CHAPTER – 6

CONSUMER PROTECTION AND LEGAL ENVIRONMENT IN INDIA

6.1 INTRODUCTION

The sixth chapter of our study is of vital importance. It is based on the legal environment and statutory regulations for the protection of consumerism in the country. This chapter is based on the following sub-headings:

6.2 MISERABLE PLIGHT OF THE INDIAN CONSUMER

Consumer is king! Alas, this still remains a slogan. Just as legacies of controls and monopolies are slow to change, so are mindsets, even of those who face stiff competition. Many companies either ignore or tend to
be defensive when consumers express dissatisfaction. The best one can expect is some sort of redressal to their complaints.

Basically, these companies seem to believe that they know exactly what the consumer wants and in what form; also some are arrogant because consumers do not have much choice. This myopic 'frog in the well' approach towards the consumer has denied them a rare opportunity to develop new business.¹ Indeed, understanding consumer dissatisfaction is in a state of infancy in India.

Conceptually, the objective of companies is not so much to "satisfy" but to 'satisfice' consumer needs by standardising products to ensure commercial viability. The essence of Simon's argument is that consumers do not attempt to optimise their level of satisfaction, but settle for products and services, which generally meet with their requirements within a range.

This, however, leaves some unmet need, which remains as unspecified latent demand of consumers. Often, companies offer products and services beyond this range of 'satisficing', resulting in lower value for money and frustration to consumers.

Unfortunately, this may get reflected even in a conventional 'consumer satisfaction survey'. An analysis of the lost consumers in the

India had shown that 60 to 80 per cent of them had reported satisfied or very satisfied just before defecting to some other brands.

Little do the companies realise that given a chance, even partly dissatisfied consumers would defect like the prisoners of a concentration camp. It is in this context that we suggest the use of consumer dissatisfaction analysis (CDA) - not merely as a redressal mechanism but as a means to develop growth strategies. Complaints are opportunities to achieve goals of problem-free services. This is what Ford-Mahindra is trying to achieve through their "choice of the consumer programme" that focuses on asking people to identify what their entire car lacked.

CDA is not merely an opportunity to retain all profitable consumers; in fact, it gives leads to companies to identify commercially viable opportunities in the same or different products and markets. Obviously, this is of strategic importance to any company. In the rest of the paper, we shall discuss how companies to identify opportunities for expansion and diversification of corporate activities can use CDA.

We are living in a turbulent environment. All constituents of the environment such as competitive, regulatory, technological and social are changing rapidly influencing consumer behaviour directly and indirectly. The net result is that consumer needs are changing significantly, making the consumer feel dissatisfied with the existing products and services. Although the extent of dissatisfaction varies, consumers' actual reaction is
not always a sound way to assess it. Very often, they are silent sufferers or mere protesters at the retailer level or quite defectors to competitors.

Companies in India, which sincerely try to meet consumer needs have a greater challenge on hand. This is not only because they have to try to satisfy or at least satisfice the consumer in an increasingly competitive world, but more importantly, they have to constantly change the intrinsic features of their products and services.

Dynamism in consumer needs may lead to a fall in demand over a period of time even for products and services whose features match with what is required by consumers today. This also means the existence of latent demand for something new. The concept of latent demand can be visualised as a continuum with one end having mature and the other with immature latent demand. The latent demand for a product is mature when consumer dissatisfaction with the existing products is very high, making it easier for new entrants to penetrate and consolidate in the market.

Causes of consumer dissatisfaction can be traced to the very beads on the value chain that together pour value into the product. This involves analysis of the activities undertaken by a company in a variety of functions and the relevant organisational processes. Once the nature of the latent demand is identified, it may not be very difficult for a company to identify beads on the value chain that need modifications. In areas where major changes are required such as development of new products, the effect will be on a number of beads or the making of a new value chain altogether.
The essence of the above arguments is that the total value added by the beads in the chain as perceived by the consumer should be greater than what is paid for it; also each bead has to be in a state of dynamic equilibrium. Consumer dissatisfaction opens up enormous opportunities like.²

- for modifying existing products disregarding their size of operation;
- to introduce totally new products; and
- to learn from the experiences of competitors.

In short, the future is for those companies, which can outsmart others in meeting the dynamic needs of consumers. They have to be excellent listeners and keen observers of the changes in customer attitudes and behaviour. Companies with an entrepreneurial team of managers and an entrepreneurial organisation culture will have the capabilities to respond to changes quickly and effectively.

They will be able to either modify existing products or introduce totally new products or even learn from CDA of competitor's products. There should be constantly be an endeavour to understand the consumer

and his changing moods and tastes for competitiveness. Innovativeness should flow through their veins to sustain success.

6.3 PRODUCT SAFETY- STANDARDS

Theodore Levit pointed out that a product is not a mere inanimate physical thing. Each product is a combination of tangible plus intangible.

The core or the generic thing e.g. soap, toothpaste, tea, is not the product. It is the minimum only. The customer never buys the generic product only.

To a buyer a product is a complex group of value satisfactions the total package of expectations and benefits. The major components of the total package of expectations and benefits. The major components of the total product personality and safety standards are four.

1. BRANDING:

The brand name is the centre around which the entire marketing mix is built up. The brand name can incorporate all marketing efforts together either in the consumer mind or in the marketing programme. commercial process. Branding simplifies control of the It gives necessary advertising

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and promotional support in order to make the product recognisable and to create consumer patronage. A brand is more than just a product. It is a contract between the customer and the creator. It embodies a meaning, gives a meaning, gives direction, and defines unique identity in time and space. Brands are nor merely symbols on a product or a graphic and cosmetic exercise. A brand is a signature on a constantly renewed, creative process.

2. PACKAGING AND LABELLING:

Once the decision is taken on the brand, we have to consider the design and the make-up of the package and the labelling of the package. Branding, packaging and labelling are distinctly specialised activities, demanding the services of advertising experts. In reality it is not the product which is displayed and sold but it is the brand together with the package and the label which are sold or which enable to sell the product. In a sense your brand, package and label represent the product Branding, packaging, labelling, the product personality. warranty, and service after sale are the product related strategies and they are responsible to make the marketing programme effective.

3. PRODUCT WARRANTY

In modern life we have numerous products with complicated, intricate and elaborate mechanism, such as radio, television, motor car, electrical appliances, etc. An average consumer is incompetent to know the ins and
outs of such sophisticated products. He will be a loss if he/she is compelled to take his/her own care while buying such products. The law has now started to alter the famous maxim, "Let the buyer beware" and give due recognition to its substitute "Let the Seller Beware". In many countries the law takes into consideration the handicaps and disabilities encountered by average buyers while purchasing such highly mechanised or automated products.

4. SERVICE FACILITIES

Product + service = competitive advantage. Today when the customer has a whole array of products laid out before him, it will be the product plus that will lead him to make a choice of the right core product. No one in the organisation must ever be allowed to forget that the operation exists' to serve the customers and not vice versa. "Product Plus" method is a sustainable marketing strategy offering long-term gains. Not only must companies excel at the physical aspects of production, they also need to be skilled providers of services. The core product that a marketer offers may be matched by his competitor, where he can score is the key supplementary services.

6.4 CONSUMER EDUCATION AND CONSUMER ORGANISATIONS

Various stratagems are being employed by manufacturers and traders to exploit the consumers. They are using the process of
liberalisation as a licence. These processes have started demonstrating that amidst the present level of morality the interests of consumers are not safe in the race for showing more profits, making more money.

Increasing evidence has come to light wherein some manufacturers have resorted to reducing the quantity of product in the packages, sometimes playing also with the quality, showing slight reduction in the prices printed on the packages but camouflaging the fact that price reduction is totally out of line with the reduction of the quantity and equality.

There has been increasing evidence also of cartels by manufacturers where they are cheating the consumers. Instances of certain inter-company mergers, and mergers with multinationals, have started blatantly hurting the interests of consumers\(^4\).

These are most unfortunate developments. These demonstrate the existence of unscrupulous manufacturers and traders in the Indian polity. While the process of liberalisation are inevitable, and can help in expansion and diversification of the economy, it is of primary importance to ensure that these are not allowed to operate to any disadvantage of the consumers. Competition alone in the circumstances of existence of unscrupulous profit-makers, may not be enough to safeguard interests of the people.

\(^4\) Dhingra, I.C., The Indian Economy, Sultan Chand & Sons, New Delhi.
In view of the above, much recent government regulation has stressed protection of consumers, while the attitude for many decades had been caveat emptor let the buyer beware. Consumer protection regulations are founded on the belief that consumer responsibility is unfair because businessmen are thought to be in a superior position when dealing with individuals and are able to take advantage of them.

Consumer protection education and regulations are, thus, designed to protect consumers from the business sector; the legislation is designed to establish standards of business conduct in a number of areas. Many of the problems created by monopolies or externalities have encouraged various types of consumer protection regulations.

The approach to protection of consumer interests in India has proceeded along the following three lines:

1. By self-regulation on the part of the business. But in our country this assumption on the part of business seems to be far cry in view of the perpetual exploitation of consumers by business community.

2. By the united and organised action of consumers. Commendable work has been done by voluntary agencies in extending the rights of the consumer by keeping the producers conscious of consumer rights and interests.
3. By enactment of laws in the interest of consumers without loopholes and proper implementation of such laws. No doubt, it promotes some protection to consumers and helps to know exactly the nature of dishonesty, the punishment for indulgence in such practices and the identification of authorities together with their powers to whom the consumer can approach for redressal of his grievance.

6.5 BUSINESS ETHICS & CORPORATE SOCIAL RESPONSIBILITY

It appears that in the unknown past people might have found some of their actions wrong and others right, simply on the basis of mental and spiritual dissatisfaction or satisfaction, pleasure or pain, caused by such actions or dealings. Besides these measures of satisfaction, dissatisfaction, pain or pleasure the ancient civilization and social orders must have thought of evolving a code of conduct necessary for the self regulation of human conduct necessary for the self-regulation of human conduct for the mutual good, What is wrong and what is right or what is true and what is false?

These questions eventually led the religious philosophers of the past to ponder over these questions and later gave birth to What ethical and what is unethical? On the basis of their inference ethics today, as the Bible says, simply means, "Do unto others as you would have them do unto you".
Ethics as a matter of fact, deals with certain standards of conduct and morals. Since business does not operate in a vacuum and it is one of the functional units of a legal social matrix, it is also required to follow a certain code of conduct, which is, however, not enforced by any government or public authority.

Ethics is an indirect governing force behind every human conduct, may it be that of an individual or that of an organisation. It directs the human behaviour and differentiates between proper/improper, right/wrong or fair/unfair human actions.

**Philip Wheelright** defines "Ethics is that branch of philosophy which is the systematic study of reflective choice, of the standards of right and wrong by which it may ultimately be directed."

**George A. Steiner** defines, “Business ethics of course, relate to the behaviour of a businessman in a business situation. They are concerned primarily with the impacts of decisions on people, within and without the firm, individually and collectively in communities or other groups. They are concerned with actions measured by ethical rules as contrasted with, say strictly economic or financial rules.”

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On the basis of the above definitions, we may conclude that business ethics examines carefully the business activities and conducts in the context of moral responsibility and then postulates them in the sense of being proper/improper, right/wrong or fair/unfair.

It expresses the moral responsibilities and duties of business and then emphasises the need for executing them. To put it another way, business ethical behaviour is conduct that is fair and just over and above obedience to constitutional laws and valid government regulations. The expectations and motivations of parties to a decision are important determinants of ethical behaviour.

It is always ethical for a businessman to obey the laws even though he may personally believe them to be unjust or immoral. If he feels that the laws are unfair, the proper remedy is to seek change by argument and persuasion rather than by civil disobedience.

The distinction between legality and ethical behaviour is important, because the boundaries of each do not coincide. It should be noted that all business decisions have not an ethical component. For instance, the decision to increase inventory levels in most cases would be ethically neutral. All business decisions which have a current, or potential impact on the lives of human beings are properly considered in business ethics.

Modern business is regarded as an integral component of society. It must have society's approval in order to function successfully. In today's
world, society is expecting much more from business than in the past. Society demands quality of life management.

Integrated business plans and controls are expected to act as instruments of social change and these plans have to be implemented in order to promote maximum public good and welfare.

In addition to economic performance, modern business must demonstrate social awareness or sensitivity and social performance. Dependence of business on its environment is so complete that the very existence and survival as well as growth of any organisation depend upon its acceptance by the society. If it outlives its utility to the society it has no place and reason to live.

Social responsibility means an intelligent and objective concern for the welfare of society that limits or prevents individual and corporate behaviour from destructive activities, e.g. monopoly power, unfair trade practices, ruthless exploitation of ecology and natural resources and pollution of environment.

Such destructive activities may be immediately profitable to the business but they cannot be tolerated by the society. Social responsibility indicates personal obligation of people, as they act in their own interest, to ensure that the rights and legitimate interests of others are not sacrificed by their behaviour and action. Basically it means that managers should consider the effects of their decisions upon all stakeholders who are
interested in the enterprise directly or indirectly and who may be adversely affected by these corporate decisions.

The following is a brief evaluation of social responsibilities of Indian businessman:

1. **TOWARDS ITSELF**

The Indian businessmen have satisfactorily carried out the social responsibilities towards themselves. Most of the businessmen have earned enough profits, utilised resources properly, have deposited enough quantity of money in the funds for the development and extension of business and collected capital resources by reinvestment of profits.

Though there are companies running with no earning of profits or on loss in India, but they are very few in number. On the whole it may be said that the Indian businessmen have been successful in carrying out social responsibilities towards themselves.

2. **TOWARDS CONSUMERS**

The Indian businessmen have been unsuccessful in carrying out the social responsibilities towards the consumers. The consumers have been forced to face disappointment in this regard. Indian businessmen are busy in collecting profiteering, adulteration and black marketing. Here adulteration is very common.
By collecting necessary goods, the tendency of black marketing can be seen. Every Indian businessman has surely been successful in manufacturing the quality of commodities according to the tastes of consumers and providing them with new commodities. But it has been noticed that the Indian businessmen use false, misleading advertisements with the result that the consumers are being cheated.

3. TOWARDS OWNERS AND SHAREHOLDERS

Indian businessmen have not fairly carried out their social responsibilities towards the owners. Many companies, inspite of the enough amount of dividends, make lesser payment of dividends.

The shareholders are not timely paid their dividends. Share capital of the owners of the business have been regularly misused for personal interests by the management. So many companies, also undermine today also interest of shareholders of minority votes.

4. TOWARDS EMPLOYEES

There has been a desperate attitude of Indian businessmen in carrying out the social responsibilities towards employees. The employees have to resort to agitation for getting their minimum wages. Environment of work does not seem good. Many businessmen avoid employees welfare works. They are sometimes given inhuman treatment. Spoiling industrial relations
are symbol of this thing that there has been an under-rated attitude of Indian businessmen towards employees. Except this, there is scarcity of effective plans of labour welfare and social security.

5. TOWARDS SUPPLIERS

Generally, the Indian businessmen have fairly carried out their social responsibilities towards suppliers. But even today there are some businessmen in India who by organising associations, are busy in the exploitation of suppliers.

6. TOWARDS THE STATE

Concealment of Government taxes, disobedience of Government rules and regulations has been a common thing for the Indian businessmen. This is not the thing that only the businessman alone is defaulter because the Government system and many policies are such that compliance of which is very difficult in general condition.

But for the personal benefit, violation of rules and regulations by businessmen, corrupt the Government officials by giving them bribes, concealment of taxes and their untimely payment is opposite to the thinking of social responsibilities of business. In this way the Indian businessman have been unsuccessful in carrying out the responsibilities towards the Government.
7. TOWARDS LOCAL COMMUNITY

Though the Indian businessmen have done many works for the local community welfare and they have fulfilled their responsibilities towards the local community. The business class has constructed educational institutions, hospitals, dharamshalas, waterhuts and roads etc., and research institutions have been opened. The students have been distributed scholarships.

On necessity donations for community development plans have given whole-heartedly, but even then these efforts are insufficient according to the needs of a huge population of India. Indian businessmen are also busy in making employment available and increasing the opportunities of employment but these businessmen are also busy in spoiling the environment.

8. TOWARDS THE WORLD

In the International business also the role of Indian businessmen can not be taken as satisfactory. Many times the goods exported by our businessmen, are returned back by foreign businessmen because they are not found according to the samples already sent. The Indian businessmen are unable to face the International competition due to high prices and inferior quality of goods. There has been no remarkable role of Indian businessmen in the economic development of backward countries.
From the above statement it is clear that the Indian businessmen have remarked unsuccessful in fairly fulfilling their responsibility. Even today, the main aim of most of the businessmen is to get maximum profits.

Business morality is possible only on theoretical basis, it is not applied in practice. In Western countries, fully developed, even then the businessman is cautious in fulfilling his responsibilities there. Tendency of consumers exploitation is not found. Work is done after considering the social interest. In our country, not only the private sector but public sector enterprises also run on loss and the loss is made good by the Government, by way of taxation which affects the consumer.

Unnecessary Government expenditure is so much and the policy of political selfishness is so acute that forgets in it his responsibilities towards society. In the present time the Government has passed many regulations but this responsibility is much affected by the morality of self. Government and the businessmen will have to work jointly for the good of the society so that they may extend their constructive cooperation in fulfilling the responsibilities towards the society.

6.6 EXPANSION OF PUBLIC SECTOR ENTERPRISES

The public sector enterprises play an important role in all countries today. In many developing countries, particularly in India, it has been assigned a dominant role. Now the question is why public enterprises came into existence and why they have come to occupy such an over-
riding importance in India. There are many reasons why the public enterprises come into existence in India.

The scope and role of public enterprises in industrial field were limited in the period before independence. After independence, three basic objectives were adopted in the economic system, namely - mixed economy, socialistic pattern of society and planned development.

With the commencement of economic planning in 1951, the growth and development of PSEs has been phenomenal. It has emerged as an important factor in India's economic growth. Even if one leaves aside scores of departmental enterprises, the number of non-departmental enterprises alone exceeds 1,000.

Cumulative investments in the non-departmental industrial and commercial undertakings of the Central Government today numbering 245 alone exceed RS.1,70,000 crore. To appreciate the growth in investment made in these undertakings during the post-independence period, the changing profile is shown in the Table 6.1:7

It is evident that both the quantum of investment and the number of enterprises have steadily increased with every plan. The rate of growth was the highest during the Second Five Year Plan because a greater attention was paid to industry both in the public and private sectors. It was

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from the Second Plan onwards that the country began laying a sound base of heavy engineering industries.

Table 6.1: Growth of Investment in the Central Public Sector Enterprises

<table>
<thead>
<tr>
<th>Period at the commencement of the Plans</th>
<th>Total Investment(Rs. crores)</th>
<th>Number of Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Plan (1-4-1951)</td>
<td>29</td>
<td>5</td>
</tr>
<tr>
<td>II Plan (1-4-1956)</td>
<td>81</td>
<td>21</td>
</tr>
<tr>
<td>III Plan (1-4-1961)</td>
<td>953</td>
<td>48</td>
</tr>
<tr>
<td>Three Annual Plans (1-4-1966)</td>
<td>2,415</td>
<td>74</td>
</tr>
<tr>
<td>IV Plan (1-4-1969)</td>
<td>3,902</td>
<td>85</td>
</tr>
<tr>
<td>V Plan (1-4-1974) I</td>
<td>6,237</td>
<td>112</td>
</tr>
<tr>
<td>VI Plan (1-4-1980)</td>
<td>8,225</td>
<td>186</td>
</tr>
<tr>
<td>VII Plan (1-4-1985)</td>
<td>42,811</td>
<td>233</td>
</tr>
<tr>
<td>VIII Plan (1-4-1992)</td>
<td>1,35,444</td>
<td>246</td>
</tr>
<tr>
<td>IX Plan (1-4-1997)</td>
<td>1,72,000</td>
<td>245</td>
</tr>
</tbody>
</table>

The steel industry, the heavy engineering industries and the heavy electrical industry came into existence during this period. The emphasis always was on producing capital machinery.

The public sector acquired a new spurt as investment at an increasing pace began to be made in public enterprises and their number and range widened. Figures above indicate how rapidly the public sector has expanded during the last four and a half decades. It is doubtful if in any other field of Government activity such an expansion can be matched.

6.7 GOVERNMENT CONTROLS AND PUBLIC DISTRIBUTION SYSTEM
The public distribution system and the control of the Government thereon has been a question of discussion. So far the question of India is concerned, here the problem of industrial monopoly and restrictive trade practices is not so acute as exists in capitalist nations. Even then, after the Second Five Year Plan, of which the main objective was the rapid industrialisation and development of heavy industries, industrial monopoly tendencies have availed of wide opportunity to flourish here.

In India, agricultural inputs like fertilizers and water, implements and rural electricity are subsidised. The issue of these subsidies has come in for much debate in more recent times. This has happened essentially because of two reasons. One, the rising burden of these subsidies has been questioned by policy-makers trying to correct fiscal imbalance, Two, the issue of subsidies on public distribution system was brought to the centre stage with the establishment of World Trade Organisation.

The rational of subsidising public distribution system commodities is to be traced to the role that these subsidies play in stimulating development of any country through increased production, employment and investment. The Government has initiated various control measures to protect the consumer from exploitation.

We also have nation-wide network of public distribution system for sale of rationed products and fair price shops working under Government control for retail sale at fair prices.
6.8 GROWTH OF SUPER BAZARS AND COOPERATIVE SOCIETIES

In India we have multiple shops, chain stores of retailers, department stores, shopping centres, supermarkets, janata bazars, instalment department stores, hire-purchase firms, consumer cooperative stores, grahak bhandars in addition to numerous retail stores.

Modern retail stores in metro cities and in other big cities have now ultra-modern get-up and very attractive window display. Chain store idea is very popular in the metros and class one towns in India. Stop and Shop Chain Store Ltd., Chennai is a big retailing institution. This organisation is comparable to large size retail chains of the Western countries.

Just as multiple shop system is an instrument in the hands of a manufacturer to eliminate all middlemen in distribution, similarly, a cooperative store is an organisation owned, managed and controlled by consumers themselves to reduce the number of middlemen and their commission. The main features of Consumer Cooperative Stores are:

1. It is a voluntary association of consumers duly registered under the prevalent Cooperative Societies Act. At least ten members are required to register a society or store. The registration gives certain privileges and exemptions, which are not available to other non-cooperative bodies.
2. Members of the store make joint-purchases and sales among themselves at the current market prices. Sale at market price is preferred to avoid unhealthy competition with other retailers.

3. Membership is open to all. Wealth is not a criterion: rich and poor are treated alike. However, stress is given on the moral character at the time of admitting a person as a member.

4. The store has a share capital of a small face value and the amount is recoverable by instalments. Every person has to pay an entrance fee.

5. Management of the store is democratic and generally honorary. One man, one vote is the rule. Day-to-day management is in the hands of permanent paid officers. The general meeting of members every year appoints an executive committee to look after the management of the store.

6. A definite percentage of profits is utilised for social and educational purposes. Profits after payment of limited interest on capital are utilised for the distribution of dividends.

The amount of dividend is based not on the shares held but is linked with the amount of purchases made by the members. This linking of dividend with purchases is a unique principle in cooperative stores.

It secures two advantages:
Firstly, every member in his own interest will try to make maximum purchases from his store and this will ensure automatic loyalty of members to their store.

Secondly, if every member makes maximum necessary purchases, the store will have maximum sales and maximum profits without any resort to advertising.

7. As consumers' cooperation is essentially meant for working class and lower middle class population, capital will naturally have a secondary role. In cooperation honesty and loyalty are capitalised and more emphasis is given on the moral character of the members. Personal security is the best security honoured in a cooperative organisation.

8. The liability of members is generally limited by shares.

9. The accounts of store are audited by the Registrar of Cooperative Societies or a person authorised by him.

10. Before declaration of dividend, at least 25 per cent of the net profits must be credited to the General Reserve and 10 per cent to the General Welfare Fund or a similar fund for social benefits of members.
Most of the Super Bazars in India belong to the cooperative sector. Successful examples are Sahakari Bhandar of Mumbai, Super Bazar of Delhi, Chintamani Cooperative Store of Coimbatore. These and other cooperative super markets are having customer-orientation and are quite profitable. In Mumbai we also have Apana Bazar chain stores run on cooperative basis. In Maharashtra we also have Grahak Bhandars run by consumer associations.