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Consumer Focused Accreditation Systems: Consumer Trust and the Role of Self-Regulation

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Consumer Focused Accreditation Systems: Consumer Trust and the Role of Self-Regulation

This morning, I provided a brief overview of the evolution of the consumer movement in the United States and the emergence and growth of the Better Business Bureau system.

This afternoon, I'd like to use my limited time to discuss three important, interrelated issues:

- the role of customer care systems and practices in the creation and maintenance of consumer trust;
- A brief exploration of the role of self-regulation in a borderless consumer economy; and,
- The FICCI | BBB Partnership.

Let's start by discussing the role of "customer care" in an organization.

Customer Care and Consumer Trust

The Society of Consumer Affairs Professionals, an organization devoted to fostering best practices in the field of customer care, has as its international mission:

"To add business value through customer engagement"

For purposes of discussion today, I'd like to advance a premise. In my view, business enterprises (whatever their particular line of business and without regard to whether they operate in a strictly local – or global – environment) are ultimately in the business of continually answering the same marketplace question over and over, every single day – with existing customers, new customers and potential customers:

"Can I trust you?"

It's a question as old as commerce.

It's always a reciprocal question – one asked by producers to suppliers; by suppliers to producers; by governments and corporations to one another; and – in our context today – by consumers of businesses.

It is undoubtedly a question that goes well beyond our context today – that of consumer care – and more broadly asks:

"Can I trust your financial reporting?"

"Can I trust your governance?"

"Can I trust you to place a premium on my health and safety?"

"Can I trust you to honor your promises?"

"Can I trust you to discern and act in the public interest?"

Steven M. R. Covey, author of "The Speed of Trust" likens trust to a bankable commodity. When a company behaves in ways that build consumer trust, it makes deposits into this trust account; conversely, when a company behaves in ways that diminish trust, it makes withdrawals. Covey notes that the balance is the amount of consumer trust at any given time.

A serious incident – similar to that now taking place – in North America, Europe and in Japan itself – with car manufacturer Toyota – can literally create a "run" on the trust bank.

As billionaire investor Warren Buffet is reported to have once observed:

> *"It takes years to build a reputation, but it can be destroyed in one day over one misdeed."*

So, how are our largest institutions doing in building and sustaining consumer trust?

A major survey conducted annually since 1973 by the Gallup Organization captures the changes in public confidence in American institutions. The table here reflects the percentage of those who expressed "a great deal" or "quite a lot" of confidence in the following institutions in 1979 and how those same institutions fared in the 2009 survey. Only one of the 1979 institutions (the U.S. military) improved its public confidence rating over the 30-year period.

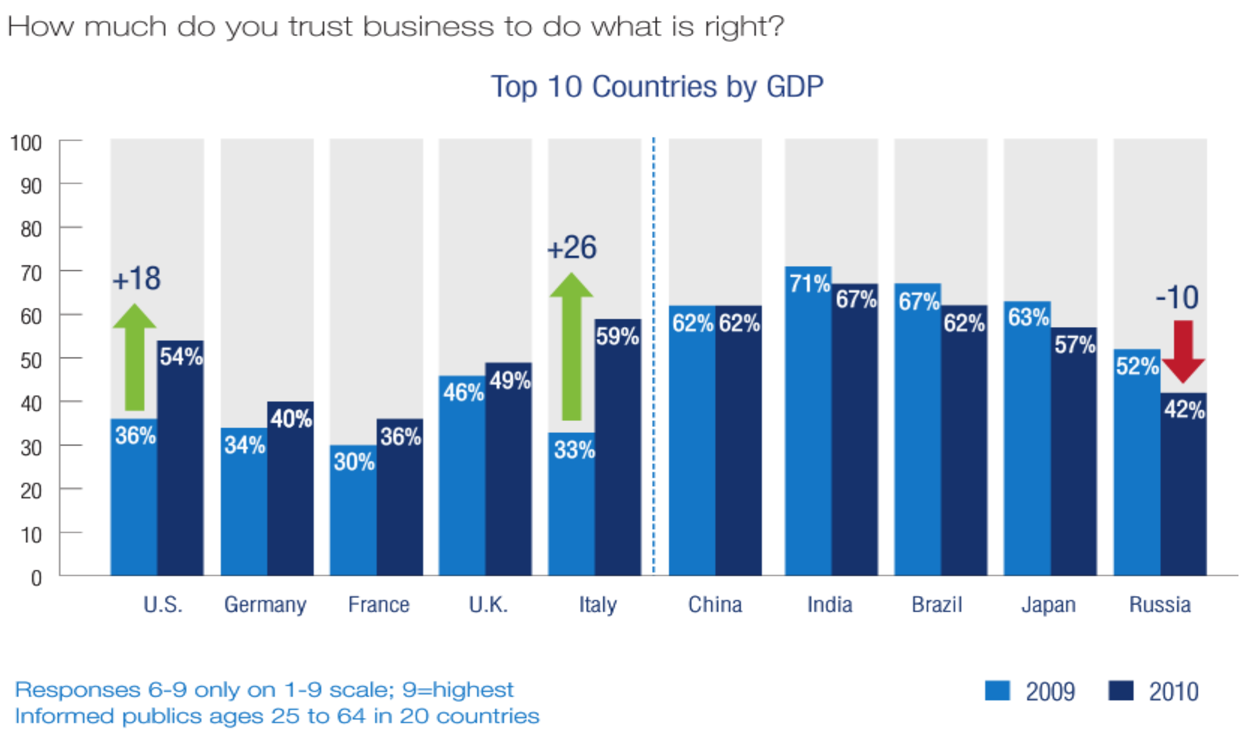
U.S. Public Confidence in Institutions 1979/2009

Institution	1979	2009	Percent + / -
Church/Organized Religion	65%	52%	- 20%
Banks	60%	22%	- 63%
The Military	54%	82%	+ 52%
Public Schools	53%	38%	- 28%
Newspapers	51%	25%	- 51%
The U. S. Supreme Court	45%	39%	- 13%
Organized Labor	36%	19%	- 47%
Congress	34%	17%	- 50%
Big Business	32%	16%	- 50%

Since 1979, other institutions have been added to the survey. In 2009, these included the police (59%), the presidency (51%), the medical system (36%), television news (23%), the criminal justice system (28%), and health maintenance organizations (18%). However, unlike 1979, where 5 institutions merited a greater-than-50% "confidence" rating from the public, in 2009 only 2 organizations (the military and the church or organized religion categories) did so.

What do we know about trust globally?

For the answer, I turned to the Global Trust Barometer, an index created by Edelman Public Relations[2]. The results of the 2010 trust barometer were recently released; they weren't particularly encouraging.



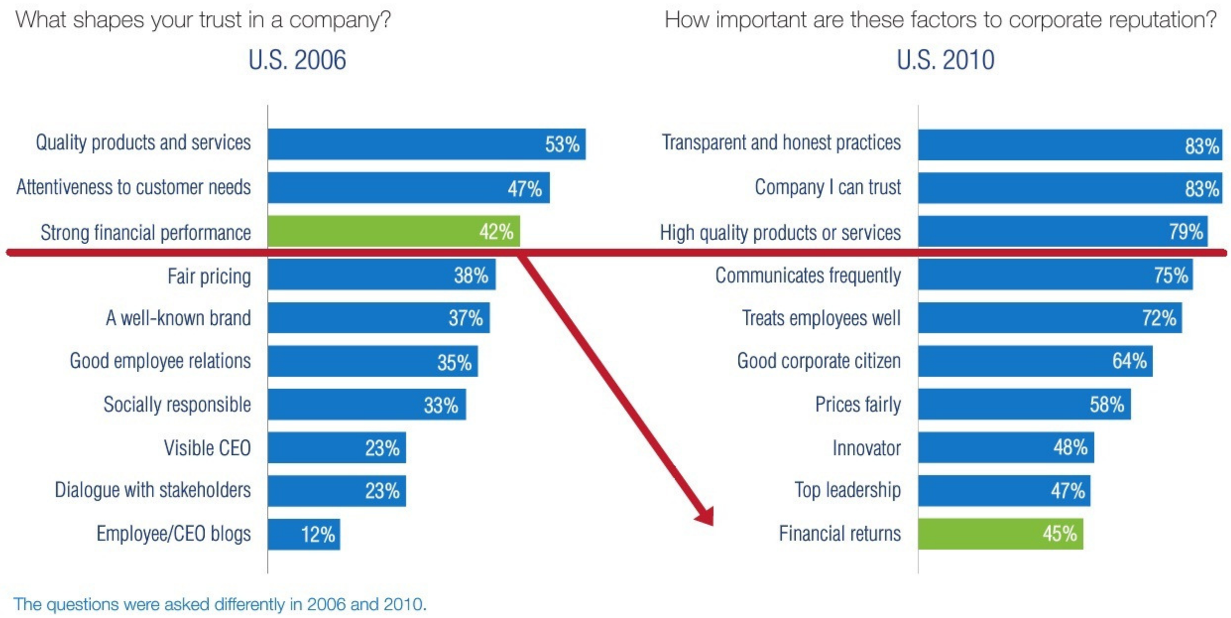
On the one hand, overall trust in business rose between 2009 AND 2010 in the U.S. and Europe, remained roughly the same in China and dropped in the BRIC countries – significantly so in Russia. However, trust in business had reached new lows in the U.S. and Europe in 2009 (following the collapse of the financial markets), so even with the 2010 trust gains, overall trust in business in Europe and the U.S. remained lower than most of the BRIC countries.

- Trust in the technology sector remains fairly high, while trust in the banking sector is down – in some cases (such as the U.S., the U.K.) by significant percentages.
- Globally, trust in government increased modestly.

[2] Source: Edelman Trust Barometer, 2010 http://www.edelman.com/trust

- However, trust in (and, therefore, the influence of) non-governmental organizations has continued to increase over time.
- The public's expectations of business are not terribly good. In most of the top 10 GDP countries, the public expects businesses to return to "business as usual" after the recession ends.

Further, from 2006 to 2010, respondents indicated very different views of what factors are important to trust.



In 2006, the top three drivers of trust were:

- Quality products and services;
- Attentiveness to customer needs; and,
- Strong financial performance.

In 2010, the top three drivers of trust were:

- Transparent and honest practices;
- Company I can trust; and,
- High quality products and services.[3]

Financial performance dropped to the bottom of the list.

The Better Business Bureau conducted its own "Trust in Business" surveys in 2007 and 2008 and found similar results – and that was before the financial meltdown.[4]

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[3] Edelman asked the questions differently in 2006 and 2010.
[4] BBB Trust in Business Survey.

Customer care departments are in real-time, daily touch with a company's customers. So, as has been repeatedly pointed out, these customer care systems and procedures can clearly be the proverbial "canary in the coal mine" – acting as early warning systems to alert them company when things go wrong.

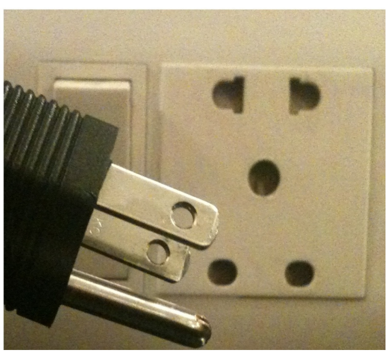
However, customer care activities – as drivers of trust – cannot be any more successful than the company as a whole. If the public's perception of a company's overall policies and practices – with respect to quality, safety, service, etc. – is low, we're learning that even the best customer service department cannot by itself save the day.

So, creating and maintaining consumer trust – putting dollars in the trust bank – is just essential. Customer care departments can help a good company perform better; they cannot be a substitute for a holistic approach to building trust.

Self-regulation in a Borderless Consumer Economy

When I travel, I'm struck by one paradox. In this 21st century borderless world, my cell phone works just about anywhere I travel – even though the wireless service vendors are completely different companies in the U.S., the U.K. and India.

I can take a thumb drive out of my U.S. purchased laptop computer, plug it into a laptop purchased in Japan, or India, or Europe – and (anti-virus software permitting) transfer a file from my computer to yours, usually without a problem.



On the other hand, if I show up in your country without one tiny little piece of equipment -- no electric adapter for the power cord on my cell phone or laptop – when the battery discharges in my computer, the appliance becomes a worthless brick in your country.

How is it that commercial electricity has been around for over 100 years – in cities all over the planet, but we have yet to standardize the simplest, most essential piece of that electric technology – the simple way we connect all our electric appliances to the grid?

Cross-border commerce has been around a great deal longer than electricity – and while we are making painfully slow, incremental progress toward harmonizing buyer and seller rights, cross-border contract law and reciprocal enforcement of those rights – most international trade specialists (and certainly consumer advocates) recognize that we have a long way to go.

As B2C commerce follows B2B commerce and becomes increasingly less local – crossing local, regional and national boundaries, it becomes harder and harder for businesses to build consumer trust in traditional ways. It is equally hard for consumers to know whether a business is trustworthy. This is true whether the boundaries are different states (as in the United States), countries united within a common economic unit (as in the European Union) or completely different, and .and geographically separate nation

We can – and should – continually pursue the harmonization of standards and laws. A significant number of international organizations (the U.N., the OECD, APEC, ASEAN, the Organization of American States) and NGOs are diligently working on this.

I believe that business self-regulation has a vitally important role to play in this increasingly cross-border consumer economy.

It may be stretching an analogy past its breaking point, but in a world with many different electric outlets, self-regulation can be the "universal adapter".

Before I go forward, let me make a few critical points – then amplify them.

- Not all "self-regulation" is the same;
- Self-regulation is standards based;
- Self-regulation without workable enforcement is a little like a gun with no bullets;
- It is not "self-regulation" or "government regulation" – it is the two in harmony;
- Self-regulation struggles when the government is not a serious partner.

Let me quickly discuss each of those points.

<u>Not all self-regulation is the same.</u>

When I talk about business self-regulation, I am not talking about the responsible ethical behavior individual members of a commercial enterprise should exhibit each day during their working lives – although these values, learned (or not learned) are a component part of business self-regulation.

I'm also not talking about the internal ethical guidelines and rules an individual commercial enterprise imposes on itself – although it is necessary that businesses do that if self-regulation is to be effective.

In our context today – building consumer trust and confidence -- when I refer to business self-regulation, I am referring to groups of businesses coming together to develop meaningful standards of conduct – best practices to be followed when dealing with its customers.

Self-regulation is standards-based.

Meaningful self-regulation usually begins with identifying marketplace problems for which there are not, as yet, clear laws or guidelines, then assembling a group of experts – in the particular business issue, in consumer perspectives and, yes, in standards-setting and self-regulation to determine whether meaningful standards can be developed and can effectively be enforced through some voluntary process.

Self-regulation without workable enforcement is a little like a gun with no bullets.

Many self-regulatory efforts fail at this point (and, unfortunately, taint the public's view of all self-regulatory work). Some businesses response to marketplace problems is just an effort to throw some public relations at the problem – hoping to placate regulators – in the hope that the issue will go away. In such cases, that means developing a set of "feel good", high-level principles. Since this approach usually provides for a serious enforcement effort, little or no thought has to be (or is) given as to how an enforcement mechanism would actually interpret or oversee the high-level principles.

Good self-regulation implements the "standards" process always keeping one eye firmly fixed on how performance against the standards will be monitored and practically enforced.

It is no accident that former U.S. Federal Trade Commission Chairman Robert Pitofsky has repeatedly referred to the Better Business Bureaus advertising self-regulation program as the "gold standard" for business self-regulation. It is a reputation that has been earned in the U.S. over a 40-year period.

It is not "self-regulation" or "government regulation" – it is the two in harmony.

When it works well, self-regulation offers a number of advantages. While it may take years to muster up the political will to pass legislation – or to change that legislation when the marketplace changes, self-regulation can be much faster and more flexible (in establishing standards, changing the standards and enforcing them).

As a consequence, good, solid self-regulation can "bench test" standards and develop a body of interpretive decisions about those standards – in most cases far sooner than can a legislative body and the formal courts system. At best, this work may obviate the need for legislation; at worst, the self-regulatory standards can help frame the direction and scope of a legislative remedy. As I mentioned this morning, many U.S. Federal Trade Commission Trade Regulation Rules grew out of BBB standards, and a good deal of BBB work was behind the adoption of "Printers Ink", truth-in-advertising statutes in many U.S. states.

One other example is worth noting here, an informal – and very supportive -- understanding that has been followed for a number of years by the Federal Trade Commission with respect to the BBB Advertising Review program. If a company fails to voluntarily honor a BBB National Advertising Division case decision, that case is publicly referred by BBB to the FTC, which has committed to review the entire case. I should also note that:

- voluntary compliance with these decisions is in the very high 90 percentile, so FTC involvement is rare;
- FTC does not abrogate its legal responsibilities to make its own determinations about potential violations of law, it is merely putting a BBB-referred case at the top of its pile;
- FTC occasionally encourages a company that may have previously declined to cooperate with the BBB process to do so – after the FTC has indicated it might open its own case. Many times, companies return to the BBB process after such a suggestion by FTC.

Finally, I should note that many local BBB offices in the United States and Canada have these same strong relationships with state and provincial regulatory authorities and will refer public complaints about recalcitrant businesses to these regulatory authorities – and the body of complaint often becomes the basis for enforcement agency action.

These are just some examples of a high degree of commendable cooperation between self-regulation (as practiced by BBB) and government regulation.

<u>Self-regulation struggles when the government is not a serious partner.</u>

From my own experience over a 40-year career with the BBB, I have come to believe that there were three broad groupings of businesses (as I think there are groupings of people). In the business context, there are:

- A small group of those who always strive to do the right thing simply because it is the right thing to do – for themselves, their companies, their customers and their communities;
- A small group of those who are not really businesses – they are thieves who have found it is less risky – and potentially more rewarding – to steal from customers, suppliers, employees and their communities than to rob people in the street at the point of a knife;
- A very large group of those who are somewhere in between these two extremes, and are significantly influenced in which direction they move by their perceptions of the relative rewards and risks they believe exist at either of the two extremes.

When government supports and encourages real, meaningful self-regulation – and knows the difference – the first group will almost always be a partner at the table, and that first group will pull – and influence -- many others from the third group into their circle.

The second group will only respond to actual enforcement efforts.

However, the more government is seen as abrogating its legitimate marketplace oversight responsibilities, the less successful self-regulatory efforts are likely to be. While good works should be their own reward, sometimes it is necessary to feel the real hot breath of regulation to provide an added incentive to do those good works.

In summary, I believe self-regulation has an important role to play in civil society – and a particularly useful role to play in filling the gap in cross-border consumer commerce – as governments negotiate in efforts to harmonize global laws and regulation and develop mutually-recognized enforcement of these agreements.

<u>Let me close by speaking about the FICCI | BBB partnership.</u>

In 2007, the FICCI Alliance for Consumer Care and the BBB began discussions on how the two organizations might better collaborate.

Our discussions culminated in a Memorandum of Understanding that was signed by our then CEO, Steven Cole, and Dr. Amit Mitra in Washington in 2008. Among other things, the MOU included:

- Collaborations on research on consumer best practices;
- Consultations on consumer dispute resolution, based on the BBB's long and extensive experience in North America;
- Collaborations on best practice standards for advertising, selling and other aspects of the consumer | business relationship

I can recommend four concrete "next steps" that I believe BBB and FICCI/FACC might take together to grow the relationship to the benefit of both organizations – and the consumers and businesses they serve:

- FICCI could – and I believe should -- play an important role in launching an Indian chapter of the Society of Consumer Affairs Professionals (SOCAP). Many Eurasian, Australian and American companies doing business in India undoubtedly have SOCAP members in their respective countries and so have knowledge of the organization. In my view, the creation of an Indian chapter of SOCAP could benefit consumers and business by creating a platform for those who are – or aspire to be – professionals in this field;
- BBB and FICCI can create a consumer/business "best practices" portal, through which FICCI members can learn about consumer standards and best

practices for doing business in North America and where U.S. and Canadian businesses can learn more about these same standards with respect to doing business in India;

- Use its two offices to create a cross-border consumer dispute resolution system, so that companies and consumers doing business between India and North America have a readily available system to informally resolve disputes. BBB has such a relationship with Japan (and, through Japan, with members of the Asian Trustmark Alliance);
- Jointly seek to encourage Indian businesses operating in North America to engage with CBBB and the BBB system to collaborate within the framework of the FICCI | BBB MOU – and similarly encourage North American businesses operating in India to engage with FICCI to foster the Alliance for Consumer Care.

Of course, there may be many other opportunities for a closer collaboration.

As a senior consultant for the Council of Better Business Bureaus, it will be my privilege – and challenge – to help make our MOU a reality.