal welfare – The Zque specifications are based on the NZ Animal Welfare Act (1999). This legislation defines minimum standards and obligations of people who own or are in charge of animals and the best management practices for the provision of an animal's physical health and behavioral needs. Additionally, Zque Merino fiber is selected from properties that have never mulesed, or that have stopped mulesing.

Environmental stewardship - based on the Resource Management Act (1991). This legislation establishes rules to protect the environment through: sustainable management of natural and physical resources; governing the use and development of our land, air and water resources; and managing the environmental effects of human activities.

Responsibility – based on the Health and Safety Employment Act (1992) and Employment Relations Act (2000). These legislations are linked with the social and economic welfare of farmers, farm workers and communities. As well as the health and safety of those living, working and visiting accredited farms.

Traceability – Zque provides a transparent traceability scheme that allows customers to identify and track Zque fiber from the retailer to the farm gate. This is provided through barcodes attached to apparel products. When scanned products can be linked back to a particular farm.

Accreditation – third party auditing to gain program accreditation provides extra transparency demanded by both consumers and the NZMC brand partners. Auditing is undertaken by AsureQuality, an internationally recognized assurance organization compliant with ISO Guide 65 and ISO 9001 standards, and accredited with the Joint Accreditation System of Australia and New Zealand (JAS-ANZ). The retailer is provided with a certificate of Zque certification signed by the CEO of NZMC and AsureQuality. ASURE is a State Owned Enterprise that has been designing, developing and delivering farm assurance since 1994. Farmers are provided a manual from AsureQuality. To become a part of the programme all farmers are initially audited on inception. Furthermore, farmers are required to submit an annual self audit and a further 12% of farms are monitored at random annually. A veterinarian assesses the flock during auditing to assess whether the animals have been mulesed. This equates to three layers of verification.

Since its introduction 200 farms have joined the Zque program. This accounts for approximately 66% of wool marketed through the NZMC (NZ Herald, 10/9/09). The price farmers receive through the Zque programme is linked into their existing client contracts. Some, but not all, clients are willing to pay a premium for Zque wool. REDA, an Italian fashion house, was willing to pay a 20 per cent premium above auction price (NZ Herald, 10/9/09). This potential Zque brand price premium was marketed to growers as a means to assist them offsetting the increased costs associated with non-mulesing flystrike prevention methods.

Industry commentators argue that the size, previous transformation process and current innovation and client driven market structure of the New Zealand merino wool industry have all assisted in the diffusion of the mulesing issue and generally held market belief that mulesing is not and has not been carried out in New Zealand. It is estimated that prior to 2004 approximately 50% of New Zealand merino growers practiced mulesing. Today, however, over 70% of NZ merino wool growers have stopped mulesing or have never mulesed. These figures are larger when taken on a percentage of wool clip basis, as the majority of the large high country sheep stations are on NZMC contracts. This significant increase has come about since the adoption of the 2010 target, alignment of market contracts and the development of Zque accreditation program. In the future, the NZMC would like to see formal legislation that bans the practice of mulesing in New Zealand. At the moment the ceasing of mulesing is voluntary and there is still a risk that the few who continue may severely damage or ruin the international markets perceptions for the majority. However, these combined activities have mitigated the negative attention from advocacy rights groups related to mulesing to such an extent that PETA today is actively holding up the New Zealand merino industry as a poster child (see appendix 4) despite the practice continuing to be conducted in New Zealand.

2.7 Comparative Institutional Analysis: Why different responses to the same issue?

This instrumental case showcases an important paradox about why the merino wools growers and their respective associations from two countries with similar cultures, histories and traditional market structures have responded in such very different ways to the same animal welfare threat with very different results and consequences. When first

confronted with this case it is difficult to understand how this can occur. However, upon further research and analysis it becomes clear that there are a number of important differences that can be shown between the Australian and New Zealand merino industries that provide important insights into why these two industries have followed their respective strategic responses and thus outcomes.

The analysis conducted will be broken into two parts. The first part will synthesize and define the relative differences between the two industries and how they operate. The second section analyzes and develops propositions, based upon existing literature from the economics, sociology and management fields, to explain how these two different responses and observed outcomes may have resulted.

2.7.1 Comparing the Australian and New Zealand Merino Industries

A synthesized comparison of the relative similarities and differences between the two merino industries characteristics discussed in the first section are presented Table 3. The table is structured with each analyzed characteristic shown in the left column and the relative Australian and New Zealand generalized characteristic shown in the middle and right columns respectively.

The Australian Merino wool industry represents 80 per cent of global merino wool production. Approximately 30,000 farmers account for this production. These farmers are dispersed across a continent roughly the size of North America. Due to the size and geographic expansiveness of the industry various industry groups exist. Additionally, due to size the industry is of economic significance to the national economy. This economic significance has led to high government involvement and politicization. The industry lacks cohesiveness as a result of the various sub-groups and

politicization. The industry structure has been stable for sometime and has not undergone a recent transformation.

Conversely, the New Zealand Merino wool industry represents a minor 1.5 percent of global merino wool production. Approximately 700 farmers account for this production. These farmers are densely concentrated in the South Island of New Zealand. The small size of the industry means it constitutes minor economic significance to the national economy. In addition, the industry is totally devoid of government support as a result of previous government economic reforms. The industry underwent a total transformation in the 1990's by which it moved away from a structure similar to Australia's current structure. The size and previous transformation of the industry has facilitated the development of industry cohesiveness.

Industry characteristics can directly affect the institutional structure of the industry. The size of the Australian merino industry has facilitated the development of a commodity focused value chain institutional structure. This structure is characterized by numerous ownership changes and arm-lengths relationships in autonomous spot market auctions. These markets are coordinated by wool-brokers. The brokers facilitate transfer of ownership to the next agent in the chain. Hence, the structure facilitates the development an adversarial price based value chain philosophy. This philosophy means farmers focus on price taking. This focus facilitates a farmer philosophy of a wool grower of a commodity product.

Conversely, the previous industry transformation of the New Zealand merino industry has led to consumer experience focused value chain institutional structure. The structure is characterized by vertical integration and a single ownership change between farmer and final branded manufacturer. This structure is coordinated by the NZMC.

Long-term contracts have become the norm for NZMC to facilitate ownership transfer. The long-term nature of contracts has facilitated the development of a value chain focus of building partnerships. Consequently within the value chain interaction is a collaborative mutually beneficial process. As a result, farmers see themselves as partners in a consumer experience. This has changed farmer philosophy to that of brand partners in delivering an integrated experience.

Institutional characteristics of the value chain directly effect how the industry engages with the market. The institutional structure of the Australian merino industry means minimal information feedback loops exist from the market to growers. Third party news media deliver the information that is received. This information is an aggregated and pooled price signal. Growers respond to these price signals by adjusting their practices. Responding to price only facilitates low sensitivity and consumer awareness to other market factors beyond price. As the value chain is focused on price the grower advocates AWI are focused on production technical innovation that could reduce costs. The focus on technical solutions comes at trade off to the development of marketing expertise.

Conversely, the New Zealand merino industry is characterized by integral information feedback loops from the market to growers. Information is dispersed to growers through brand partner meetings with retailers and manufacturers. The information provided is client attribute specific. Consequently, growers are responding to consumer needs and technical specifications. This facilitates the development of a high sensitivity to consumer needs. As the value chain is focused on meeting consumer needs the grower advocates NZMC role is to coordinate the market driven model. Therefore, marketing expertise is an integral part of the NZMC business model.

It is appropriate to synthesis out the differences relating specifically to the strategic response to challenge of mulesing by PETA. Given this analysis thus far has examined industry, institutional and market engagement characteristics of the industry which would exist regardless of an advocacy attack or not.

A narrow and defensive approach was taken by the Australian merino wool industry in response to the pressure surrounding the controversy of mulesing. In particular this involved taking an aggressive legal response and publically defending the practice of mulesing. Whilst industry groups independently and insular of each other publically debated the case for mulesing. In addition, the development of technical solutions to mulesing characterized the industry.

Conversely, the New Zealand merino industry took an open and expansive approach in response to the pressure surrounding the controversy of mulesing. This allowed the threat to be reframed as market opportunity. The issue of mulesing therefore was able to be privately diffused. This process was conducted in a collaborative manner open to all industry participants. In addition, the development of consumer solutions characterized the industry.

5.6.2 Explaining Their Different Responses and Outcomes

The Australian merino wool industry dominates the global merino industry with 80% market share , thereby dwarfing the New Zealand merino wool industry along with all other countries. Based on relative market share alone, PETA's targeting of the Australian merino industry provides the opportunity to impact and change merino industry practices in the largest production region and thereby if successful reduce pain

and suffering for the greatest number of animals (PETA, 2008a). Whereas, an attack on New Zealand or any other country by comparison would only have small marginal impact on changing global industry practices. Innes (2006) in his study of boycotts and advocacy target choice within a dualistic market comprising a large and small agent, shows that advocacy groups who have limited resources with which to launch an effective boycott against the whole industry may instead choose to launch a persistent targeted boycott against the larger firm as their market will suffer the most and thereby have the greatest impact. Innes shows that even though the boycott cannot prompt the targeted firm to adopt the desired practices; it can reduce demand for the firm's product thereby reducing the extent of the undesirable production practice.

Proposition 1: Resource constrained advocacy groups will target firms or industries where they can have the greatest impact due to size of production or consumer market share.

Australia's 30,000 merino growers and numerous production areas are geographically dispersed across an incredibly large, expansive and desolate continent. Farmers often use helicopters and light aircraft to not only get to town but muster the sheep. Similarly, shortwave radio and satellite phones are often the only forms of reliable telecommunications in many areas. Comparatively New Zealand's 700 or so merino growers are primarily concentrated in one major production area - the South Island high country - and within a few hours drive of each other. The size, geographic dispersion and difficulty of communicating within Australia's merino industry are likely to allow differing opinions and divisions to arise between pockets of farmers. As a result there are

likely to be larger hurdles to be overcome in creating a unified consensus between geographically dispersed growers on any national industry level response to external and/or internal issues, including advocacy groups. In comparison New Zealand's small size, tightly knit grower community (geographically, socially and economically) and their integrated value chain structure presents quite the opposite platform for collective responses to external issues. The relatively open structure of the Australian merino growers as opposed to the tight structure of the New Zealand merino growers presented PETA with an opportunity to exploit the natural conflict between the Australian industry stakeholders. The difficulty of obtaining a consensus agreement among large socially, economically and geographically diverse populations has been a common problem tackled in the economics, law, political science and sociology literature.

Of most relevance to this set of problems is the collective action literature (Olsen, 1965, Taylor, 1982, Dawes, 1980, Bendor & Mookherjee, 1987) which argues that small groups are more effective and likely to realize collective goals. However, Olsen (1965) also notes that some large groups (farmers' organizations amongst them) have been effective and viable for prolonged periods. Olsen argues that this results from individual contributions aimed at selective rewards (i.e. enhanced wool product returns) and that collective action is achieved as a byproduct (Olsen, 1965).

Proposition 2: The success of collective industry responses is negatively correlated to the constituents' size and economic, geographic, and social dispersion.

Proposition 3: Advocacy groups' success is positively correlated to the level of barriers to collective action that the constituents face.

An alternative explanation for the strategies pursued relates to the relative differences in strengths of collective action within each industry. This literature (Bendor and Mookherjee, 1987, Myatt and Wallace, 2008) argues that strength of collective action is a function of size and that there exists a critical threshold for group size below which cooperation cannot be sustained. The size of this critical threshold is a function of the costs and benefits of participation within the organization, as well as the discount factor.

Applying their theory one can argue that the increased costs of production or reduced returns associated with the Australian wool industry deploying any chosen strategy caused the critical level of support within the industry for that strategic response to fall below the required threshold for a unified industry response as various factions and individuals defected. Effectively, they argue at some point for each individual the combined costs (new and old) will exceed the original benefits that validated the collective body's initial formulation, thus they will defect. When sufficient individuals defect, the industry body will collapse. However, provided the combined costs (new and old) do not outweigh the original benefits that validated the initial formation of the collective body, the collective body will continue to exist. In this scenario the reduction in the strength of collective action is likely to result in an internal battle within the industry collective body. This is illustrated by the protracted battle within the Australian industry.

Therefore we propose that there exists a threshold (percentage of growers) of collective action that the industry must meet in order to facilitate the development of a single best response to third party advocacy group's actions. If the strength of collective

action falls below this threshold then the subsequent discontent that develops would most likely reduce the welfare of the industry as a whole. We argue that the Australian wool industry was unable to reach the required collective action threshold to facilitate the development of a single strategic response, whilst the New Zealand industry did. A number of factors may influence the threshold (table 3). For example, the previous collective action by the New Zealand merino growers to gain independence and transform from a commodity industry to a vertically integrated, market-driven, high value consumer product industry may have created sufficient strength of collective action to exceed the threshold to provide the required unity to facilitate the agreement on a single best response. In other words, New Zealand had built up significant social capital to allow adoption of further collective action seamlessly.

Proposition 4: A collective action size threshold exists that must be passed to enable a unanimous single industry response.

Proposition 5: Previous successful collective action lowers the discount rate thereby increasing the net benefits for collective action.

The Australian wool industry is highly politicized and over the years has gained substantial support by government (AWI, 2009). As a result it has become divided and fractionated into numerous industry bodies with each group of individuals looking to increase their individual rent seeking power, not necessarily the collective welfare of the industry. Contrastingly, New Zealand growers operate within a highly volatile, international free market totally devoid of government support; this individual survival need has forced them to collaborate horizontally and vertically in the development of a

highly vertically integrated and focused market orientation that is collective across all growers.

The Australian Wool Industry's history of collective action proves that politicized industries can collaborate; the problem is that tensions between growers only emerge when the collective body is forced to confront change or other definitions of farming practices reach a certain threshold (McEachern, 1992). This creates conflict, the development of contradictory messages and further polarization of associations or organizations (McEachern, 1992). Similarly, Williamson (1991, p.278) argues that some issues require coordinated responses and that failures of coordination may arise because "autonomous parties read and react to signals differently, even though their purpose is to achieve a timely and compatible combined response". Despite Australian growers wanting the optimal outcome they were unable to co-ordinate themselves due to reacting differently to the signals they received. Alternatively New Zealand's previous industry transformation meant they had developed internal mechanism to deliver a clear concise message to the market place.

Proposition 6: Greater market independence, high market volatility and limited government involvement reduces the threshold required to achieve collective action and obtain a unified industry response.

Recent research indicates that the institutional structure of the value chains can have an important impact on farmer's individual and collective responses. For example, Solar & Valceschini (1997) found that the form of collaboration between farmers affects their transactions with downstream value chain partners. Related to this, Cook and

Constantine (1999) found that the internal organization of a co-operative association is an important determinate of collective action. Therefore, it is important to determine if and how the different institutional structures of each value chain effect the strength of collective action or any other phenomena that may emerge.

The Australian Merino wool industry is predominantly focused on commodity production and therefore their farm philosophy is to make business decisions on the basis of pooled commodity price signals. Accordingly, the value chain structure has developed to facilitate the movement of large volumes of product primarily based on price, with third party brokers commonly taking ownership and often at multiple stages through the value chain. This creates an environment in which incentive misalignment can occur between different levels of the value chain as asymmetric information arise as the product is sold as a pooled bundle of attributes in autonomous spot markets. For example, wool brokers have few incentives to supply growers with specific attribute and market information if they can extract a greater margin by withholding this information when the desired attributes are already present. As a result discontent can develop vertically and horizontally between the different value chain members as to what is the optimal strategy for dealing with third party issue groups; it is difficult to find a pareto optimal alignment of incentives.

The New Zealand merino wool industry, due to its transformation over the late 90s and early 2000s, has substantially greater value chain integration and direct linkages to retailers and final consumers. Through the development and extensive use of these long-term contractual arrangements with retailers and manufacturers, New Zealand merino growers have become more aligned and in tune with their specific contract

partners needs and tastes and preferences of their customers. As a result there has been a reversal in the way that New Zealand merino growers perceive themselves; no longer do they perceive themselves as wool growers selling into an autonomous commodity market, instead they perceive themselves as brand partners of the final manufacturer and retailer, responsible for collaborating on the development of best industry practice to ensure they are delivering the optimum consumer experience (Stevenson, 2004). The integrated market driven approach of the NZMC as market coordinator coupled with the growers change in philosophy to brand partners has bound everyone together to ensure a single focus on meeting the specific consumer experience needs of their branded garment manufacturer and retailer partners. This integrated value chain approach focused on ensuring that the final consumer experience needs are met has allowed the NZMC to develop and implement the earlier described solution.

These findings relate to recent research that indicates value chain structures need to be designed to be able to respond cheaply to widely diverse consumer requirements and quality objectives that vary with time and between geographic regions (Solar and Valceschini, 1997). We extend this to proposition 7.

Proposition 7: The institutional structure of value chains directly affects the range and form of strategic responses available to growers and related associations.

Both the Australian and New Zealand merino wool industries different market orientations in how are organized to engage with their value chain and consumer markets; Australia is production driven and New Zealand market driven. This difference in market

orientation is defined by Haines (1999) ensures that a business activity is demand led not production driven or vice versa in the case of production. As stated previously, the Australian merino industry is predominately based upon an autonomous, supply push, spot auction market system comprising many buyers and sellers, whereas the New Zealand merino industry has recently shifted to a vertically integrated, consumer driven, market pull system. Thus the two systems are substantially different in the manner that growers philosophically and physically engage with the consumer market. This results in very different information flows and perspectives about how to respond to different market issues and events.

Australian farmers predominately sell their wool through spot auction markets. As a result the market information they receive is pooled price signals from the auction and the third party media vendors relative to the classes of wool or aggregated bundles of attributes. This system provides farmers with very little specific information or feedback about the relative value of the individual wool attributes that make up their pooled offering. Hence, the value of individual attributes or credence attributes are often lost in the feedback loop between the consumer market and the farmer. Consequently, farmers only retroactively respond to the pooled price signals they receive from the pooled bundle of attributes, as opposed to proactively examining the value that consumers and retailers assign to the individual attributes. This results in farmers adopting a highly production and cost-based focus to their business. Thus, within growers' associations funded by levies, management will be immense pressure to only adopt and support strategies that reduce costs or increase productivity. This may provide an internal reason why AWI focused on a technological solution and aggressively fought the PETA actions as they believed they could satisfy constituents with the argument for the accrual of short-term

costs as supposedly these responses would yield immediate benefits with the withdrawal of the advocacy pressure.

Alternatively, New Zealand growers operate in a highly vertically integrated, market driven system where the retailer and garment manufacturer representatives regularly provide growers market and consumer research on exactly what attributes consumers' value. The direct transfer of specific attribute and consumer knowledge ensures growers know exactly what attributes are consumers are requiring, why and how much each attribute is worth. This process also ensures farmers understand market dynamics and trends, thereby allowing them to make changes to their production system in anticipation of market changes and potential price premiums; the exact opposite from the commodity market system. This system ensures that farmers have a full understanding about consumer trends and what retailers require now and in the future. Consequently, growers are more responsive to consumer needs and associated technical specifications. Therefore, when the agreement was made to phase out mulesing, growers were content as viewed the situation as long-term investment in meeting with changing customer demand despite the associated immediate increased cost.

Proposition 8: The form of grower and industry market orientation directly affects the level, speed and form of individual and collective grower response.

2.7.2 Discussion of Responses

Given the above discussion why did the two industries pursue their respective strategies? The resulting narrow and aggressively defensive response of the AWI resulted

from a combination of factors: industry characteristics, institutional structure and market engagement. Combined these factors resulted in a strategy being pursued that may have been sub-optimal; however this depends on whose perspective (AWGA March 7 2005; McLachlan, 2007). Furthermore, it is fair to argue that a focus on technical solutions at the neglect of consumer solutions may lead to unacceptable solutions, such as clip mulesing¹⁰, being developed. Additionally it would appear from the findings of Peterson *et al* (2008) that bringing a contentious animal welfare issue to the forefront of the mind of otherwise unassuming consumers does little to create value in the chain.

Alternatively, the NZMC was able to reframe the potential threat and diffuse the issue through an open and collaborative approach held privately within the industry. This led to the development of a consumer acceptable accreditation program, which has since been used to gain a competitive edge in the marketplace and received unrequested positive support from PETA. However, it is not clear from this study whether this was the optimum strategy to pursue; obviously in the short-run there is an associated increase in animal health costs as a result of change of practice, but due to the potential for premiums from mules-free wool that have since developed this may well be the case.

However, because there are linkages between the industry, institutional and market engagement characteristics one should not jump to the conclusion that the Australian merino industry would have been better off pursuing the same approach as New Zealand. One could in fact argue that this strategy was in fact not even possible given the characteristics associated with the Australian merino wool industry. However, this does not imply that Australia could not learn by observing the characteristics of the

¹⁰ Viewed to not reduce pain from traditional surgical mulesing by PETA.

New Zealand industry or vice versa and make institutional changes where possible to ensure the industry is best set to dealing with third party issue groups as they arise. But as Williamson (1991) states exact replication of individual practices (characteristics) will be suboptimal, if linkages are important, and that piecemeal proposals that ignore the supporting institutions are fraught with hazard when engaging in economic reforms. Therefore it is too early in this exploratory research to draw conclusions on what was and/or would be the optimal strategy to deal with third party advocacy groups.

2.8 Conclusion

This paper conducts a comparative institutional analysis of the instrumental case about how the same industry in two similar countries responded differently to same advocacy attack over the same issue with very different consequences. Specifically the chapter analyzes the respective responses of the AWI and NZMC to PETA's Boycott Australian Wool campaign against mulesing: AWI aggressively attacked PETA's campaign without success, whereas the NZMC successfully deflected PETA with the creation of a branded and accredited ethical and responsible agricultural production program.

The findings contribute to existing literature by illustrating that the interactions between advocacy groups and target industries are complex and that the outcomes are affected by industry, institutional and marketing characteristics and their corresponding information flows. The analysis indicates that there are a range of possible theoretical and empirical explanations for the different observed responses, thus supporting the use of this methodology. Whether or not all possible explanations and theories were examined is a subjective manner and a limitation inherent of grounded theory as the

process is one that can be infinite. The same argument is for theories that were dismissed, one cannot list these only conclude that given the resources available to the researcher the theories identified appeared to best fit with the phenomena observed.

This discussion was hindered by the innate one shot game nature of the decision to pursue a given strategy, and therefore it would be subjective to draw conclusions on what would have been the optimal strategy for either industry to pursue. Nevertheless this study highlights the complexity of the issue and clearly points out that the decision to choose a given strategy may be a function of the aforementioned characteristics. Therefore, it would be insightful for industries to have an understanding of the influence of these characteristics over the available strategies to deal with third party issue groups when conflicts arise and more importantly what available strategy is most likely to give the optimal outcome.

This presents an argument for further case based research as it likely to lead to synthesis of characteristics potentially overlooked in this paper and will provide additional insights in to the relevant importance of the outlined characteristics. By framing up a series of research propositions we have attempted to lay the foundation for this future research. The results from such research will provide value to firms and industries in the form of both proactive and reactive strategies that can be pursued to facilitate the optimal outcome. Additionally, once further case research is conducted it would be beneficial to build an economic framework to facilitate further theoretical and empirical work. It would be premature to develop such a model in these early exploratory stages as the complexity of the issue is immense.

CHAPTER 3: SUMMARY AND FURTHER RESEARCH

This thesis has presented the analysis of an instrumental case showing how the same industry in two different countries responded so differently to the same animal welfare advocacy issue. Our findings make a valuable contribution to existing literature by illustrating that the interactions between advocacy groups and target industries are complex and that the outcomes are affected by industry, institutional and marketing characteristics and their corresponding information flows.

This idea is worthy of further explanatory work and should be considered the starting block in compiling a 'tool box' of appropriate strategic responses to adversarial issues. Such a 'tool box' would be invaluable to industry in a world facing increasing number of advocacy challenges as it should facilitate the adoption of more optimal strategies given greater understanding of their likely outcomes.

To compile this 'tool box' a number of conceptual and empirical studies need to be undertaken. These studies should look to identify the relative significance of the characteristics identified in the paper. It is not suggested that the findings of this study be generalized until such work is done given the complex interactions of characteristics and the innate one shot game nature of the decision to pursue a given strategy. Nevertheless this study highlights the complexity of the issue.

This presents an argument for further case based research as it likely to lead to synthesis of characteristics potentially overlooked in this paper and will provide additional insights in to the relevant importance of the outlined characteristics. These results would provide valuable insights to firms and industries about what proactive and

reactive strategies they could pursue to facilitate an optimal outcome to animal welfare issues.

Additionally, further research should be conducted to gain a greater understanding of the longitudinal dynamics with respect to the channel members' responses to advocacy issues and related outcomes over time. This would provide manager and policy makers alike further insights in to the common precursors that drive various responses. Such an approach would allow industry to benchmark their current situation against various potential scenarios and begin to develop institutional form and strategies for dealing with possible eventualities.

Future research needs to take an integrative approach and study all of the members along the value chain from input suppliers to end consumer. Such a study would yield insight as to the alignment of incentives between stakeholders when it came to developing strategic responses. Of particular benefit would be the ability to analyze how and why advocacy groups strategic targeted specific channel, members and location. This would allow the development of proactive rather than reactive strategies.

Additionally, once further case research is conducted it would be beneficial to build an economic framework to facilitate further theoretical and empirical work. However at this exploratory stage it would be premature to develop such as the complexity of the issue remain immense.

Undoubtedly product characteristics and industry characteristics have an influence on producer decisions. Central to this question is the vagueness surrounding the notions of niche and commodity markets and where exactly the line is drawn. In fact it could be argued that neither of these markets exists in a pure form. Rather the focus should be on understanding the value proposition for agribusiness firms. This approach would likely

yield innovations, both in terms of differentiation and cost leadership, or in other words the delivery of the greatest value at the lowest cost. This equates to profit.

For all the talk on the development of strategies to deal with advocacy groups, sight should not be lost of the root cause, MGSD. If this problem could be solved for agribusiness the likelihood of advocacy towards their activities would be significantly reduced. Consequently, the development of a so called tool box of strategic responses may not be necessary.

Arguably the greatest contribution this thesis is the identification of the complex interactions surrounding strategic responses to animal welfare issues and consequently the identification of a gold mine of further research questions.

Table 1. Australian Mulesing Timeline January 2004 to December 2007.

Year	Month	Event
2004	January	First murmurs of a campaign by PETA
2004	November	First boycotts of mulesed wool by retailers
		Wool and Sheep Industry Taskforce agrees on the December 2010 deadline to end surgical mulesing.
		AWI awards a contract to technology company Norwood Abbey to develop a cost-effective application for chemical mulesing.
2005	January	AWI launches legal action against PETA under the secondary boycott provisions of the Trade Practices Act.
	February	AWI begins the first of its formal hearing against PETA in the Federal Court in Sydney.
		PETA begins an anti-Australian wool billboard campaign in the US.
	May	Australian Wool Growers Association promotes the new analgesic spray Tri-Solfen as a pain-relief solution to surgical mulesing.
		Elders, including almost 100 growers, join the AWI legal challenge against PETA.
	June	AWGA chairman Chick Olsson leads a delegation to the US to strike a deal with PETA.
	September	AWI wins court approval to pursue its Federal Court action against PETA.
		PETA claims that its protests have forced Italian fashion giant Benetton to reconsider using Australian Merino wool.
		AWGA acknowledges that its deal with PETA was unworkable.
	October	AWI announced a five-year \$2 million project to development sheep resistant to fly-strike.
	November	AWI releases details of development work on anti-fly-strike clips as an alternative to surgical mulesing.
2006	February	Cojak, the bare-breech Merino ram, synonymous with the search for a genetic solution to mulesing, dies at the age of seven.
	April	Trial results find that anti-fly-strike clips are more favorable for weight gain than surgical mulesing.
		AWI abandons trials on the chemical mulesing compound collangenase.
	August	University of Adelaide research Professor Philip Hynd says selection for bare-breech trait that best long-term option to surgical mulesing.
2007	March	PETA sprays red paint 'bloody Burberry' on the windows of London retailer Burbury.
	June	AWI and PETA agree to a settlement following mediation. AWI agrees to halt its Federal Court claims against PETA, who in turn agree to cease harassing retailers of wool until December 2010.
	November	AWGA chairman Chick Olsson and Dubbo sheep processor Roger Fletcher elected to AWI board. Both opposed to the December 2010 deadline.

Source: Weekly Times, 2009

Table 2. Australian Mulesing Timeline January 2008 to December 2009.

2008	February	Swedish global retailer H&M insists that all of its wool apparel must be made from non-mulesed wool.
	April	The head of the Italian menswear group Zegna, Count Paolo Zegna, pleads with Australian wool growers to stick to the December 2010 deadline.
2008	May	AWI rejects peace deal with PETA.
	June	AWI director Chick Olsson claimed the December 2010 end to surgical mulesing was a proposal not a deadline.
	August	AWGA president Martin Oppenheimer declares that AWI's next annual meeting will be a 'referendum' on mulesing.
	September	The US National Retail Federation re-affirms demand that Australia adhere to its 2010 deadline.
	November	Candidates opposed to the December 2010 deadline win control of the AWI board.
2009	April	Leader Products announces commercial release of anti-fly-strike clips.
	June	UK retailer Marks and Spencer says mulesing deadline is not negotiable.
	July	One of the world largest wool processors, the Chinese Sunshine Group, demands Australia abandon mulesing.
		AWI says Australia won't be able to meet the mulesing deadline.
	September	Cobbett Technologies says a chemical mulesing treatment Skintraction could be available by October next year.
		Sheep Genetics releases program for selecting for bare-breech trait.

Source: Weekly Times, 2009

Table 3. Australian and New Zealand Merino Industry Characteristics

Characteristic	Australia	New Zealand
Industry Characteristics		
Size (global market share)	80%	1.50%
Farmer population	30000	700
Member Geographic spread	Dispersed	Concentrated
Economic significance	Important	Minor
Government involvement	Highly politicized	Free Market
Industry Cohesiveness	Divided	Unified
Previous Transformation	No	Yes
Institutional Differences		
Value Chain Structure	Numerous Spot Markets	Vertically Integrated
Ownership Changes in Chain	Numerous	Single
Value Chain Interaction	Arms Length	Collaborative
Value Chain Philosophy	Adversarial - Price Based	Mutually Beneficial Partnerships
Value Chain Focus	Commodity Production	Consumer Experience
Market Structure	Spot market - Auctions	Long-term Contracts
Coordinators	Wool brokers	NZ Merino Company
Buyer	Next agent in chain	Final Branded Manufacturer
Farmer focus	Price takers	Partners Consumer Experience
Farmer philosophy	Wool Grower (Commodity)	Brand Partners (Integrated Experience)
Market Engagement Differences		
Source of Market Knowledge	3rd Party Information	Brand Partner (Retailer or Manufacturer)
Delivery	News Media	Brand Partner Meetings
Feedback Loops	Minimal	Integral
Information Provided	Aggregated and Pooled	Client Attribute Specific
Grower responds to	Price Signals	Consumer Needs and Technical Specs
Consumer Needs Awareness	Low Sensitivity	High Sensitivity
Grower Advocates	AWI	NZMC
Role	Production Technological Innovation	Market Driven Coordination
Marketing Expertise	Limited	Integral
Approach to the Pressure		
Response:	Narrow and Defensive	Open and Expansive
Action / Perspective	Aggressive Legal Defense	Market Opportunity
Solutions	Technical Solutions - Clips	Consumer Solutions - Accreditation Program
Nature	Independent and Insular	Collaborative and Open
	Publicly Defend	Privately Diffuse

APPENDIX

APPENDIX 1 – BOYCOTT AUSTRALIAN WOOL CAMPAIGN



Source: www.savethesheep.com/photo.asp



Source: www.savethesheep.com/photo.asp

APPENDIX 2 – FLYSTRIKE



Source: liveexportshame.com

APPENDIX 3 – MULESING



Source: <http://www.savethesheep.com/photo.asp>

APPENDIX 4 – PETA SUPPORT FOR NEW ZEALAND



Source: <http://blog.peta.org/archives/mulesing/>

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