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## Social Quality of Products – Assessment and Signalling

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### 1 The politicisation of consumption

One of the fundamental doctrines of our market-based economic system is that the free exchange of goods and services on markets, subject to the forces of supply and demand in line with certain rules and regulations, provides a framework to foster the development of that on offer and, in principle, the fair distribution thereof. The tautological principle is that consumers always act according to their preferences, the observation of which behaviour in turn allows material conclusions to be drawn as to those preferences. Consumers are the "seekers" of consumer goods markets and – at least according to the model theory – influence the offer by way of their buying behaviour in that they select that which corresponds best with their preferences. According to today's dominant economic theory, consumers are always and only interested in satisfying their own personal egoistical goals and wants – whatever they may be – through their consumption.

This image of a consumer always and only after his best advantage does, in fact, have to be qualified when one takes the reality of consumer behaviour into account, taking Germany as an example:

- Products manufactured in an ecological way are gaining ground in some sectors.
- "Bio-labels" promoted by the state are continuously expanding their market share.
- Products which refer explicitly to the social fairness of production conditions in the source countries, i.e. by way of the "TransFair" label, are now a fixed part of the supermarket product range.
- In Germany, 4 billion Euro have been invested in green or sustainable funds.
- Companies known to violate certain social, ecological and/or other ethical standards are frequently boycotted.

Looking at this situation one might think that at least some consumers are doing more than trying to optimise their personal benefits, and are taking ecological and social aspects into account when

buying. Even in societies where striving for individualism is celebrated, there are frequent and impressive examples of consumption marked by solidarity and altruism. The question as to how an individual citizen can hope to participate in the swaying of opinions, exert an influence and affect decisions with respect to global and networked issues can actually be answered in a surprisingly simple and novel way: by drinking coffee, wine or filling the car, or by “investment decisions” - each act an expression if you will of social commitment, interpreted as a kind of “political consumption.”

In 1988, Bennis-Foerder, when he spoke of “customers as citizens and citizens as customers”, forecast that the previously clear cut and distinct roles of, on the one hand, a political citizen, i.e. one who votes, is politically organised and possibly writes an occasional letter to the editor, and, on the other, a consumer acting in a rational economic way, always after the best deal, would increasingly overlap (cf. Bennis-Foerder, 1988). I.e. that consumption would – in some areas – become a form of expression, of political participation in major social debates and processes. A crucial consequence of this development is the consumer’s changing need for information. Awareness of the conditions of manufacture of products and observation of the social and ecological performance of the companies offering products and services, will ultimately change into and become a new challenge both for companies as well as institutions offering supplier-independent consumer information.

## **2 Production qualities as a hidden product characteristic**

Whereas in the past consumers demanded information limited to details like price and quality of use, i.e. functionality, durability etc., recently there has been an increasing interest in those qualities of a product which one can expose neither by subjecting it to a technical test nor through its use or consumption. The hidden qualities of products, i.e. those aspects known as trust characteristics, gain in importance. Information economists differentiate between three types of product characteristic (cf. Nelson, 1970; Darby/Karni, 1973):

- Search characteristics can be fully judged by the purchaser prior to purchasing the goods by way of own inspection.
- Experience characteristics only develop after purchase/after using the product.
- Trust characteristics cannot be judged by the purchaser prior to purchase or only at a prohibitive expense. Even own experience with purchased products is not conducive. Whether or not the purchased product had or has these specific certain characteristics simply has to be “taken on trust”.

The social conditions of production at suppliers to the textile industry, species-appropriate breeding and husbandry of animals, ecological power generation, fleet consumption of a car manufacturer or the investment policy of a pension fund: these are referred to as trust characteristics because an individual consumer is wholly unable to judge them based on experience (see Figure 1).

Statements as to these hidden properties have to be taken on trust.

Open and hidden product characteristics			
	Search characteristics	Experience characteristics	Trust characteristics
<b>Food</b>	<ul style="list-style-type: none"> <li>§ Price</li> <li>§ Appearance</li> </ul>	<ul style="list-style-type: none"> <li>§ Taste</li> <li>§ Workmanship</li> <li>§ Shelf-life</li> </ul>	<ul style="list-style-type: none"> <li>§ Ingredients (genetic eng.)</li> <li>§ Type of husbandry</li> <li>§ Eco production</li> </ul>
<b>Textiles</b>	<ul style="list-style-type: none"> <li>§ Price</li> <li>§ Style, fashion</li> <li>§ Fit</li> </ul>	<ul style="list-style-type: none"> <li>§ Care</li> <li>§ Workmanship</li> <li>§ Storage</li> </ul>	<ul style="list-style-type: none"> <li>§ Health/ allerg. reactions</li> <li>§ Ecological production</li> <li>§ Compliance with social standards</li> </ul>
<b>Cars</b>	<ul style="list-style-type: none"> <li>§ Purchase price</li> <li>§ Colour/ Design</li> <li>§ Room</li> </ul>	<ul style="list-style-type: none"> <li>§ Fuel consumption</li> <li>§ Repairs</li> <li>§ Mileage</li> </ul>	<ul style="list-style-type: none"> <li>§ Emissions</li> <li>§ Fleet consumption</li> <li>§ Ecological production</li> <li>§ Compliance with social standards</li> </ul>
<b>Power</b>	<ul style="list-style-type: none"> <li>§ Price</li> <li>§ Contract period</li> </ul>	<ul style="list-style-type: none"> <li>§ Change contracts</li> <li>§ Service</li> <li>§ Reliability</li> </ul>	<ul style="list-style-type: none"> <li>§ real pollution of power generation</li> <li>§ Type of power generation</li> <li>§ Environmental commitment of suppliers</li> </ul>
<b>Riester-Pension</b>		<ul style="list-style-type: none"> <li>§ Price/costs</li> <li>§ Yield</li> <li>§ Security</li> </ul>	<ul style="list-style-type: none"> <li>§ Future pension payments</li> <li>§ Application of ethical criteria in investment policies</li> </ul>

**Source:** Schoenheit, I. (2004): Was Verbraucher wissen wollen. Empirische Studie zum Informationsbedarf der Verbraucher. Bundesverband Verbraucherzentrale e.V. (Hrsg.), Berlin 2004.

Figure 1: Information-relevant product characteristics (cf. Schoenheit 2004, p. 7)

The current discussion on sustainability and sustainable consumption shows that the working conditions ambient in the production of consumer products and various human rights issues are regarded as most important.

The growing significance placed on the processes of manufacture and the responsible behaviour of a company in its entirety by modern (in part political) consumers is emphasised by a number of empirical studies concerning the subjective need for information.

- A number of studies based on opinion polls have demonstrated the burgeoning importance of social and ecological responsibility in relation to a company's image (cf. Dialoge 4, 1995 and Dialoge 5, 2000).
- Other studies taking a more in-depth look at relevant aspects of responsible corporate behaviour have spotlighted the general willingness of many consumers to select those companies which are demonstrably more responsible in their activities than are others (cf. imug 2003, MORI 2000).
- A number of reports focussing on the information demanded by consumers corroborate that there is demand for information concerning specific production qualities (value chain) and

also concerning specific constituents and health risks which is not satisfied by existing information offerings (cf. Schoenheit 2004).

While these studies did not entail the direct investigation of actual buying behaviour of consumers, they nonetheless indicate the existence of definite expectations, both within critical public opinion as well as amongst consumers, projected on to corporations to the effect that said corporations must be seen to be acting responsibly throughout. And companies falling short of these fundamental standards of responsible behaviour can expect to be promptly penalised by consumers acting in response to this groundswell of expectation.

### **3 Corporate social responsibility as a trust characteristic**

In the recent past, corporate experts have been increasingly presenting phrases like corporate social responsibility (CSR) and corporate citizenship as well as sustainable corporate management as descriptive terms for more or less vague concepts of what exactly responsible corporate management might be. Whereas the term sustainable corporate management is generally based on the conventional three pillar model, whilst simultaneously claiming to consider economic, social and ecological goals, the concepts of corporate citizenship (CC) and CSR place a much sharper emphasis on the voluntary acceptance of social responsibility by the company. The EU Commission presents the following definition: CSR is a "... concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". The company acts in a socially responsible manner when it seeks to set the trade-offs between their requirements and the needs of the various stakeholders into a balance which is acceptable to all parties. (EU Commission 2002, p. 3). A number of major corporations have taken this concept on board and have formed a European corporate organisation known as CSR-Europe (see [www.csreurope.org](http://www.csreurope.org)). German companies have also joined forces to create a network known as the "econsense forum for sustainable development" as their contribution to such discussions and activities (see [www.econsense.de](http://www.econsense.de)). And the question is then raised, in particular for those companies which do indeed act especially responsible, as to how this crucial socio-political activity – which it undoubtedly represents – can be adequately communicated. Is it not the case that consumers are especially suspicious when a producer claims something positive, but something not really "provable", about either his product or his company? Shouldn't a critical consumer not invariably assume that in such cases the positive aspects will be "exaggerated" and the negative "glossed over", if not completely ignored? The dilemma of corporate signalling is therefore that the communication of trust characteristics presumes the existence of exactly that which it is seeking to generate, i.e. trust (cf. Kaas 1992, p. 482). The knock-out question is therefore, how can companies send out credible signals concerning the hidden qualities of their products or about their overall social and ecological performance?

Modern economic theory includes an explanation for such sceptical behaviour by consumers. One of the most crucial of recent model-theoretical basic assumptions for arriving at a better interpretation of markets interactions specifically includes the option of opportunistic behaviour by

those involved (cf. Williamson, 1984, p. 47). Wherever opportunistic behaviour cannot be excluded, behavioural uncertainties are created. This is the reason why it is often not clear exactly what it is that individual corporations actually provide in terms of social and ecological essentials.

Comparative corporate tests are an instrument specifically developed to ameliorate this informational dilemma and generate more transparency about responsible corporate behaviour.

#### **4 Comparative corporate tests as a working concept**

Comparative socio-ecological corporate tests can be defined, in a broad analogy to comparative product tests, as a specific working instrument, "... with which companies are investigated by an unsolicited and independent third party to assess the extent to which they act with social and ecological responsibility in certain areas. Information gleaned is then published in summary form...". (imug 1997, p. 75). Comparative corporate tests have adopted the modern understanding of a company as being a "quasi official organisation", which in its more management-oriented variations focuses on the need to achieve a balance, albeit a very difficult one, between the interactions of a company with its internal and with its external stakeholders (Freeman 1984).

The comparative corporate test therefore comprises a working concept with specific objectives and working procedures which must be maintained and observed in order to generate the required degree of transparency concerning the social and ecological qualities and performance of a company as a whole or of individual business units of a company. They therefore fulfil not only an information but also a control function in that they subject key elements of a corporate image to a critical test. In order to reflect the perception that "responsible corporate behaviour" is a social construct constituting many normative elements, it is necessary to set tough benchmarks not only for transparency, credibility and seriousness when specifying test content and criteria, but also during data gathering, data review, as well as data assessment, (cf. figure 2).

The first corporate tests with a solid methodological base took place in 1993/1994. 250 companies in the food and luxury goods sectors were investigated based on over 70 social and ecological and other ethically relevant criteria and published as a book entitled "Der Unternehmenstester – die Lebensmittelbranche" (cf. imug et al. 1995). By 2001 no less than four industry-specific shopping guides had been published in Germany along these lines. They were published by the imug institute in cooperation with the German association of consumer organisations (AgV, today the Bundesverband Verbraucherzentralen, vzbv), the consumer advice offices of Baden-Württemberg, Hamburg, Hessen, Niedersachsen, Nordrhein-Westfalen and Sachsen as well as the Verbraucher Initiative (consumer initiative). The investigative work for the individual book publications took place under the overall leadership of imug Institut (see [www.unternehmenstest.de](http://www.unternehmenstest.de))

In the last ten years a number of "shopping guides" have been published in other European countries concerning responsible corporate behaviour, whereby they are all based in principle on the "Shopping for a better world" publication of the Council on Economic Priorities (CEP) and as

such have a strong “moralistic tenor”. The lack of continuity<sup>1</sup> and limited impact of the shopping guides should also be borne in mind (cf. Schoenheit/Hansen, 2004, p. 242 ff.).

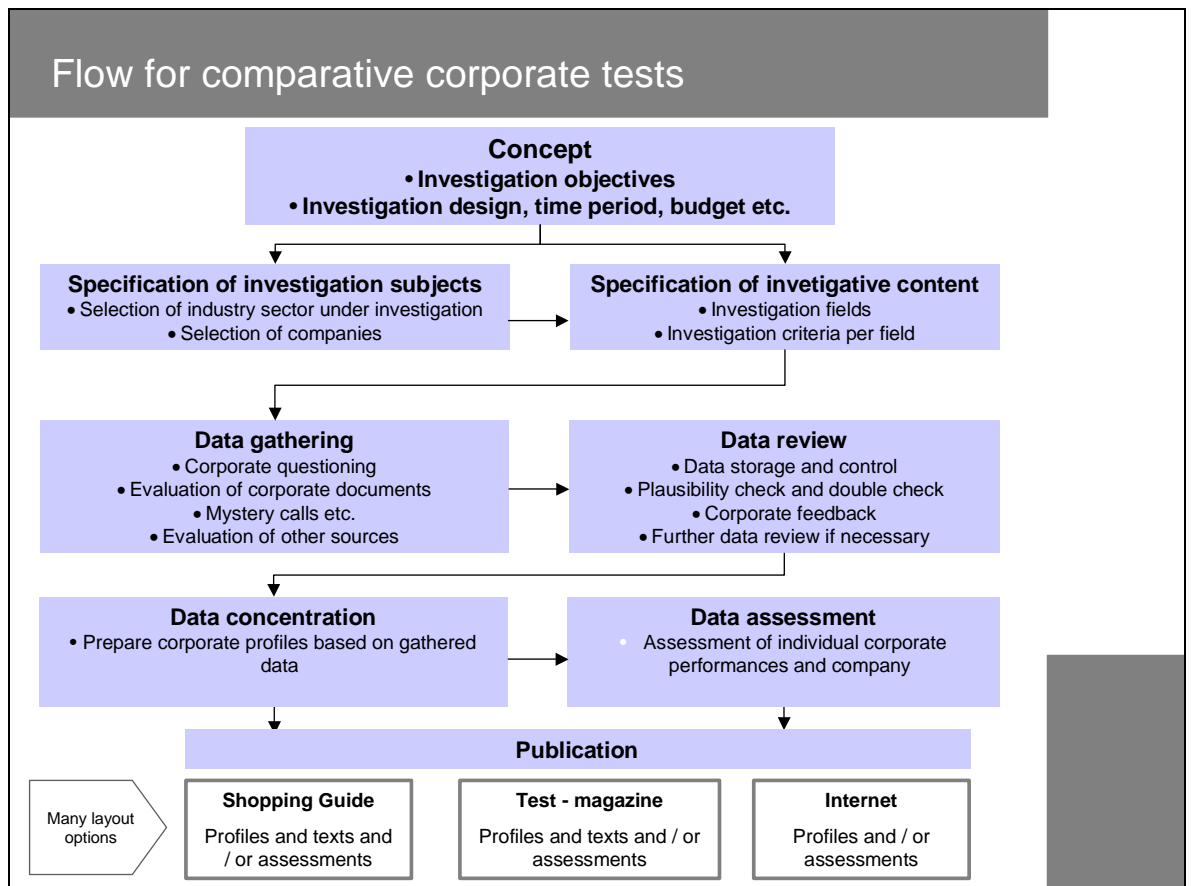


Figure 2: Workflow of comparative corporate tests (cf. Schoenheit, Hansen, p 247)

This situation makes it all the more laudable that Stiftung Warentest is currently involved in plans to append its “classic product tests” with concurrent complementary investigations in order to provide information and assessments as to the ethical, social and ecological behaviour of the respective manufacturers for the interested readership of its “Test” magazine. Stiftung Warentest is by far the best known consumer organisation in Germany and enjoys great esteem both amongst consumers as well as in many sectors of the business community because of its independence and competence. In relation to the increasing importance placed on the hidden qualities of products, the challenge facing Stiftung Warentest is therefore to assimilate a new and furthergoing understanding of quality within the consumer goods markets, one which can develop into an element which fosters competition. Consumers should neither be rendered insecure by irrelevant or even confusing information nor should companies be allowed to gain the impression that voluntary

<sup>1</sup> Up dated versions of the shopping guide appeared on an approximate two-year cycle. The last guide was published by CEP in 2000. The CEP has since disbanded. The „inventor” of the shopping guide, Alice Tepper Marlin, received the alternative Nobel Prize for her work in 1990. Today, she works as president of the Social Accountability International organisation (SAI) in New York within which she was also responsible for the concept of the SA 8000.

acceptance of responsibility in the manufacturing of products and within overall corporate management is not noticed or perceived as such by either consumers or by Stiftung Warentest acting on their behalf.

## **5 Stiftung Warentest's CSR pilot projects**

Stiftung Warentest first gained experience in the publication of product and corporate statements in 2003. In the June issue of its "Test" magazine it published an article entitled "Social responsibility – fit for fairness?" comprising an "ethic check" of nine selected manufacturers of jogging shoes which included not only quality-related product assessments but also introduced the ecological and social production context of the running shoes. The responsibility for the investigative conceptualisation and execution as applied here was, however, not borne by Stiftung Warentest itself but was realised in the framework of a project of the ICRT group - an amalgamation of 25 consumer organisations from all parts of the globe.<sup>2</sup>

During 2004 Stiftung Warentest organised three pilot projects to, for the first time, investigate the social-ecological context of production as a complement to its classic product tests, and provide interested readers of the "Test" magazine with "... information and assessments of the ethical, social and ecological behaviour of the respective manufacturers...". (Brackemann 2004, p. 57).

## **6 Social aspects in the farming and marketing of salmon**

It is basically not feasible for consumers to understand today's methods and processes of food production. Consider the case of salmon farming: as a consequence of globalisation, it now virtually impossible to determine who is actually responsible for not only social conditions but also for pollution and conformity with fundamental animal protection standards within the production chain. Wild salmon bought in Germany is caught in Alaska and processed in China. It was this background which in late 2004 motivated Stiftung Warentest to not only test the product quality of wild salmon but also, and for the first time, seek to answer the question as to whether vendors and producers are fully informed about their suppliers and their production practices and whether they meet their social and ecological obligations. Under the title "Acceptable for man and animal?", readers of the Test magazine were given details of tests of deep frozen salmon filets with a scope including not only test ratings on product quality but also statements as to whether and how the respective vendors and producers of deep frozen salmon filets accepted responsibility for animal and environmental protection aspects as well as their activities on social issues, for example relating to employees (cf. Stiftung Warentest, 2004, p. 22 ff.).

<sup>2</sup> This ethic check was undertaken on behalf of the ICRT by Stock at Stake, a research subsidiary of a Belgian research agency for ethical investments. Primary goal of this organisation is to disseminate existing test methods for product and service testing on a global scale and to help develop improved test methods. For more detailed information about the ICRT please visit [www.international-testing.org](http://www.international-testing.org)

The test covered a total of 20 suppliers and their producers. The investigation of corporate responsibility was based on a total of 65 criteria<sup>3</sup> focussing on social, ecological and consumer-relevant aspects in the following fields:

- Corporate policies (producer and vendor)
- Animal and environmental protection (producer)
- Further processing and transport (producer)
- Transparency (producer and vendor) and
- Employees (producer).

The focus of the investigated employee sector was into social aspects of the production of deep frozen salmon filets. The criteria related both to administration of employees within the company as well as to the acceptance of responsibility for compliance with social standards throughout the processing chain. The social criteria included:

- Corporate obligations regulating staff administration
- Measures to implement health and safety aspects within the company
- Number and development of accidents at work within the company
- Activities to implement minimum social standards at production facilities relevant to the production of the product in countries in which compliance with fundamental minimum social standards is not unequivocally guaranteed.
- Assurance of application of internationally accepted minimum social standards (ILO core labour standards) by the company amongst its suppliers and outsourcers in countries in which compliance with fundamental minimum social standards cannot be unequivocally guaranteed
- Efforts made by the company (business unit) to conform with and monitor minimum social standards amongst suppliers/outsourcers in countries in which compliance with fundamental minimum social standards cannot be unequivocally guaranteed
- Company reporting on social aspects of company activities.

The direct questioning of the companies (which related to these and other criteria) was complemented by an evaluation of all relevant and publicly available documents of the company as

<sup>3</sup> For a listing of all investigation criteria please go to the Stiftung Warentest homepage ([www.test.de/downloads](http://www.test.de/downloads)).

well as additional “mystery” enquiries. Details gleaned from investigations of secondary sources were also part of the information gathering exercise. Details provided by the company directly were subjected to independent review. All suppliers and producers were visited after data gathering, subject to their consent. This “direct” review, performed by an expert acting for Stiftung Warentest, involved the more detailed investigation and verification of particularly relevant or contradictory data.

The results of this corporate test were kept separate from the product-related quality ratings of the deep frozen salmon filet. As far as Stiftung Warentest was concerned, this information was made available to the consumer as an addition, such that they could themselves decide whether and how it might influence their buying decisions.

The additional information on the social aspects of production are summarised in a separate ratings table. Five of the vendors stand out because of their “clear initiative” on behalf of employees, salmon and environment. Six of the twenty vendors refused to co-operate at all (questionnaire and willingness to accept external inspection). Three of these were retail chains. Apparently some producers and traders are not yet willing or prepared to respond to investigations seeking to satisfy the new information demands of consumers as outlined here. That will soon change. In a recent publication Stiftung Warentest announced its intention to organise such investigations on a regular basis in the future, also into the social quality of products,.

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The focus of imug research is on the interface between corporations and society, in particular, however, between corporations and consumers. Imug has gained its outstanding reputation through its socio-ecological corporate ratings, known within imug as “corporate tests”.



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