

Chapter 2

Standards and Consumer Behaviour of the Rising Middle Class in India

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Introduction

In research for global value chains, private standards are increasingly recognized as a key global governance mechanism that co-shapes development opportunities and constraints (Blowfield 2007; Knorringa 2011). However, in India, with its huge informal production sector and persistent chronic poverty of hundreds of millions of its citizens, a developmentally relevant approach towards standards needs to include also issues of regulation—the implementation of public standards. Recent research increasingly foregrounds the importance of investigating the interaction between private and public standards, instead of studying them in isolation (Henson and Humphrey 2010). In short, private standards can be effective when consumers are inclined to and can afford to pay more for responsibly produced products. Public standards—on, for example, minimum wages and environmentally sustainable production—are especially important when consumers cannot afford and/or are not inclined to more responsible types of consumption.

In this chapter, we develop a simple typology combining the inclination to consume responsibly with the ability to afford responsible behaviour, and we develop two testable hypotheses for further research on when public and private standards are more likely to boost responsible consumption patterns. While our emphasis in this chapter is on where and when responsible individual consumer behaviour is more likely to appear, we recognize that it usually requires change agents, such as consumer activists or development NGOs, to mobilize such latent social concerns.

Research on the meaning and implementation of private standards tends to focus on how lead firms—especially those with brands to protect—manage (perceived) consumer demands for responsible behaviour in their supply chains. Civil society

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organizations feature in this debate as watchdogs and catalysts, who are quite often able to ‘punch above their weight’ (Gereffi et al. 2001) by claiming to speak on behalf of concerned consumers. In broader multi-stakeholder initiatives, state actors also sometimes play an active role. Consumers usually feature more in the background, as a rather amorphous (though differentiated) mass that can be manipulated by other, better organized and more strongly incentivized actors, such as firms, civil society organizations and states. A notable exception is the study by Ponte and Gibbon (2005), who use, among others, the work by Callon et al. (2002) to make explicit the fact that lead firms and consumer activists do not simply determine consumer behaviour. Instead, many different societal actors influence consumer perceptions about what constitute (minimum levels of) quality and responsibility, and individual consumers also co-shape their own behaviour.

Moreover, especially from a longer-term perspective, in rapidly changing societies, such as India and other rising powers with swiftly expanding numbers of new middle-class consumers, it becomes even more important to delve into where and when consumers are more likely to be inclined towards responsible consumption. After all, it can make a lot of difference whether most people in a society are desperately poor, or whether more and more people can afford to consider other attributes of products besides their price. Given the size of its population, this is an especially important consideration in the case of India: The behaviour of hundreds of millions of consumers is likely to have effects at a planetary scale. Additionally, and at least partly irrespective of income levels, norms and values in societies about the minimal expected level of ethical behaviour change over time, as is exemplified by how, in the past two centuries, the thinking on child labour has evolved (Appiah 2010; Sen 2009).

While the global middle classes are growing ‘twice as fast as the overall world population’ (World Bank 2007), and the proportion of consumers from the Global South in that global middle class will soon numerically dominate, we do not know whether their inclination towards responsible consumption will be similar to that of middle-class consumers from wealthy countries. Moreover, we do not know to what extent successful strategies to mobilize consumers such as fair trade, which has been successful in advanced economies, will resonate with middle-class consumers from India. Finally, we do not know in what ways (changes in) norms and values in India and other rising powers will influence the requirement for firms to have a societal license to operate, nor do we know the extent to which rising power states will react to violations of such a floor for expected responsible behaviour.

Therefore, the question is not only whether the new middle-class consumers from countries like India will increase or decrease the amount of responsible consumption but also how they will influence the meaning and content of what is considered to be responsible consumption. We recognize that the social concerns of individuals and groups in a society can also be expressed through very different and perhaps complementary and mutually reinforcing channels, such as political participation as citizens. However, for this chapter our basic assumption is that the rapidly growing numbers of Indian middle-class consumers are likely to significantly influence the

reach and content of private and public standards as a tool for enhancing responsible consumption.

The chapter is organized as follows. First, we present the existing literature on defining the new middle class in India and characterising its consumption patterns. Moreover, we review the literature on the convergence or divergence in the globalized consumer behaviour of heterogeneous middle classes in the West and in India. This section shows that, even at levels of income that are considered low in the West, new middle-class consumers in India are likely to base their consumer behaviour on more than just price considerations. However, we know very little about how the new Indian middle-class consumers will exercise their discretionary consumption behaviour, as almost all existing consumer behaviour research is based on ‘WEIRD’ (western, educated, industrialized, rich and democratic) consumers (Henrich et al. 2010). Second, we zoom in on the more specific issue of responsible or ethical consumer behaviour among new middle-class consumers in India. We develop a simple typology for combining the inclination to consume responsibly with the ability to afford responsible behaviour, and we explore in which situations public or private standards are more likely to boost responsible consumption patterns. We conclude that at present the reach of private standards in India is rather limited, but that important insights can be gained from a more systematic analysis of interaction patterns and exploiting possible synergies between private and public standards.

The New Middle Class and Changing Consumption Patterns in India

The idea of a middle class is most closely associated with the mass consumption society that emerged as a result of industrialization in Western Europe and North America. The term ‘middle class’ is as much economic as it is sociocultural. In industrialized countries, the middle class refers to the relatively prosperous bulk of the population that has a stable salary and high discretionary income. But also—and crucially—it describes a broad type of lifestyles, expectations, levels of education and political inclinations. In the West, the middle class is the lynchpin of both economic and political stability (Easterly 2001).

The extraordinary economic growth in some developing countries, most notably in the rising powers China, India and Brazil, which has lifted millions out of poverty, has been seen as contributing to the rise of a new global middle class (Kharas 2010). In Asia alone, more than one billion people have risen above the poverty line, and another billion are estimated to join this global middle class by the year 2030 (Asian Development Bank 2010). In India, this phenomenon has lagged behind China’s until now, but, given current and projected rates of growth, India is likely to have the largest middle class in the world by the middle of the twenty-first century (Wilson and Dragusanu 2008).

The size of India's middle class varies depending on what definition is used. A recent study by the consulting firm McKinsey (Beinhocker et al. 2007) divides the Indian society into five groups according to the average income of the household; in this classification, the middle class is composed by those households whose annual income is between ₹ 200,000 and ₹ 1,000,000 (US\$ 4380 and US\$ 117,650 of 2000 in purchasing power parity, PPP). In 2005, about 5 % of the population—some 50 million people—belonged to the middle class thus defined. By 2025, according to projected population and economic growth rates, the size of the middle class will have increased to around 583 million people, or 41 % of the population (Beinhocker et al. 2007). Using the wider income bracket of US\$ 2–\$13 per person per day proposed by Ravallion (2009), the middle class in India in 2010 was close to 264 million, around a quarter of the population.

At the outset, it is important to make clear what these numbers mean—and what they do not. The notion of the middle class as we have described it above is associated with advanced economies, but the new middle classes in India and elsewhere in the developing world must be understood as a rather different phenomenon. There are two main reasons for this distinction. First, what we call middle class in developing countries is (still) a relatively small fraction of the population, so it cannot be considered by any means the bulk of society. While the rise of the middle class in India is impressive, poverty is still widespread, and will likely persist even if robust growth is maintained. The absolute poor in India (i.e. those living under the national poverty line) currently account for around 27 % of the country's population—a number comparable to the size of the middle class using Ravallion's definition (Saxena 2010).

Second, this new middle class is far from being a homogeneous group. From the perspective of income, actual purchasing ability of middle classes in emerging economies is still much lower than it is in industrialized countries, even when correcting for PPP. For Banerjee and Duflo (2008), the defining trait of the new global middle class is not the level of income or the effective quantity of consumption, but rather the existence of a stable job. According to these authors, there is still a very fluid relationship between the poor and the near poor, such that the bottom tier of the new middle class is in many ways indistinguishable from the poor. In fact, the population at the threshold might move in and out of poverty during cycles of economic boom and bust (Birdsall et al. 2000; Ravallion 2009). What is different is the fact that those in the middle class can make slightly longer-term plans regarding their disposable income by virtue of their relative job security. Stressing the cultural perspective, (Fernandes 2000) argues that the rise of a new middle class in India must be understood as much as a discursive as an economic phenomenon. While in the past, for example, belonging to the middle class would have meant having a stable job with the civil service, today the ideal of middle-class aspiration is to work for an international firm.

Changing incomes and the growth in the middle class in India have been accompanied by, and will likely accentuate, shifts in consumption patterns. The composition of average household consumption has been moving away from basic necessities to discretionary items (Beinhocker et al. 2007). Although consumption

is likely to grow in all categories of products, the relative share of each in total expenditures will reflect the greater availability of disposable income. For example, while in 1990 food and beverages accounted for 56% of all average household expenses, the share had dropped to 42% in 2005 and is expected to drop further to 34 and 25% by 2015 and 2025, respectively (Beinhocker et al. 2007).

Current patterns of consumption suggest that the greater disposable income will be increasingly spent in private health care and education, as well as on other services such as transportation (primarily private automobiles), recreation and communication. By 2025, these items will account for around 70% of all household expenditures on average, up from 52% today (Beinhocker et al. 2007). Some of these ongoing trends of changing consumption patterns can be seen in the booming growth of mobile phone use, which went from ca. 30 million to around 350 million subscribers between 2003 and 2008. Financial services (e.g. credit card use) also ballooned during this relatively short time period (Saxena 2010).

These changes in the structure of Indian society raise the question of whether consumption patterns in India will converge with those in Western countries. Will Indian consumers move closer towards what has been called a 'global consumer culture' (Alden et al. 1999; Merz et al. 2008)? This idea is based on the assumption that globalization—i.e. greater and less restricted flows of capital, goods and information—together with media and the expansion of international brands will tend to homogenize consumer needs and wants across the world. This, added to the proliferation of modern retail formats like supermarket and shopping malls (Reardon et al. 2010), could result in similar consumer behaviour irrespective of local custom and tradition.

Certainly, the bulging of India's middle class has some features of a process of Westernization. Rising incomes have come along with greater urbanization, changing lifestyles, shifts in the roles of women and different expectations in the younger generations. However, consumerism and materialism are not exclusive of Western societies (Belk and Costa 1998; Cleveland et al. 2007), so we must be very careful about inferring changes in consumer attitudes and motivations simply from the increase in discretionary purchases. In addition, most of the research on consumer behaviour has a strong Western bias, so the universality of its principles should not be taken for granted (Henrich et al. 2010).

The evidence from cross-cultural research suggests that in India, as in other developing countries, consumer behaviour is shaped both by tradition and modernity (Cleveland et al. 2007); so there is simultaneously convergence and divergence in consumer culture (Merz et al. 2008). For example, a study of firms' strategies for introducing new products into the Indian market (Iyer et al. 2006) argues that rising incomes do not necessarily mean that middle classes are ready to take on radical product innovations (as they do in more 'mature' markets such as that of the USA), but that instead a more cautious approach might emerge. Consumers might well still be in pursuit of the best value, even if their incomes increase.

The peculiar direction taken by Indian consumer behaviour has been associated with the persistence of the 'collectivist' feature of Indian culture. This is based on Geert Hofstede's influential work about dimensions of culture (Hofstede 1980),

according to which in poorer or more traditional societies, the interest of the group (family, clan, neighbourhood, etc.) tends to carry more weight than in richer or more industrialized societies. The evidence seems to suggest that indeed some of these collectivist attitudes prevail in India, even as incomes rise and other features of consumer culture become more Westernized. Savani et al. (2008) found that collectivist and individualist attitudes shape the very idea of choice. Studying comparable populations of upper-middle-class students in an Indian and a US university, these authors found that for North Americans choice is fundamentally a matter of personal preferences, while for Indians other concerns—such as the desires and expectations of important others—are involved. In one of the experiments, students were asked to rate several different pens, and at the end they were told they could keep one. While 84% of US students chose to keep the one they rated the highest, only 62% of Indians did so; this suggests that something other than personal preference was factored into the decision process. In another experiment, Indian students were as likely to like a pen that was given to them as they were of liking one that they had chosen, whereas US students showed a strong preference for pens they had chosen themselves.

Other very different studies point to similar behavioural characteristics. Studying the consumption of luxury beverages in Southeast England and Northern India, Shukla (2010) found evidence of the effect of collectivist attitudes. While consumers in the UK drink alcoholic drinks like champagne and single malt whiskey to enhance personal satisfaction, consumers in India stated that they are very aware of how they are being perceived or evaluated by their peers. In the UK this type of ‘status consumption’ is independent of occasion, but in India it is strongly correlated with a special occasion (such as a wedding or a public celebration), which further underscores the importance of the social (collectivist) context.

It is important, however, to emphasize that this possible collectivist tendency tends to be limited to the own extended family or social group, and does not extend to the deprived and the poor in Indian society (Varma 1998). In his seminal work on ‘the Great Indian Middle Class’, Varma argues how the Indian middle class in recent decades lost its societal engagement inspired by Gandhian and Nehruvian values, became disillusioned with Indian politics and increasingly narrowed its focus on its own material gains (Varma 1998). Obviously, many engaged activists and scholars remain committed to support and work with marginalized groups in Indian society, but this trend does seem to have further solidified the mental and material gap between the middle classes and the poor.

Another qualitative study about consumption of luxury goods by middle-class consumers (i.e. people with annual incomes between US\$ 5000 and US\$ 25,000) in Delhi, Mumbai and Kolkata (Eng and Bogaert 2010) supports the notion that behaviour is shaped by a complicated interplay between globalizing and traditional drivers. For example, while many interviewees saw the use of luxury global brands as a source of social status and satisfaction, most agreed that traditional Indian clothing was a source of pride and recognition too. ‘Luxury’, in many cases, could mean wearing an elegant sari to a wedding together with a Swiss watch and an Italian designer bag.

To summarize, in this section we have advanced three main propositions. First, the middle class in India is large and growing fast. The income bracket used to define the middle class is wide, and this means that there is a great deal of diversity, not only in terms of purchasing ability but also in levels of education, types of employment and social mobility. Second, there is a clear trend in consumption patterns away from basic goods such as food towards a higher share of discretionary spending. Finally, while some degree of Westernization of consumption attitudes and behaviours is evident, Indian culture is enduring. Consumption is shaped partially by globalization drivers, but locally defined customs are also reinforced. As suggested by de Mooij (2000), in some cases rising incomes might actually enhance—rather than suppress—the expression of cultural differences.

Middle Class and Responsible Consumption

There is no universally agreed-upon definition of what responsible or ethical consumption means. We use these terms to refer to the purchase of goods and services that make an explicit claim to socially responsible and/or environmentally sustainable production. It is important to remark that our emphasis in this chapter is on the consumer's actual behaviour—the act of buying—although the term is often used to refer to attitudes, concerns or intentions. It is also important to clarify that we are not making any assumption whether the claims made by the producer are in fact an accurate representation of real attributes of the product, such as the origin of the raw materials or working conditions involved in its manufacturing (Barrientos and Smith 2006). We are only concerned with the fact that consumers act under the assumption that these claims are legitimate.¹

The issue of responsible consumption adds complexity to the question of whether consumer behaviour in India is becoming more or less Westernized. The reason is that, as we shall see below, it is usually assumed that responsible behaviour is a luxury out of the reach of poor people. Given that average Indian incomes are rising, it could be expected that responsible consumer behaviour would increase accordingly. However, as we have seen, the drivers and patterns of consumer behaviour in India do not appear to conform to a simple rule. Research on responsible consumption in India is still scant, so making generalizations is not possible at this stage. Instead, we will explore the existing research and map out a matrix to systematise further research.

¹ For consumers, private standards transmit information about a product's technical specifications, its compliance with health and safety criteria, and the quality of the labour and environmental conditions under which it has been produced and sourced (Nadvi 2008, p. 325). In this chapter, we focus on labour and environmental standards as prime examples of an extrinsic type of standard—or credence good—where consumers cannot deduce the actual implementation of, for example, decent wages and protective clothing for local workers from the physical end product (Linneman et al. 2006; Tirole 1988). However, when a standard delivers on its promise, and is trusted by consumers, standards in principle can connect developmental objectives with fulfilling consumer demands for social responsibility and environmental sustainability.

An additional difficulty stems from the fact that, even in Western countries where this phenomenon has been widely studied, there is very solid evidence that consumers' stated preference for socially responsible products does not necessarily translate into actual purchasing behaviour. Consumers, in short, say one thing and do another. Various strands of research from North America and Western Europe suggest that consumers are increasingly aware of environmental and social issues (e.g. Elliott and Freeman 2001), and that they believe that certified products are fairer and more sustainable. However, the proportion of certified products that is actually purchased is significantly smaller than would be expected if people acted on their environmental and social concerns. This is what several authors call the 'attitude-behaviour gap' (Basu and Hicks 2008; Bray et al. 2010; De Pelsmacker et al. 2005).

The responsible behaviour of Indian consumers appears to show some of the same complexities that have been identified in other parts of the world. The published evidence is rather scant, but two main trends become apparent. First, awareness of and support for social and environmental issues is not necessarily linked to responsible behaviour; so the gap between stated and actual responsibility in consumer behaviour also applies to India. Second, consumer awareness and responsible behaviour appear to be somewhat correlated with income, but this is not a clear or straightforward relation. A common assumption is that products that have been produced under higher environmental or social standards carry a price premium, and that for this reason they are less accessible to poor people. The empirical evidence, however, is inconclusive. While some studies have found that poorer people tend to care less—and therefore to act less—on responsibility concerns than wealthier people, (e.g. Auger et al., 2010), others have found that even very poor consumers chose to act responsibly (e.g. van Kempen et al. 2009).

A cross-country study by Auger et al. (2010) examining the role of social and environmental attributes in consumer purchases in both developed and developing countries appears to support the notion that responsible consumption is somewhat of a luxury. The authors had anticipated that consumers from wealthier countries would put more importance on ethical attributes than consumers from developing countries. Indian consumers tended to align with the expectations. When asked about the purchase of athletic footwear, Indian respondents appeared to be most sensitive to price and brand; concerns about child labour, minimum wage, working conditions, living standards or the ability of workers to join unions showed the lowest indices among the cross-country sample. With regard to the purchase of AA batteries, Indian respondents were also quite sensitive to price, and showed little attention to environmental attributes such as the presence of hazardous chemicals or use of recycled materials. In short, this study seems to suggest that price might act as a barrier for consumption of ethically produced goods in low-income countries like India.

Generalizing about the actual drivers of this behaviour is, however, very difficult. Two studies of Indian consumers (Jain and Kaur 2004, 2006) found that socio-demographic characteristics of consumers were poor predictors of their 'green' behaviour. Using a survey of over 200 consumers from Delhi (most of them middle class), these authors examined the effects of gender, age, income, level of education,

type of education (public vs. private) and occupation on three dimensions of green consumption: awareness, attitude and behaviour. The studies portray a complex picture. First, there is heterogeneity with respect to the information and knowledge that people have about environmental issues. Second, green consumerism was more likely to be present among wealthier and better-educated respondents, but the effect was only partial (i.e. it was observed in some aspects of consumer behaviour but not in others) and relatively weak.

Similar results were observed in a study of consumer preference for garments with eco-labels (i.e. apparel claimed to be produced using environmentally friendly textiles and dyes) among a sample of over 480 urban middle-class buyers in Kolkata and Mumbai. (Goswami 2008) found that consumers show different degrees of interest for these types of certification. Consumers were divided into 'light green', 'dark green' and 'non-green' according to an index of environmental consciousness which gauges questions such as the importance of certification, belief in the legitimacy of certification standards and willingness to pay for these attributes. The differences between these groups of consumers could not be explained by income, but people belonging to the 'dark-green' group (those with higher stated interest and motivation for eco-labels) tend to be well educated and more likely to indicate that they would pay a price premium for eco-labelled products.

The results of these studies point to the difficulty of explaining away differences in consumer attitudes and behaviours using simple socioeconomic factors. The study by Auger et al. (2010) suggests that, in very broad terms, social and environmental concerns tend to be higher among wealthier people, and the other studies by Jain and Kaur, as well as Goswami, suggest that this may be related to the price premium that is often attached to social or environmental certification.

Consumer behaviour is the result of the interplay of social, economic and cultural factors. We have seen that, given that products that make claims about social and environmental attributes tend to be more expensive, income appears to be an important factor in determining responsible behaviour in consumers. However, we have also seen that, at least in the case of India, the effect of income appears to be modulated by a number of different factors. In this section, we propose a way to look at this relationship between purchasing ability (which is in great part determined by income) and responsible consumption in a more systematic way. Our simple model, presented in Fig. 2.1, locates responsible consumption behaviour at the intersection of purchasing ability (in the vertical axis) and ethical motivations (in the horizontal axis). Purchasing ability can be expressed quantitatively using a measure such as income or expenditure. The 'ethical' (horizontal) axis is necessarily subjective, as it can only be based on consumers' statements about their preferences and motivations.

The space of theoretically possible responsible consumption is divided into four quarters, depending on the degree of purchasing ability and motivation for ethical consumption. In reality, some of these possible intersections are more likely than others. If, as suggested by the literature discussed in the previous section, the price premium of environmental and social attributes is a barrier of access for poor people, then we would expect typical behaviour to be located in the bottom-left and

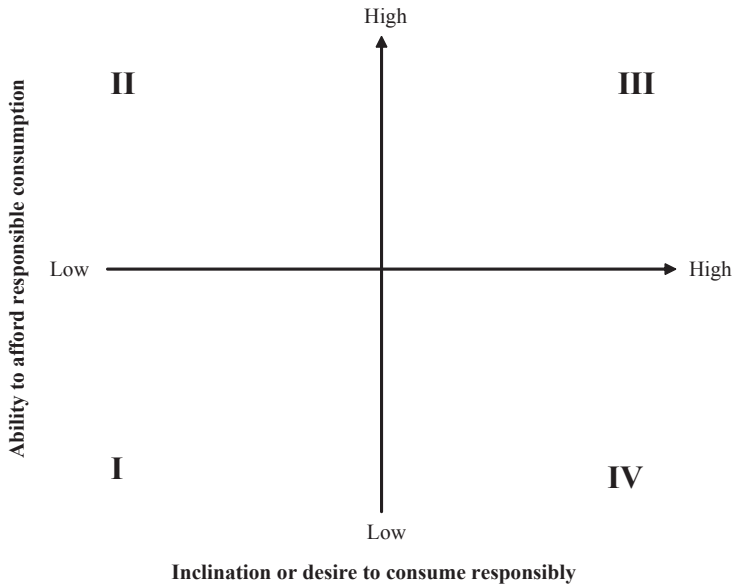


Fig. 2.1 A simple model to analyze responsible consumption in developing countries

top-right quadrants: Responsible behaviour would tend to be low at low purchasing ability (e.g. income) levels, and high otherwise.

In this section, we have highlighted three main points. First, concern for the environmental and social attributes of products occurs in industrialized and developing countries alike, and India is no exception. Second, despite these concerns, there is still a gap between consumers' consciousness and their actual purchasing behaviours; this suggests that there are obstacles (monetary or otherwise) to realizing ethical or responsible concerns through consumption. The evidence from India suggests that income may be an important factor, but it is definitely not the only one. Finally, both the literature and the application of our simple model suggest that the relationship between responsible consumption and purchasing ability is complex; what the non-monetary factors may be, and how they intersect with income to produce different types of responsible consumption, is very much an area for further research.

Standards and Responsible Consumption

Up to now, we have gone into some detail about consumer behaviour, but we have not made the connection between standards and consumers explicit. The aim of this section is to address this relationship, and to propose the simple model that we developed above as a way to more systematically study the complementary roles

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