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Applying Corporate Social Responsibility As A Means To License To Operate. A Case Study Of Nagaland

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***Abstract:** Corporate social responsibility has become ubiquitous in Indian society in recent years. Degeneration of living condition, economic downturn and environmental hazards has led to growing unrest and endowment mentality among urban dwellers. Much has been expected from the government and corporate sector. With the passing of Companies Act 2013, companies are now aware of their duty towards human kind and to charter their path of becoming good corporate citizens.*

The article discusses an unique case study where an ailing steel company from West Bengal made inroads to Nagaland and gained the trust of people and thereby the license to operate by applying corporate social responsibility as a mode of market entry and to develop the foregone trust in its stakeholders.

I. INTRODUCTION

The change in human demographics and human working life began with the Industrial Revolution, as the unemployed journeyed from the countryside headed towards the cities in search of work. This phenomena is prevalent even today and with global unrest and mass migration of human beings it is taking the shape of a mammoth problem with choking cities and health and environmental hazards.

Cities in countries like India and China are now witnessing a massive influx of rural people into urban areas, and where economic growth can appear to be at the expense of human and environmental well-being. People are seeking solution and there has been a rise in rights-focused activists who believe in protecting the interests of workers, indigenous people, animals, children rights and eradicate the concept of bonded labour. These advocacy groups are playing an important role in contemporary corporate responsibility to instil trust in human beings towards the multinational companies lest they appear as the 'enemies' of the countries in which they operate rather than their friends.

Companies are applying theories and concepts of corporate social responsibility as they face an erosion of trust. Communities expect corporate engagement and enhanced corporate community initiatives to build mutually favouring relationship and in return offering the companies the ‘license to operate’. Support from the local community has resulted in rewarding situations for companies with its impact felt in the bottom line growth.

This article discusses a case study of an ailing steel company who was successful in setting up its distribution network and working out a fruitful and commercially viable working relationship in Nagaland, the remote state in North Eastern India where more than half a century of insurgency rule had made it almost impossible for Indian companies to set up operational base or transact profitable business. Applicability of corporate social responsibility as a mode of market entry helped in developing the forgone trust and ensured a rewarding relationship and ‘license to operate’ for the company. The firm chose to build partnerships with stakeholders through initiatives that helped to create and maintain trust which resulted in creating bottom line growth.

II. LITERATURE REVIEW

The growth of distrust in companies have been fuelled by financial scams and collapse of once trustworthy and notable financial institutions. These crisis in the past has often led to the view that the companies are operating with myopic view and are exploitative in nature without caring much for the people around them or their host communities.

Country leaders like Tun Dr. Mahathir Mohammad, Former Prime minister of Malaysia had voiced his discontent against multi-nationals saying,

"*When the mega corporations, already more wealthy and more influential than the developing countries move in to take over the economy of these countries, will they not control also the political governance of these countries? , , . The last time the foreigners wielded this kind of power they exploited the people and the countries. Will they not do it once again……………… Probably they will give us a better life. But what will happen to our independence, to our pride and honour? We can be invaded by businessmen, by banks, by corporations, by ideas and values and moral codes, which are alien to us …………. Every aspect of our lives will be invaded. Our minds will be invaded. Even our religion will be invaded*" (Tun Dr. Mahathir, 2001 as quoted in Zinkin, J. 2004).

Zinkin J (2004) in his article had given a 'brand platform' of socially irresponsible organizations wherein he had explained that the functions of these organizations as stated in figure 1 are often about exploiting the community with an alienated image of 'not one of us' with a personality that seldom speaks about integration and distrustful as has been evident from path dependency of these companies through their track record and history.

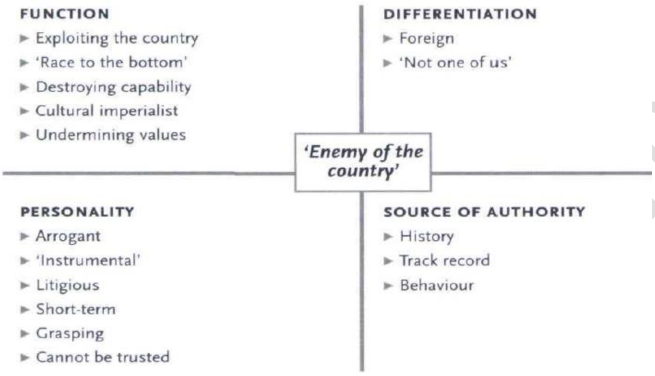

Figure 1: Socially Irresponsible behaviour of Organizations by Zinkin, J. 2004

These companies in partnership with the community outside their realm of business needs to co-create a mutually beneficial working relationship based on transparency, accountability with long term commitment of delivering of its promised products and services.

The companies operating in host communities must seek their primary responsibilities towards its stakeholders who have been identified and prioritised by the company (Drucker 1955: 35-39)

As Friedman (1970: 32) pointed out, that the companies must recognise the limitations on any role they adopt as the state retreats. Corporations are not governments their operational space or 'licence to operate' is determined by enlightened self-interest.

Companies are left with no choice but to engage in understanding the need of the community and demonstrating their commitment towards it. The need to build the trust has been accelerated by negative effects of globalisation, the failure of governance has led to the increasingly preparedness of people to punish companies for their irresponsible behaviour (Zinkin 2004).

There is no doubt that 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. Based on the contact with non-market stakeholders, a firm can gain and maintain their 'license to operate' to legitimize their wealth creating activities (Sengupta and Kapur, 2011).

III. CASE STUDY

In this case study the authors have investigated how a firm commits to stakeholder cooperation and how their relationship benefits them in the long run. The study also analysed 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.

IV. THE CONTEXT

KR STEELUNION LIMITED: 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

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Myanmar in the east and is inhabited by 16 major tribes and sub tribes. 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. 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.

V. MARKET ENTRY

KR Steelunion Limited initially adopted the conventional mode of marketing in Nagaland. KR Steelunion decided to engage in a face to face dialogue with its external stakeholders. A series of seminar and conferences were soon underway in both the capital city of Kohima and the commercial city of Dimapur. Although the seminars were well attended it failed to yield the expected results and the company found no taker of their distributorship. The company engaged in a qualitative study with the stakeholders mainly from government departments and private business owners. A sample size of 33 people were chosen representing the cross section of people who would directly impact the financial transaction of the product. Analysing the qualitative interviews revealed several themes such as: distrust, cultural misunderstanding, fear of irregular financial gains, short-termism and historical context of 5 decades of long drawn unrest.

"*We cannot trust people from India, you are here to fill your pocket and ran away, it is us who will be investing money and we fear that we will suffer loses beyond repair" (Participant D)*

"What guarantee can you give us, you don't even understand our culture, and we are not people from the jungles?" (Participant C).

"We don't need to establish a relationship with you, we can go to any parts of India and buy the products that we need, why should we make you a part of our society, we are different from you" (Participant A).

The resistance and reluctance of the stakeholders to invest in procuring the products of this particular steel company led to further dialogue with the important influencers of society. One such influential club was the 'Classic Club' of Kohima, who had representation from senior government officials and businessman.

An approach route was chalked out in consultation with the stakeholders based on corporate community initiative to adopt a park in the city of Kohima and beautify it as the company's commitment towards environmental sustainability and community activity. The company spent money in renovating the park and beautifying it and also arranged for a yearlong maintenance of the park. The project was well received by the people in Kohima and was celebrated with much fanfare including press conference, media coverage and honouring the company officials in Naga tradition. The next month saw a build-up of interest among the business community and two distributor was acquired in Kohima and Dimapur with inauguration of stockyard and stock pile up.

VI. ANALYSIS OF THE CASE STUDY

Empirical evidence in the past 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 (Sen & Bhattacharya 2001).

In this case study trust was the central variable in developing a relationship with consumers. The ultimate objective of the activity was to establish a strong connection and develop a relationship. Trust can be defined as the disposition to count on an exchange partner (Moorman et. al 1992). 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 began trusting 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 it induces confidence in the people and positively affected the evaluation of the company and its products. (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.

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VII. 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.

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