

CUSTOMER CHARTERS

The next dimension in consumer protection?

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What are customer charters and how will the consumer benefit?

Customer Charter, Consumer Charter, Government Service Charter, Citizens Charter, Charter of Budget Honesty, Taxpayers' Charter or Mission Statement 'with attitude', call them what you will, 1997 is shaping up as the year when consumers in both the public and private sectors were offered a new form of consumer protection. The drive has been led by the Australian Competition and Consumer Commission (ACCC)¹ and more recently by the Federal Bureau of Consumer Affairs (FBOCA).² The latter is charged with breathing life into an election promise of the Howard Government to develop a set of performance criteria for government departments, agencies and utilities.³ To be called Service Charters, these documents are intended to provide consumers with information on the level of service they can expect from these same government departments, agencies and utilities. The Minister for Small Business and Consumer Affairs, Geoff Prosser expects to announce a timetable for Service Charter implementation by 30 June 1997.⁴ This initiative by the federal government is also expected to stimulate the growth of Charters in the private sector.

The recent emergence of Charters in Australia in both public⁵ and private sectors⁶ signals a new self-regulatory approach in combining compliance with fair trading laws and customer service initiatives. But what are Charters? Where did the idea come from? What are their core ingredients and do they really offer consumers a better deal? This paper explores these questions and canvasses the likely impact of Charters.

Guarantees, extraordinary guarantees and now the Charter

Since the middle of the 19th century, consumers have expected that the goods and services they purchase will be accompanied by a written guarantee.⁷ However, it is not unusual for the guarantee to be little more than the one already prescribed by statute and for consumers to experience difficulties when seeking to enforce it. For example, the guarantee may be limited to replacement goods rather than money back; the manufacturer may be overseas and so out of reach or the used car dealer simply out of business. In these situations the guarantee is no more than a marketing gimmick and literally not worth the paper it is written on.

With the decline in the credibility of the general guarantee it is not surprising that product and service providers at the better end of the market have sought to distance themselves from it. Their response has been to offer an enhanced version described by American commentator, Christopher Hart, as the *Extraordinary Guarantee*.⁸ Hart suggests that this form of guarantee goes beyond seeking to reduce the customer's sense of risk at time of purchase. It promises exceptional, uncompromising quality and customer satisfaction. In other words a guarantee with 'no ifs and no buts'. Typically, these Extraordinary Guarantees emphasise a specific part of product or service delivery and are backed by a penalty for failure. A UK example is that of the

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Co-Operative Bank which guarantees error free bank statements backed by a £10 penalty for failure. Australian examples include the Ford Lifetime Guarantee of parts, the AAMI Lifetime Guarantee of car repairs and, until recently, the ANZ's 'The \$5 five minute teller queue guarantee'.⁹

In a competitive marketplace companies are increasingly looking at the Extraordinary Guarantee as the mechanism that will help them define, cultivate and maintain quality throughout their organisation — that special something that will give them that extra competitive edge. Hart summarises the benefits of the extraordinary guarantee in the following way.

By translating every element of customer dissatisfaction into pain for the company, an extraordinary guarantee cuts through bureaucracy, breaks down barriers, creates a sense of shared mission, and sharply refocusses corporate priorities on those elements that most need fixing. By raising the bar on performance and providing a daunting but achievable goal, it energises managers and employees and creates enthusiasm. By supplying a feedback link between customer satisfaction and operations, it not only permits a company to identify what it is that customers want and need, but, if the organisation is slow to pick up on the clues, the guarantee forces the company to sit up and take notice. A company operating under an extraordinary guarantee simply can't help but do whatever it takes to get things right.¹⁰

Now Customer Charters have entered this arena.¹¹ Charters range more widely than Extraordinary Guarantees because they promote service standards that customers are entitled to expect not just from one part of a business or public agency but from across the whole organisation promoting the Charter. They also place a new emphasis on the importance of providing consumers and other stakeholders with a participatory role in product and service development.

Charters: the core ingredients

Charters offer consumers more than unequivocal guarantees of quality. They offer formal access to product and service development and a new focus on corporate accountability. Potentially, they also offer reliable benchmarks, other than price, that consumers can use when 'shopping around'. The challenge is of course to ensure that the marketers do not capture the name and abandon the content.

As Charters move from the public to private sector there are four core ingredients that are constant.¹² Charters should be judged against these criteria. Although, they are not mutually exclusive, a failure to properly address them will undermine any claim for a document to be recognised as a true Charter and in turn its public credibility will suffer.

The obligation to consult

Customers should be consulted by the provider of the service. It is, after all, a Customer Charter and they must have the opportunity to make a contribution to the establishment of standards and their ongoing development. In addition, consultation should take place with all key stakeholders. These include staff, consumer advocates, government and regulators. Consultation would be on such issues as:

- what targets or standards of service should be set?
- what aspects of service should be guaranteed?
- what should happen if the service standard is not met, namely what are the penalties for failure? Is a written apology sufficient or should it be money?
- what procedure is there for dealing with complaints?

There are a number of ways in which consultation can take place. These include:

- commissioning focus groups to survey customer views as well as potential customer views;
- consultation with consumer groups and consumer advocates;
- consulting with all levels of staff. It will be staff who will ultimately be responsible for making the Charter work. They are in a unique position to know whether organisational systems are robust enough to meet a proposed public service standard;
- ongoing monitoring of customer comments and complaints to recognise and address common consumer concerns.

The obligation to inform and be accessible

The Charter should promote the principle that information about products and services will be readily available and widely accessible. For example:

- is the Charter itself easy to handle and well laid out?
- is the documentation in plain language and readily available?
- are toll free telephone lines readily available to consumers?
- is information available in different ways, for example in big print or through technologies such as the Internet?
- are opportunities provided for consumers to have a say in the way products and services are provided, for example a customer comment line and formal complaint procedures?

The obligation to be accountable

Charters can account for how products and services are working by:

- publishing specific service standards consumers can expect;
- undertaking to monitor and report on product and service performance;
- undertaking to have an independent audit and stating how often and by whom;
- stating what happens if service standards are not met;
- providing a visible and accountable appeal system to enforce service standards;
- undertaking to report on performance to the public on a regular basis.

The obligation to provide redress

This is the commitment to 'put things right if they go wrong'. The main way to do this is by promising to provide a visible and free procedure for dealing with complaints in the first place. The redress mechanism should also be reinforced by a specific remedy, such as cash compensation. Key features of a redress system are:

- provision for customers to complain informally and on the spot;
- published information on how to complain;
- specific target times by which a full response will be made;
- the existence of an independent and external avenue for appeal should the redress system fail to resolve the complaint;
- published information on the types of remedies and compensation available;

- public accountability through external audit on an annual basis.¹³

The future

In Australia, Charters are in their infancy. Indeed, both the *Child Support Clients Charter* and the *AAMI Customer Charter*, the pioneers in the public and private sectors respectively, are still to reach their first birthdays.¹⁴ The proof of the Charter pudding will only come as organisations commence the public reporting back process as part of their obligation to be accountable. However, as this new experiment in consumer protection begins to spread through the public and private sectors it is possible to identify some key aspects that will determine their ultimate success.

Charters formalise stakeholder participation in product and service development. The emphasis on consultation with all stakeholders identifies the things that matter to consumers and assists the organisation to prioritise the application of its resources. For the public sector this is a significant move toward a proactive approach and away from the passive even reactive style traditionally applied in dealings with consumers and which has relied on controlling access through mechanisms such as the Commonwealth Ombudsman, Freedom of Information legislation and Administrative Appeals Tribunal.

The obligation to consult also throws out a challenge to the private sector operating in a competitive environment. Here, consultation means being open with groups often seen by many corporations as adversaries, for example consumer groups and even regulators. Charters provide a framework for open and confidential dialogue with such groups in the interests of all consumers. Given that many view consumer advocates as the advance guard of public opinion on consumer issues, these consultations could signal a new maturity in relations between government, business and consumer groups.

Charters also offer consumers the prospect of greater certainty and reliability when dealing with large organisations whether in the public or private sector. The publication of set service standards, backed by penalties for failure and regular public accountability on the performance of the standards, will enable consumers to make choices based on objective information. It will no longer be acceptable for the marketers to make extravagant claims about products and services. Unless the claims can be objectively verified they will be dismissed as the advertising puffery they so obviously are. At the same time, the knowledge that there will be public accountability on performance provides the organisation with a significant strategic tool dedicated to continuous improvement of products and services. Unlike other quality management improvement programs, the Charter process focuses on outcomes for the customer rather than the process as an end in itself. After all, it is no good having the perfect organisational process if it does not deliver what the consumer wants.

Finally, the development of Charters in different sectors of industry may also lead to the demise of the self-regulatory Codes of Practice that emerged in those same industries in the early 1990s. Codes only set minimum and general standards representing as they do a compromise of a range of views. As a result they have a low profile with consumers and only influence industry standards and behaviour at the edges. Inevitably, Charters should overtake Codes as they provide the opportunity for industry leaders to set standards beyond

that of the Code and tailored to promote the product and services of the particular organisation concerned. These, in turn, should become the industry standards. At the same time the commitment of the organisation promoting the Charter will be greater and will result in a greater visibility of the Charter as against the less visible Code. It remains to be seen how many organisations dare take up the challenge of the Charter. Should the challenge be declined or lost the likely fallback model of consumer protection is regulation by legislation. Consumer groups would not be backward in calling for this.

References

1. See Asher, A., *Service Guarantees/Consumer Charters; What they are and how they work*, SOCAP conference papers 1994; Asher, A., *Consumer Charters*, SOCAP Workshop Canberra, August 1995; and *Utility Reform/Service Standards and Consumer Charters*, Trade Practices Commission, Canberra, August 1995.
2. 'Principles for Developing a Service Charter', Department of Industry, Science and Tourism, Canberra, March 1997.
3. See 'The Consumer Interest: Liberal and National Parties Consumer Affairs Policy', February 1996.
4. See 'Putting Service First in the Public Service', Press Release 80/97, Canberra.
5. Examples are the *Child Support Clients Charter*, available from the Child Support Agency and the *Customer Charter — Yarra Valley Water*, published by one of the recently corporatised Victorian water utilities, Yarra Valley Water, Lucknow Street Mitcham 3132. A *Taxpayers Charter* is due to be launched on 1 July 1997 and a *Charter of Budget Honesty Bill* is presently before the Federal Parliament.
6. The *AAMI Customer Charter* was the first in the Australian private sector. Launched on 1 July 1996 it outlines 16 service standards that customers are entitled to expect. The promises are reinforced by a \$25 penalty payment regime for any breach and the Charter is independently audited by the national accounting and audit firm KPMG. The AAMI Charter recently won for the company the Victorian Office of Fair Trading 1996 *Fair Trader of the Year Award*.
7. For a history of the modern guarantee see Hart, C.W.L., *Extraordinary Guarantees*, Amacom, New York, 1993.
8. Hart, C.W.L., above.
9. Introduced on 13 June 1994 it guaranteed that customers would not have to wait more than five minutes to be served by a teller at any ANZ branch in Australia. In its first year, of the 80 million customers served across Australia, less than one in 1000 customers claimed the guarantee. See Media Release of ANZ Bank dated 18 June 1995. The Guarantee was quietly discontinued in 1997 the bank concluding that the guarantee had enabled ANZ to successfully demonstrate its commitment to better customer service. See Kirby, J., 'End of the Line for \$5 bank favour', *The Weekend Australian*, 1 February 1997, p.20.
10. Hart, C.W.L., above, p.4.
11. The modern emergence of Charters can be traced to 1991 and the stimulus provided by the British Citizens Charters. Promoted by the John Major Government, the Charter was a public sector development designed, in the context of ongoing privatisation, to make the providers of public services accountable to their users. Recently, the new Labour Party under the Leadership of Tony Blair has endorsed Charters as part of their vision for an accountable public service. For further background see *The Citizens Charter: Raising the Standard, The Citizens Charter: First Report 1992*, HMSO, 1991; Goldworthy, D., 'The Citizens Charter in the UK' (1993) 74 *Bulletin of Public Administration*, 89; Petre, C., 'Citizens Charters' (1994) 19 *Alt.LJ* 263; *The Citizens Charter — Five years On*, HMSO, 1996.
12. These core criteria are drawn from the international literature. See above and also *Charter Checklist*, National Consumer Council, London, July 1993.
13. Standards Australia, publish an Australian Standard on complaints handling (AS4269-1995) which sets out the essential elements for the management of complaints from inception to satisfaction or final determination. Contact Standards Australia, 1 The Crescent, Homebush NSW 2140.
14. Both were launched on 1 July 1996.