What Assures Consumers in an Economic Downturn?

Reviewing the agenda in the global economic crisis

April 2009
AccountAbility's Assurance for Change program publicised within the *What Assures?* research and report series explores and advances innovative approaches to building credible assurance. While approaching this question from a range of different angles, *What Assures Consumers?* forms part of this series, exploring citizens' potential as change-makers through their own consumption choices. The research series is rooted in AccountAbility's AA1000 Series and related standards work as well as the research and work on Materiality.

*What Assures?* written by AccountAbility and sponsored by PricewaterhouseCoopers LLP in 2006, makes the case that assuring stakeholders that your organisation is delivering on its commitments will be multi-faceted in the 21st Century. It will involve continuous engagement with a range of stakeholders concerned with both past and future performance.

The first phase of *What Assures Consumers?* undertaken by AccountAbility in partnership with the National Consumer Council during 2006 aimed to better understand what assures the public in their decision-making on purchases to build practices that both empower consumers but also strengthen corporate performance.

*What Assures Consumers on Climate Change?* produced by AccountAbility in partnership with Consumers International in 2007 follows on from the first phase of *What Assures Consumers?* with the aim of understanding what role consumers can play in overcoming the global obstacles to averting catastrophic climate change.

Written by AccountAbility in partnership with Net Balance Foundation in 2008, *What Assures Australian Consumers on Climate Change* focuses on consumer awareness and action on climate change in Australia and aims to build understanding of the role that consumers can play to avert the climate change crisis. It looks at what influences consumer behaviour, what provides effective assurance and what pathways offer the greatest opportunities for impact.

To freely download the publications or for more information on the *What Assures?* series visit [www.accountability21.net/whatassures](http://www.accountability21.net/whatassures)
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Forewords

Barry Clavin

Contrary to what was predicted from certain quarters, this research highlights that consumer attitudes to corporate responsibility have remained fairly stable during the early days of this downturn. Issues that mattered to consumers back in 2006 remain important today. In the main, consumers look to the businesses that they transact with to treat people well, be it employees or supply chain workers, and to be honest and transparent in their dealings. What’s more, consumers are claiming that, with one or two exceptions, their predisposition to purchase ‘ethically’ is not set to change significantly over the next six months.

However, what does seem to have changed is the trust shown to corporate businesses. Three years ago there was a willingness from consumers to take commercial information more readily at face value so that trusted channels of information included in-store promotions and on pack information. Today just four per cent of consumers claim to trust the PLC model despite more than one in two consumers identifying businesses as key to ensuring responsible behaviour. It is not insignificant to note that independent information sources are now the primary source of consumer assurance, in particular consumer watchdogs, and to a lesser extent trusted third party accreditation bodies.

So, after consumer watchdogs, and alongside industry regulators, it is rewarding to see co-operatives identified as trusted organisations. Our recent experience chimes with this research. Over the last twelve months or so, The Co-operative has consulted with over a quarter of a million of its member customers to inform its approach to sustainable development. This has included its most successful consultation on The Co-operative Bank’s customer-led Ethical Policy and has culminated in The Co-operative’s largest ever values-led advertising campaign. What’s more, current account openings at the Bank are up sixty five per cent and annual sales of our Fairtrade products have increased by some forty four per cent.

What consumers seem to be saying to business is that if corporate responsibility mattered in good times then it should matter in tougher times. Businesses should, therefore, not think that they can hope to rebuild consumer trust by turning on and off the ‘corporate social responsibility’ tap. Indeed, when the economy turns around, consumers may well be holding such businesses to account and asking: ‘So what did you do in the downturn?’

Barry Clavin
Ethical Policies and Sustainability Reporting Manager
The Co-operative Group
What Assures Consumers in an Economic Downturn?

Ed Mayo

We live in what commentators have called a ‘symbolic economy’, in which every product and service takes on new meanings, whether of freedom, identity, well-being or security. When consumer magazines started life, decades ago, they listed products for their functional value rather than their symbolism. I remember Which? magazine selecting a pair of jeans from the dowdy camping shop, Milletts, as their “best buy” – perfect if you pick your jeans by price but not quite right if it is the values of look and fashion that count for shoppers.

In this world of brand, marketing, emotion and corporate reputation, the work of AccountAbility stands out for its intelligent analysis of what really works for consumers when it comes to assuring them of the positive value of what they buy in relation to the symbolic imperatives of environment, human rights and social justice. I know from work I have done with AccountAbility in the past that consumers value fairness. They want companies to be fair to them and fair to others. But it is important to know what it takes for them to translate this generalised intention into purchasing habits.

The role of consumer watchdogs takes on a new meaning in recessionary times. As the founder of Britain’s newest consumer watchdog, Consumer Focus, I am heartened but not surprised that this report confirms that consumer campaigns have a growing influence. Consumer groups like ours are rising up the trust rankings while the organisations charged with holding businesses to account, from government to regulators to businesses themselves, are increasingly less trusted to do so. This may not be ideal, but the good news is that as more and more consumers take action, demanding a fair deal, raising their voice if they don’t get it and sharing information on their experience with others, the more companies become accountable because they are regulated by their customers rather than the Government rule book. The more that consumers integrate symbolic values of fairness alongside an enduring concern for quality and price, the more responsible as well as accountable companies will be.

Trust matters, but times of uncertainty are not easy periods in which to build trust. With consumer behaviour in flux and the economy in such uncertain territory, this new analysis from AccountAbility will prove invaluable to consumers, businesses and policy makers alike.

Ed Mayo
Chief Executive
Consumer Focus
Executive summary

The onset of recession is uncharted territory for consumer assurance. What impact will it have on business’ responsibility and sustainability initiatives? Will civil society organisations be strong enough – financially and strategically – to raise their game in the face of unprecedented challenges? Our results suggest consumer uncertainty about who to turn to in order to reinstate their trust in business.

There is a huge “accountability gap” between the institutions consumers deem to be accountable for ensuring sound business behaviour, and the trust held in those institutions to deliver. Regulators and businesses themselves score 60% and 56% respectively for their responsibility, yet only 22% and 6% of people trust them to deliver. Even as the recession deepens, there is an urgent need for government and other stakeholders to invest in re-building that trust by developing accountable and effective regulatory systems. Leaving this ‘accountability stimulus’ out of the overall recovery package is a serious oversight that could invalidate the effectiveness of the other investments.

Businesses are suffering from this low consumer confidence, although cooperatives are five times more trusted than PLCs. Consumer watchdogs, NGOs and third parties assurance remains well trusted. Consumers state their preference is for using independent channels of information, like consumer watchdogs and personal recommendations more than any other channel of information about a business. This suggests there will be a reduced consumer tolerance for corporate reporting, even with state-of-the-art assurance processes, let alone overstated claims, celebrity endorsements and greenwash.

Statistics suggest that ethical consumption has not been dented by the downturn – at least so far, and most survey respondents predict their use of ethical labels will be maintained. Many experts believe that the core base of ethical consumers in the UK will not shift their buying patterns away from products which they see to benefit people or planet. The difficulty will be in expanding those markets beyond established consumer groups, although there is an opportunity for energy efficiency products to increase their market share as consumers make the switch for cost-saving reasons.

73% of consumers say fair treatment of employees and suppliers are the priorities for what makes a responsible business. Few companies are ready to show how they are treating staff and suppliers in tough times since the CSR movement came of age in an economic boom. “Responsible redundancies” may become central to the corporate responsibility debate as the recession continues.

There is a generational difference in consumer perceptions of “who is responsible.” While the over 55s are more likely to make an effort to buy responsible products, they are also more likely to think that consumers have a personal responsibility to ensure business behaves well. Conversely, the under 24s externalise responsibility, putting the onus back on businesses, government and regulators. Young people, and those about to retire, are being most adversely affected by the economic downturn, and there is a risk of marginalising young people as well as 60-65 year olds, if urgent measures are not taken to reassure them that their interests are central to decision-makers.
Will the recession herald the dawn of a new age of responsibility? The global recession has already resulted in calls for strengthened and smarter regulation at the G20 meeting in London in April 2009, and we are already seeing changes in consumer behaviour including a curb on discretionary consumption across key sectors, which could either lead to a major rebound in consumerism when recovery comes, or to a permanent rebalancing of consumption patterns at more sustainable levels.

Now is the time to set in place the measures to ensure it is the latter, through means such as working towards a sustainable economy, protecting capabilities and rights, and respecting ecological limits.
Introduction: The economic downturn in the UK

“We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve.”

G20 Communiqué, 2 April 2009

The credit crunch has hit the UK in a big way. For the first time since the early 1990s, the country is officially in recession with GDP in decline at a predicted rate of up to 3.8% in 2009, and unemployment has risen to its highest point in 16 years. A number of banks have been fully or part nationalised, consumers are starting to save and many businesses are struggling to access credit, being forced to make cut-backs and in many cases redundancies.

What’s more, the recession seems to have come at a time when global social and environmental crises are reaching a tipping point. At the half way stage to the Millennium Development Goals it was unrealistic to expect all targets to be achieved even before the global recession, and with just months to go before the Climate Conference in Copenhagen 2009 it is also unlikely that a global deal on climate action will be reached.

How did we get here? And what does this mean for consumers, sustainability, and the broader issue of trust in society?

This is not the first time that the UK has been in recession, and there is a lot to be learnt from previous experience. In previous recessions, the initial shock has impacted the financial sector first, followed by sharp declines in retail and manufacturing. The most resilient sectors were health care and consumer staples, such as food.

We can of course draw lessons from previous downturns, but should still bear in mind that this recession is different for a number of reasons. Consumers in the UK will be badly hit because depreciation of sterling increases the value of imports, raising costs. The wider availability of credit means that more people are more indebted so, arguably, this recession will impact more people. UK households hold an average of £60,000 debt. Furthermore, economies are more interconnected now than ever before. The current crisis, started in the US, has already had huge impacts on countries as diverse as Iceland and Bangladesh.

This report asks the question “what assures consumers?” in this economic downturn. It does this through investigating what enables consumers to trust in a business’s honesty, integrity and fairness.
### Box 1. Timeline of the credit crisis in the UK

- **21 Aug 2007** – Britain’s Barclays Bank borrows £314m from Bank of England’s standing lending facility.


- **17 Feb 2008** – UK government announces the nationalisation of Northern Rock.

- **15 Sept 2008** – The Wall Street bank Lehman Brothers files for Chapter 11 bankruptcy protection, becoming the first major investment bank to collapse since the start of the credit crisis. Merrill Lynch agrees to be taken over by the Bank of America for US$50bn.

- **13 Oct 2008** – The UK government confirms that it will pump £37bn into Royal Bank of Scotland, Lloyds TSB and HBOS in an attempt to prevent the UK’s banking sector from meltdown.

- **15 Oct 2008** – Unemployment figures in the UK show the biggest rise since the UK’s last recession 17 years ago, up 5.7% to 1.79m people.


- **23 Jan 2009** – UK officially enters recession, with GDP declining 1.5% on the last quarter.


Impacts on consumer spending

“I think the economic downturn could be the best thing that happened to the planet because we’ll spend less money on the things that aren’t important.”

Jo Fairley, co-founder of Green & Blacks

How do people shop in a recession? Fears over access to credit and job security that an economic downturn can bring about typically result in reduced consumer spending, and the recession of 2008/09 onwards is no different. According to figures from the Office of National Statistics, in the last quarter of 2008 households almost trebled the cash value of savings in comparison to the previous quarter, with savings climbing from £4.1 billion (Q3) to £11.7 billion (Q4). 90% of Britons are cutting back on overall spending with one in five of those who went abroad last year saying they may switch to a UK holiday in 2009 to save money.

The “recessionary mindset” impacts everyone, not just those with immediate financial concerns. As the magazine Consumer Insight describes, “the uncertain economic environment has eroded consumer confidence levels and increased the likelihood of consumers reappraising their consumption habits, focusing on essentials and more emotionally meaningful products.” Recession is generally accompanied by a slowdown in the growth of consumer spending. However, how they cut back and how much they cut, remains to be seen.

In order to ascertain how consumers might be reprioritising their spending, we asked survey respondents about what drives their consumption across a range of areas, comparing the last six months to the next six months from the date at which they answered this question of the survey (December 2008).

Most respondents stated an interest in buying more of the products above in the next six months. The largest increases were predicted for products with a low carbon footprint (+10%), energy efficiency (+8%) and sustainable fish sourcing (+7%). In fact, the only decline was a 2% predicted drop in fair trade expenditure.

“Fairtrade puts value back into products, engaging consumer interest in attributes beyond price, by creating sustainability in the supply chain and connecting the consumer with the producer. This research shows that consumers increasingly trust the FAIRTRADE Mark and that they will stay loyal to the label during the recession.”

Harriet Lamb, Fairtrade Foundation
Figure 1. Product labeling

Which labels have you used in the last six months to inform your purchasing decisions? Which labels do you intend to use in the next six months?*

* “Last” and “next” six months taken from the time the survey was run in December 2008.

These statistics largely suggest that ethical consumption has not been dented by the downturn so far. This analysis is supported by further research that shows that 17% of consumers claimed to have bought more fair trade products over the past six months, 22% say they bought more products promising high animal welfare standards and 17% say they bought more local food. As such, many experts believe that the core base of ethical consumers in the UK will not shift their buying patterns significantly away from products which they see to benefit people or planet. This is particularly relevant for older people, who are, on the whole and with the exception of those about to retire who have seen their pension plans shrunk catastrophically, more fiscally stable than the under 25s, without a mortgage or a young family to support. Crucially, the over 50s account for 80% of the UK’s disposable wealth and 51% of the UK’s grocery spend.

Expanding ethical markets beyond established consumer groups may become more challenging. However, recession may drive more responsible purchasing behaviour in...
Impacts on consumer spending

many different ways. There is already evidence that in the UK, second hand product sales – particularly clothing – are on the increase14, and people are investing more in mending and creating homemade items than purchasing new ones.15 Similarly, car pooling is on the increase and libraries are being used more and more frequently.16

“Consumers’ emotional attachment to many ethical products is now well embedded, and we would argue that these areas will have an advantage over other products with a more superficial brand attachment. This is particularly true where the premium for ethical choice is relatively low, as with Fairtrade.”

Helen McTaggart, The Co-operative

There is a generational difference in consumer perceptions of delivering responsibility. While the over 55s are more likely to make an effort to buy responsible products, indicated by their higher levels of interest in the label options given in Figure 1, they are also more likely to think that consumers have a personal responsibility to ensure business behaves well. Conversely, the under 24s externalise responsibility, putting the onus back on businesses, government and regulators. Young people, and those about to retire, are being most adversely affected by the economic downturn, and there is a risk of marginalising young people as well as 60-65 year olds, if urgent measures are not taken to reassure them that their interests are central to decision-makers.

What remains to be seen are the longer-term impacts of the shifts in spending behaviour that the recession is bringing about, and whether consumers will make permanent changes to their consumption habits.
It is undeniable that people face tough choices in an economic downturn. Nevertheless, in this survey, 30% of consumers say they always make an effort to buy products and services from businesses that behave responsibly.

While this number has fallen from 36% in research conducted in 2006, there is an increase, from 19% to 25%, in the numbers of people willing to pay a little extra if they know that the business behaves responsibly.

What is apparent, however, is a re-prioritisation of what issues are important.

**Figure 2. Important factors when judging companies**

*Which of the following factors do you think are important for judging how responsibly a business behaves?*

<table>
<thead>
<tr>
<th>Factor</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair treatment of employees and suppliers</td>
<td>61</td>
<td>73</td>
</tr>
<tr>
<td>Good customer service</td>
<td>71</td>
<td>70</td>
</tr>
<tr>
<td>Honesty and transparency</td>
<td>65</td>
<td>69</td>
</tr>
<tr>
<td>Senior management behave with integrity</td>
<td>66</td>
<td>69</td>
</tr>
<tr>
<td>Product/services of good quality</td>
<td>65</td>
<td>75</td>
</tr>
<tr>
<td>Products/services fairly priced</td>
<td>61</td>
<td>65</td>
</tr>
<tr>
<td>Healthy and safe products</td>
<td>57</td>
<td>70</td>
</tr>
<tr>
<td>Environmental stewardship</td>
<td>51</td>
<td>48</td>
</tr>
<tr>
<td>Responsible advertising/marketing</td>
<td>43</td>
<td>35</td>
</tr>
<tr>
<td>Support and invest in good causes</td>
<td>23</td>
<td>39</td>
</tr>
<tr>
<td>Familiar and well established business</td>
<td>22</td>
<td>33</td>
</tr>
<tr>
<td>Focus only on making profit</td>
<td>24</td>
<td>29</td>
</tr>
</tbody>
</table>

The biggest drop in importance from 2006 research was healthy and safe products, and quality of product or service. Meanwhile the biggest interest area was for fair treatment of employees and suppliers. 73% of respondents felt this was an important factor in judging how responsibly a business behaves. This is a reflection of the
fear consumers feel about their own jobs, their heightened interest in how redundancies are managed, and potentially an indication of an increased sense of community solidarity. There are implications of this data for businesses, most of which have little experience of managing and communicating on these issues. Importantly, “responsible redundancies” have never before been on the agenda of CSR professionals, most of whom have learnt their trade during boom years.

The largest growth was in the area of philanthropy and community investment, indicating that consumers want more, not less, charity in recessionary times. Alternatively, this could reflect consumers’ interest in politically engaged businesses, wanting business to take a lead on contemporary global and local issues. If this is the case, it might be that campaigning is the order of the day, rather than charity sponsorships.

Figure 3. Consumer action to reward trusted businesses

What action have you taken over the past year to reward a business that you trust?
We asked survey respondents about their views on how they reward or penalise businesses, depending on their perception of the businesses’ performance vis-à-vis responsibility. On the whole results are quite stable. There is a notable if modest decline across all categories suggesting that people are marginally less willing to act to either reward or penalise a business in 2009 than in 2006. Indeed a decline in the numbers of people actively buying from businesses they trust in 2009 compared to 2006 suggests that trust might be becoming less important in consumer decision-making. There is a small trend towards penalising businesses less than previously. However, the proportion of consumers saying they are prepared to boycott a product even with no alternative available is now approaching half (46%). The figures also illustrate the importance of word of mouth in communicating about a business’s practice.
Implications for business strategies

“Plan A is really paying off. It makes our business more efficient. Customers want it. Why wouldn’t we keep doing it? Every day and every week we see a better business case.”

Mike Barry, Head of Sustainable Business, Marks and Spencer

There are strong reasons why investment in the area of sustainability, organisational accountability and responsible initiatives should be maintained in an economic downturn. First, the collapse of the financial system requires a reassessment of business’ involvement in that system and a move towards greater transparency. “Given the flames of the financial crisis were fanned by a lack of transparency from our financial institutions, scaling back on public disclosure would be like pouring petrol on the fire... Now more than ever companies need the element of trust,” says Ernst Ligteringen, CEO of the Global Reporting Initiative (GRI). Indeed, the GRI has chosen this moment to call on governments to make sustainability reporting mandatory, and to include forward looking data in sustainability reports.

Second, as consumers look for better deals, marketing and brand building actually becomes more important, not less. Trust, in addition to price, becomes increasingly paramount in the reasons for consumers selecting one brand over another. During the recession in the early 1990s, The Co-operative Bank took the decision to launch its Ethical Policy, reinvigorating co-operative values for a new, modern audience. This gave the Bank access to new opportunities, gaining market share and profitability.

Third, there are broader, quantifiable benefits to the wider economy. Tackling issues such as poverty and climate change will create employment and innovation; what has been dubbed a “New Green Deal”. The first report of the Roundtable on Climate Change and Poverty in the UK provides the example of Germany as evidence of the impact this could have. With sufficient investment from government and the private sector, 250,000 people have been employed in the renewable energy sector.

In addition, the strongest and most impactful sustainability strategies are cost effective for the business. Going green, for example, reduces waste and improves efficiency, bringing down costs across the value chain. And just as importantly, such strategies can be rewarded with higher margins and improved market share. Proctor and Gamble’s launch of concentrated laundry products through the Ariel brand has cut costs and helped to improve their brand perception with consumers. Cadbury’s buy-out of Green & Black’s organic chocolate and Coca-Cola’s purchase of a £30million stake in Innocent Smoothies reveals the financial attraction of ethical consumption.

Unfortunately, the link between responsible business practices and consumer trust and loyalty is not as straightforward as simply marketing the achievements that have been made. Consumers place different priorities on certain issues, which impacts their opinion of a business.
Based on average scores per sector, Figure 5 reveals that retailers hold more trust than the banking sector. The banking sector, on the other hand, holds disproportionately high levels of distrust. This will negatively impact those banks that have managed to avoid all culpability in the financial crisis, as they risk being tarnished with the same brush as other, more culpable businesses. A second consequence of this difference between the two sectors is that retailers, holding the highest levels of consumer trust, will need to know how to build and retain trust amongst consumers. It is important for retailers to adhere to even higher standards than banks have in the past to ensure that consumer trust in business is not lost altogether.

Consumers also seem to have grown more cynical as their confidence falls. There is evidence to suggest that heavy marketing of sustainability initiatives will turn consumers off at this time, allowing for critics to cry “greenwash” more readily.
Implications for business strategies

Figure 6. Information channels

Which information channels do consumers consider important when judging businesses?

As Figure 6 shows, consumers trust independent methods of assurance much more than they do the material being produced by businesses such as leaflets, websites and promotions. Consumer watchdogs have leapt up the ranking from the 2006 survey where they only scored 37%, and the results indicate the importance of third party logos.

“As the current economic crisis has replaced confidence and trust with uncertainty and doubt, independent assurance helps organisations protect their brand integrity, which the latest What Assures Consumers? Report has highlighted as a major issue for consumers. It also helps them demonstrate that they have addressed the concerns of their stakeholders and are in control of their business’s critical issues.”

Sandy Sutherland, Head of Technical and Regulatory Affairs, LRQA
The implications for communication strategies and marketing are huge. The think-tank Campaign Strategy argues the need to create confidence by building on existing evidence, although this can prove challenging. Above all, they argue about the need to create confidence by building on existing evidence, although this can be difficult because making claims about a business’s social or environmental performance opens the business to more questions. “Companies are afraid to talk about their achievements”, says Joel Makower of GreenBiz. “A lot of their achievements have to do with being ‘less bad’, which is a difficult story to tell.”

Box 2. The state of sustainability reporting and assurance in the recession

In the wake of the financial crisis, AccountAbility and other organisations working on reporting and assurance are now investigating the complex interactions between, on the one hand, excellence in accountability and sustainability performance and, on the other, business performance in terms of trust, credit-ratings and overall viability.

Does current best practice in the area of reporting and assurance cover enough of the key indicators? How can companies report consistently on issues like risk and incentive culture? Are there benchmarks for how to manage redundancy? Ratings have come a long way since their early days, but they are only as good as the information businesses produce. How can companies and assurance providers better articulate the connections between sustainability, risk management and financial stability?

Communicating seems to be particularly difficult for banks. It is often banks that score well on accountability and sustainability indexes. HSBC recently came out first in a ranking of most ethical businesses, and banks are regularly at the higher echelons of sustainability and responsibility ratings, like the Dow Jones Sustainability Index, Covalence’s Ethical Ranking and The Accountability Rating™. Indeed, HBOS was rated among the top five global corporations in November 2008, even as it was facing collapse – a paradox that incensed bloggers and investors alike. There is a lot of rethinking now going on in the corporate sustainability metrics and benchmarking community. Most of the existing systems do not adequately gauge important issues like risk and incentive cultures and the responsible handling of redundancies.

To gain clarity and consensus on what a revised model of reporting and assurance might look like, a high level commission involving businesses, shareholders and investors, auditors, regulators and other relevant reporting organisations is being proposed to look at this issue and seeks to influence high level decision-makers, for example the level of the G20. AccountAbility has established an initiative on the Future of Assurance and Reporting aimed at the creation of a high level commission for this purpose.
We may also be experiencing the failures of the traditional corporate shareholder model, where ownership is removed from ethics and notions of responsibility that go beyond the need for financial returns. The only exception to this case is those business models which are inherently different. Co-operative and mutual patterns of ownership appear to be particularly resilient in the economic downturn. The regular member, worker and customer consultation practices deliver an accountability which is not replicated in conventional business models, and their responsiveness to the community leaves them well equipped to cope with turbulent conditions.

Similarly, John Lewis has been employee-owned since 1950, and attributes a large part of its success to its ownership structure. CaféDirect is a well-known example of a profitable business that is part-owned by producers as well as shareholders, in so doing bringing producer and consumer closer together.

“We are entirely employee-owned, so we are able to make long-term decisions and decisions that benefit the whole business. There is no difference for us between employees and owners of the business, which is why in our recent round of bonuses all staff received the same percentage reward.”

Nat Wakely, Director of Selling Operations, John Lewis

Clearly, rebuilding trust in an entire economic system will be difficult and long term, and require innovative changes and communications strategies – striking the balance between showcasing the good work being done, but remaining humble in the face of valid criticism. Alternative business models may go some way to providing assurance in the face of uncertainty. However the bigger solution cannot therefore come from individual companies. This requires a much larger overhaul; a complete reassessment of the regulation of the financial services sector in particular, but strengthened or more effective regulation across all sectors.
A new phase of consumer assurance?

“We have a long way to go to build consumer confidence again.”

Solitaire Townsend, Futerra

This report has found that the opinions of UK consumers are being impacted by the economic downturn. They are looking for brands and products they trust. They are still interested in the responsible practices of businesses, are wary of brand communications and more reliant on independent forms of assurance. The impact on businesses themselves is also great, with sectors such as financial services faring least favourably in the trust rankings.

Consumers have firm opinions about who is responsible for holding business to account or for employing responsible and sustainable practices. But this research found they have limited trust in those organisations to deliver responsibility. There is an “accountability gap.”

**Figure 7. The “Accountability Gap”**

*Which organisations are accountable for ensuring businesses behave responsibly? Which organisations do you trust to deliver that responsibility?*

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Accountability</th>
<th>Who do you trust?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses themselves</td>
<td>56</td>
<td>6*</td>
</tr>
<tr>
<td>Local/national government</td>
<td>49</td>
<td>10</td>
</tr>
<tr>
<td>Industry regulators</td>
<td>60</td>
<td>22</td>
</tr>
<tr>
<td>Trade and business organisations</td>
<td>42</td>
<td>9</td>
</tr>
<tr>
<td>Shareholders</td>
<td>31</td>
<td>2</td>
</tr>
<tr>
<td>International bodies eg UN, WTO</td>
<td>44</td>
<td>16</td>
</tr>
<tr>
<td>The media</td>
<td>33</td>
<td>6</td>
</tr>
<tr>
<td>NGOs/campaign groups</td>
<td>26</td>
<td>15</td>
</tr>
<tr>
<td>Consumer watchdogs</td>
<td>60</td>
<td>65</td>
</tr>
</tbody>
</table>

*Aggregator of PLCs (4%) and businesses (2%)*
This research found that most people believe that regulators, consumers, businesses themselves and government hold the most responsibility for ensuring that businesses behave responsibly. Figure 7 indicates the varying levels of responsibility organisations hold, set against the trust held in them to deliver that responsibility.

The largest accountability gaps are for government, regulators and trade/business organisations. Interestingly, when asked about levels of trust in different business ownership types, we found that public limited companies earned just 4% while cooperatives gained 21% of respondents’ trust. Consumers, consumer watchdogs and NGOs have the lowest accountability gap, indicating high levels of trust in them to deliver their responsibility. These findings are supported by evidence from the 2009 Edelman Trust Barometer which rated NGOs as the most trusted organisations in society, far in front of businesses, government and the media. Shareholders are untrusted like never before despite over one person in ten of the population holding shares.

What does it mean for consumers to have confidence at this time, and how can trust be rebuilt? Will initiatives to strengthen regulation, and tighten voluntary reporting, really be enough to close the “accountability gap”?

“There current financial crisis is directly linked to our pursuit of growth. Our reliance on debt to finance the cycle of growth has created a deeply unstable system which has made individuals, families and communities inherently vulnerable to cycles of boom and bust, while increasing consumption does not make us happier.”

UK Sustainable Development Commission, Prosperity Without Growth?

There are several recent initiatives geared towards improving business practice.

- The G20 London Summit communiqué, committing G20 policy-makers to oversight over incentives culture and CSR generally, in a form as yet unspecified.

- The World Economic Forum in Davos in January 2009 saw several calls for a global economic regulator, German Chancellor Angela Merkel and UK Prime Minister Gordon Brown.

- In the USA, the Environmental Protection Agency has proposed mandatory reporting on greenhouse gas emissions.

- In March 2009, the UK Financial Services Authority published the Turner Review, an investigation into the causes of the financial crisis, as a first step to understanding and communicating what happened. The review also made recommendations for reforms based on a system-wide “macro-prudential” approach, calling for concrete and large-scale changes.
The Amsterdam Declaration from Board members of the Global Reporting Initiative called for mandatory and improved sustainability reporting in March 2009.30

AccountAbility has established an initiative on the Future of Reporting and Assurance aimed at the creation of a high level commission, which will elaborate future reporting and assurance frameworks and develop pathways to achieve them.

Each of these initiatives move away from voluntary approaches to call for a general raising of the bar across entire sectors. This would serve to assure consumers that any product purchased in the UK meets certain minimum requirements, and failing that, that certain brands or sectors raise the minimum bar. They also require collaborative, often multi-stakeholder and inter-governmental solutions.31

There is appetite for raising minimum standards. Three quarters of the public in the UK want government to step in to prevent future financial crises32 – and this percentage is probably higher in other G20 countries like France and Germany.

What is clear is that tweaking the current system to assure is no longer enough.
Recommendations

This research has detected the first evidence that shifts may be occurring in consumer spending and opinion as a result of the recession. Despite fears to the contrary, the consumer base for ethical products appears to be remaining strong. However, consumers are clearly reprioritising what is important to them and coupled with historically low levels of trust in business, there is an increasingly loud call for more robust, more inclusive and more responsive forms of independent assurance. Crucially, consumers seek their information about businesses from sources that are not directly manageable – or even readily influenceable – by the businesses in question.

From the business side, there are strong financial, brand building and ethical reasons to keep investing in sustainability initiatives throughout the recession. However, business needs to be aware of a reduced tolerance from consumers for overstated claims at this time, and a zero-tolerance approach from investors to CSR that does not (re)build the bottom line.

The “accountability gap” remains the biggest hurdle for all institutions and organisations involved in providing assurance to consumers. Overcoming the barriers to rebuilding trust across all of these institutions will be key to how we pull through the recession, whether that is with rushed reforms and inadequate consultation and consensus, or through prudent, responsible and sustainable changes to consumption patterns, regulation, and business strategies to assure consumers.

In order to achieve the above:

- **Businesses** need to work with others, including NGOs and especially consumer groups. Consumers still trust labels and independent assurance. As consumers look to independent channels of information, businesses need to cut down on confusing messages and only claim what can be proved.

- **Leading companies and advocacy organisations** may justifiably feel that this is a fertile time to be visionary about the societal changes that are required to respond to the financial, social and climate crises we find ourselves in. Others may want a return to no-nonsense, values-free, value for money. However, consumers are looking for brands and products that offer them real reassurance as well as quantifiable affordability and quality.

- **Ordinary people** must be much better supported, by policy makers and consumer groups, to understand the role consumers and citizens can play and to educate them regarding the meaning of real value.

- **Citizens** have a real opportunity now to influence the debate about the society we want as we emerge from the global crisis, and demand that far more of the stimulus activity is aligned to it.

- **Government and regulators** need to develop strengthened and smarter regulation; incentive systems that encourage the desired behaviour without setting insurmountable or inequitable barriers for consumers to make their own choices. This is the most effective trust-builder in the long-term.
• **In the meantime, business and consumers** need a better dialogue on the impacts the recession is having on business strategies, and most stakeholders need support and education as to how to overcome the challenges they face.

• **There is a challenge to research organisations, standard developers, assurance providers and regulators** to develop mechanisms to monitor, benchmark and respond to high-risk, short-term performance incentive cultures especially in banks, but in other sectors too. Scale will only be achieved if voluntary initiatives are pulled together, raising the bar of best practice across all voluntary standards.
Footnotes


3 The Times, ‘UK recession is worse than forecast’. 27 March 2009 http://business.timesonline.co.uk/tol/business/economics/article5085498.ece


6 The Telegraph. ‘Britain showing signs of heading towards 1930s-style depression, says Bank’. 16 March 2009 www.telegraph.co.uk/finance/financetopics/recession/4996994/Britain-showing-signs-of-heading-towards-1930s-style-depression-says-Bank.html


11 Quoted in Ethical Performance. February 2009. Vol 10 issue 9


What Assures Consumers in an Economic Downturn?


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Research Methodology
The consumer statistics in this report were gathered in two online surveys of 2000 people across the UK, across a range of income, age and gender groups, conducted in December 2008 and January 2009. The survey was commissioned by AccountAbility, and conducted by YouGov. In addition, a series of expert interviews were conducted to add to our analysis.
About the organisations

AccountAbility

AccountAbility (www.accountability21.net) works to promote accountability innovations for sustainable development.

AccountAbility, founded in 1995, is a global, not-for-profit self-managed partnership with bases in Beijing, Geneva, London, Sao Paulo and Washington D.C., and country representatives in Brazil, Canada, China, Jordan, Spain, Sweden and the US.

AccountAbility is a global network of leading business, public and civil institutions working to build and demonstrate the possibilities for tomorrow’s global markets and governance through thought leadership and advisory services. We work to:

- Enable open, fair and effective approaches to stakeholder engagement
- Develop and reward strategies for responsible competitiveness in companies, sectors, regions and nations
- Create and develop effective collaborative governance strategies for partnerships and multilateral organisations that are delivering innovation and value
- Set and influence sustainability standards

The co-operative

The Co-operative (www.co-operative.co.uk) is an industrial and provident Society, which is owned and democratically run by its members. Its roots can be traced back to 1844 and the foundation of The Rochdale Society of Equitable Pioneers, an early consumer co-operative and the designers of The Rochdale Principles of co-operation.

Today, The Co-operative is the UK’s most diverse member-owned organisation, trading through businesses including The Co-operative Food, The Co-operative Travel and The Co-operative Financial Services.

In its business operations, it remains guided by the co-operative values and principals, as well its Ethical Policies, as developed in consultation with members and customers. The Co-operative’s leading-edge sustainability initiatives have been recognised with the attainment of a Queen’s award for Enterprise in the Sustainable Development category. Other than The Co-operative, no major food retailer or financial services organisation has yet received this award across its operations.
What Assures Consumers in an Economic Downturn?

Reviewing the agenda in the global economic crisis

April 2009

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This report is freely downloadable from www.accountability21.net
“Trust matters, but times of uncertainty are not easy periods in which to build trust. With consumer behaviour in flux and the economy in such uncertain territory, this new analysis from AccountAbility will prove invaluable to consumers, businesses and policy makers alike.”

Ed Mayo, Chief Executive, Consumer Focus

As the UK officially enters recession, What Assures Consumers in an Economic Downturn? is a timely analysis of the changing nature of consumer trust and the impact of the credit crunch on business strategies relating to sustainable development.

The report is based on findings from an online survey of UK consumers 2,000 people and a series of expert interviews.

AccountAbility and The Co-operative hope that this research will encourage consumers to take more action and responsibility for the impacts of their purchasing; that policy-makers will act upon the need to strengthen transparency and regulation; and that businesses will be able to assure consumers through sound sustainability strategies and delivery, and confident communications.

These findings and recommendations will be relevant far beyond the UK, as other countries come to terms with the impact of the economic downturn on their own economy, consumers and responsible business practices.

This report is the fifth in AccountAbility’s What Assures Consumers series.

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