CSR and Good Practices of Stakeholder Engagement: A Case Study of Cross Ethnic Business Relations in Nagaland

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Abstract

This paper seeks to illustrate how KR Steelunion Limited, an iron and steel manufacturer in India dealt with a particular problem of making inroads into Nagaland, a remote state in north-eastern India, having 50 years of insurgency. KR Steelunion had to build trust among the people of Nagaland and thereby defend its ‘license to operate’. The firm chose to build partnerships with stakeholders through initiatives that helped to create and maintain trust which resulted in creating bottom line growth.

Keywords: CSR, trust, stakeholder management, value congruence, license to operate

Introduction

A firm’s primary task is to create wealth and hence it looks for new avenues of market expansion and market penetration. A firm depends upon its intangible assets of knowledge and stakeholder relationships that become most valuable to the firm. These intangible assets become the backbone of organizational wealth and sustainable competitive advantage as they are inimitable and difficult to replicate (Barney1991). It has been noticed that societal stakeholders are quite often involuntarily involved in a firm’s activities with respect to groups and individuals. The stakeholders are involuntarily impacted by corporate activities such as unwelcome cultural influence; a critical objective of strategic management should be directed towards reduction of harm and creation of benefits.

This ‘small gesture’ carefully thought and crafted by the corporate to mitigate harm and build trust helps in continued operation of the corporation and remains acceptable to all parties. An important outcome of this view is called ‘license to operate’ (Post et. all 2002), (Elkington 1997). Based on the contact with non-market stakeholders, a firm can gain and maintain their ‘license to operate’ to legitimize their wealth creating activities. Depending on this strategy a
firm can build fruitful and mutually beneficial relations with their stakeholders. This strategy can be crafted based on managerial discretion having conducted their initial assessment of the situation and by understanding the ground realities.

In this case study we have investigated how a firm commits to stakeholder cooperation and how their relationship benefits them in the long run. The study also analyzed the complex problems of operating in a socio-political ‘turbulent zone’ and implementing the strategy while the zone is under a ‘cease fire act’. The social responsibility programme not only helped gain a license to operate, it mitigated barriers of entry and created a good reputation which had a direct reflection on the financial performance of the firm.

Background

Before we begin the case study we would like to give you a brief background of the company, KR Steelunion Ltd. and that of Nagaland, a hilly terrain in north-eastern India.

KR Steelunion Ltd

KR Steelunion Ltd. was established in the year 1900 in the state of West Bengal, India. It manufactured re-rolling steel bars used in the construction industry. The company was a pioneer in importing Thermax technology in India which made the re-rolling bars stronger with higher tensile strength and ductility, thus making them more appropriate for construction in earthquake prone zones. The company was referred to the Board of Financial Reconstruction (BIFR) and was closed for a certain period of time. The company reopened with limited capital resources and man power. It became imperative for the company to increase their sales and contribute towards its financial growth. North-eastern India is relatively remote and is also declared as a zone prone to seismic disturbances. KR Steelunion with its new management on board strategized to enter the markets of north-eastern India comprising of states, one of them being Nagaland.

Nagaland

It was the 16th state that was added to the Indian Union in the year 1963. It shares its borders with Myanmar in the east and is inhabited by 16 major tribes and sub tribes. Each tribe has its
own distinct characteristics in terms of language, custom, folk lore, dress code and music. People in this region belong to the indo-mongoloid race. The land is blessed with lush green flora and fauna, picturesque hills and is an ideal place for trekking and rock climbing. Post Indian independence in 1947, Nagaland saw the rise of nationalist activities, Naga National Council (NNC), who expressed their reservation against the amalgamation of Naga territories with the India union on grounds of “having no social affinity with either Hindu’s or Muslim’s of India” (K.K. Zhimomi 2004). The NNC destroyed government property and life of people working for the Government of India.

A ban was imposed on the NNC in 1972 under the Unlawful Activities Prevention Act. A new group called the Nationalist Socialist Council of Nagalim (NSCN) was formed under insurgent leaders. The NSCN revived their hostility against the Indian Government The situation till date remains volatile. Peace accords and negotiations have not yielded much result. Five decades of violence has produced a negative impact on the successive generations of Naga’s who continue to be sympathetic towards the insurgents and hostile towards the Indian Government and lack basic trust and confidence towards Indians.

The Case Study

KR Steelunion Limited initially adopted the conventional mode of marketing in Nagaland. Although a splurge of advertisements and hoardings were not permissible given the political situation and fear of extortion from the insurgents. KR Steelunion decided to engage in a face to face dialogue with its external stakeholders. A series of seminars and workshops were commissioned in both the capital city of Kohima and its commercial hub Dimapur. Seminars were conducted with the housing department, roadways, electricity board, waterways, the construction wing of the Indian army and the local municipal authority. The seminars and workshops had full attendance and enthusiasm was expressed about the product. There was inhibition on the part of the people to accept distributorship. A couple of months were spent in pursuing the people who attended the seminars but it yielded no results. As we were spearheading the company’s activities we started engaging in one to one dialogue with the key stakeholders who represented the influencers of Naga society. These dialogue forums revealed that the people of Nagaland lacked the basic ‘trust’ while dealing with people from the ‘plains’.
The most influential club of Kohima was the ‘Classic Club’. The company formed a cross partnership with the Classic Club and took up the agenda of beautifying Kohima. A traffic island was adopted by KR Steelunion. A meager amount of money was paid towards the beautification and maintenance of the garden. The company had put up a signage with the Classic Club giving it tremendous visibility and publicity. The garden was inaugurated with a press conference giving the company sufficient media coverage in English and vernacular dailies. The officials of the company were honoured and thus it created an acceptance level with the local people. The next month saw two influential businessmen accepting the distributorship. Two stockyards were opened in Kohima and Dimpaur, making KR Steelunion the first Indian company to have its stockyards in both locations in Nagaland. The first month saw 300 tonnes of steel shipped to Nagaland with advance payment. Nagaland became the ‘cash cow’ of KR Steelunion yielding above average returns.

**Analysis of the Case Study**

“Understanding the competitive forces and their underlying causes, reveals the roots of an industries current profitability while providing a framework for anticipating an influencing competition” (Porter 2008). In this case study we shall begin by taking into account Porter’s 5 forces to analyze the case. The power of the buyer is more owing to the geo-political scenario. The buyer of Nagaland could capture more value by forcing down prices, demand better quality before accepting the product and had better negotiation power. There are few buyers who purchase in large volumes. Even selling a unit of the product depends upon the power of the buyer and company would not be able to do so without the buyer’s consent. Here the entry barrier is due to its political scenario having a restrictive movement policy and volatile situation. The company had to take into consideration the sensitivity of the large vendors, there aggressive policy and their level of acceptance. ‘An analysis of the barriers to entry and expected retaliation is obviously crucial for any company contemplating entry into a new area. The challenge is to find ways to surmount the entry barriers’ (Porter 2008), which, in this case study, was conducted by raising the confidence level of the buyers by building trust.

A great deal of research has shown that CSR has a direct impact on consumers and society. It has direct or indirect effect on consumer response to products (Brown and Dacin 1997), attitudes towards products (Berens van Riel 2005), identification with a particular company
In Nagaland we found that trust was the central variable in developing a relationship with consumers. The ultimate objective of the activity was to establish a strong connection with the people with trust constituting the main ingredient of this connection. Trust has been defined by many and interpreted in their own language. Trust can be “the disposition to count on an exchange partner” (Moorman et. Al 1992). or trust “exists when one exchange partner believes in the other’s reliability and integrity” (Morgan and Hunt 1994). “Trust derives from a mechanism wherein characteristics, motives and intentions are attributed to the exchange partners with the evaluation of their potential being facilitated by the assumption that their behaviour is predictable and corresponds to what has been promised” (Doney & Cannon 1997). According to Signalling Theory (Spence 1974) CSR initiatives are tantamount to signals sent by a company to reduce the uncertainty that can weigh upon customers level of acceptance.

This theory shows that companies emit different kind of signals relating to the ethical competencies or values (Gurviez 1999). In this case study the stakeholders in Nagaland trusted a firm that manifested a definite and real commitment to societal actions. Haddock (1971) and Shapiro (1983) advanced the idea that a company’s reputation serves as an index that stakeholders use to assess the firm. With positive perceptions created through a reputation building exercise as conducted by the press conference during the inauguration which induced confidence in the people and positively affected the evaluation of the company and its products. (Source: Sengupta & Kapur 2010)

In Nagaland the company by choosing the right cross partnership with Classic Club and having entered into a series of dialogues with its stakeholders established the right congruence between the area of CSR and the people with their emotional connect. “Managing stakeholder trust is difficult because there are many different stakeholder groups, each with its own particular needs and perspectives” (Pirson et. Al 2007). Perception of honesty and integrity are crucial to trust for all stakeholders. The stakeholders must perceive that the organization cares about their well-being. Benevolence of the company towards individual and their society is critical towards fair dealings.

Stakeholders need to be mapped according to their intensity and locus. Stakeholder engagement should create empathy with the values of the organization. Value congruence is crucial for stakeholder relationship. Stakeholders are interested in associating with
organizations with whom they can identify and with whom they perceive a match in values. Repeated stakeholder engagement forums and dialogues created an appreciation for each other’s values in Nagaland. In Nagaland we understood the expansive role of value congruence and identification and understood that integrity without benevolence is a recipe for distrust. We rigorously evaluated the cost and benefits of transparency initiatives.

The stakeholder engagement led us to understand the social issues and empathize with the cultural aspects of the people in Nagaland. This empathy was converted into social action which helped us build confidence and induced trust in people towards the company. This had an immediate impact on the financial performance of the company.

Conclusion

The measurement of corporate success lies in creating and distributing wealth and value to all its stakeholders. The firm has obligations to fulfil their responsibilities towards their stakeholders.

The company can only gain trust and confidence of their stakeholders when they resolve the conflict between wealth creation of the firm and value creation for their stakeholders. Resolving conflicting interest requires ethical judgement. Conflict resolution is necessary to preserve the continuing participation of their stakeholder towards a firm’s activities. The moment a corporation accepts responsibilities and obligations to its stakeholders and recognizes their claims and legitimacy they have entered into the domain of moral principles and ethical performance which is crucial to build trust and gain confidence of their stakeholders.

This case study highlights the potential benefit of good stakeholder management practices and CSR activities in an ambience of scepticism and suspicion about general corporate behaviour. Our choice of CSR activity was well grounded in an in-depth analysis of stakeholder expectation and perception of the firm’s sense of societal responsibility. This integrated approach ultimately led to the success of the programme and bottom line growth of the firm.
References


