

# Corporate Social Responsibility: All at Sea

Vaibhav P. Birwatkar

## Structured Abstract

Article Type: Conceptual Paper

*Purpose*—Globalization is altering business processes as well as producing increasingly serious and challenging questions. It has dramatically increased the demand for transport, also for shipping worldwide, and has had negative impacts on the natural environment. This paper aims to reveal the priorities, searching for solutions for sustainable development, in terms of both the environment and the economy, to further improve the safety and quality standards of the shipping operation.

*Design, Methodology, Approach*—The analysis examines safety in shipping, which has traditionally focused largely around technical improvements, regulations, procedures, competence and management systems, all of which are essential elements in ensuring a safe and reliable shipping industry.

*Findings*—The analysis shows that if maritime shipping and the full life cycle of the shipping companies' operations are viewed as a whole, questions of sustainability begin to emerge. Safety is more than quality assets, procedures and management systems.

*Practical Implications*—The investigation examines corporate social responsibility as a voluntary undertaking that many companies, in increasing volume, are starting to adopt in their operations. Companies have begun to realize that in the long run they can gain more benefits, both monetary and non-monetary, if they go beyond merely complying with the regulations and engage in voluntary social responsibility activities.

*Originality, Value*—The development of a conceptual framework that incorporates

Universitatea Pedagogica de Stat "Ion Creanga," Coco Street, Chisinau,  
Moldova; tel: +37376004905; email: vunfold@hotmail.com



---

Journal of Territorial and Maritime Studies / Volume 4, Number 2 / Summer/Fall 2017 / pp. 66–86 /  
ISSN 2288-6834 (Print) / © 2017 Yonsei University

---

corporate social responsibility and thereby safety aspects in the shipping sector is a distinct contribution of this paper.

Keywords: corporate social responsibility, environmental social responsibility, international labor organization, international safety management, maritime safety

## What Is CSR?

There have been many definitions of corporate social responsibility; listing the key elements found in various definitions may be more insightful. Buchholz identified five key elements found in most, if not all, definitions:

1. Corporations have responsibilities that go beyond the production of goods and services at a profit.
2. These responsibilities involve helping to solve important social problems, especially those they have helped create.
3. Corporations have a broader constituency than stockholders alone.
4. Corporations have impacts that go beyond simple marketplace transactions.
5. Corporations serve a wider range of human values than can be captured by a sole focus on economic values.

The principle of legitimacy refers to society's granting of legitimacy and power to business, and business's appropriate use of that power and the possibility of losing that power. Corporate social responsibility defines the institutional relationship between business and society that is expected of any corporation. Society has the right to grant this power, to impose a balance of power among its institutions, and to define their legitimate functions. The focus is on business's obligations as a social institution, and society takes away power or imposes some sort of sanction on business if expectations are not met.

The principle of public responsibility means that business is responsible for outcomes related to its areas of involvement with society. The level of application is organizational (that is, the corporation) and confines business's responsibility to those problems related to a firm's activities and interest. This principle includes the view that corporations are responsible for solving the problems they create. The nature of social responsibility will vary from corporation to corporation as each corporation impacts society's resources in different ways or creates different problems. The principle involves emphasizing each corporation's relationship to its specific social, ethical, and political environment.

Last, the principle of managerial discretion refers to managers as moral actors who are obliged to exercise such discretion as is available to them to achieve socially responsible outcomes. Discretion is involved as the actions of managers are not totally prescribed by corporate procedures. The level of application is the individual who has the choices, opportunities, and personal responsibility to achieve the corporation's social responsibility.

## Why CSR?

One explanation of why companies adopt CSR practices is the stakeholder theory. The theory holds that companies have a social responsibility that requires them to consider the interests of all stakeholders affected by their actions. The expectation is that stakeholders and businesses working together in hopes of mutual gain will have a significant impact on the business. By creating a shared vision between the business and its stakeholders, innovative solutions can resolve formerly gridlocked problems. This theory is the opposite of the economic agency theory, which argues that obliging businesses to spend resources on concerns other than the pursuit of profit goes against the notion of a free society. However, the stakeholder theory is increasingly being globally accepted by businesses as a framework for all business decisions.

Michael E. Porter, the Bishop William Lawrence University Professor at Harvard University, and Mark R. Kramer, managing director of FSG Social Impact Advisors, partnered with each other to publish “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility,”<sup>1</sup> winner of the 2006 McKinsey Award as the most influential *Harvard Business Review* article of the year. Porter and Kramer argue that the relationship between CSR and business incentives should be viewed as an interrelated one, rather than an antithetical one. They suggest that if businesses were to consider how CSR could strategically fit in with their respective core practices, they would discover “that CSR can be much more than a cost, a constraint, or a charitable deed—it can be a source of opportunity, innovation, and competitive advantage.”<sup>2</sup> Integrating CSR into a company’s core business rather than viewing CSR as an ad-hoc philanthropic investment is not only in the best interest of the company, but also in the best interest of society in terms of having a lasting impact.

Porter and Kramer outline the four prevailing justifications for CSR: moral obligation, sustainability, license to operate, and reputation. Proponents of the moral justification argue that companies have a duty “to do the right thing”<sup>3</sup> and honor ethical values. In terms of sustainability, companies should look at the triple bottom line to operate in ways that secure long term needs by avoiding socially detrimental and environmentally wasteful behavior in the present. The issue of sustainability is an issue of trade-offs for the sake of the future. The license to operate argument is pragmatic since every company needs governmental approval to receive a license to operate. Concern about reputation is an issue of satisfying external parties. A long-term commitment to social responsibility can beneficially distinguish a company.

Researcher Heledd Jenkins agrees with Porter and Kramer and refers to this reasoning as the legitimacy theory. The legitimacy theory is based on the notion that by showing stakeholders that a business is dedicated to complying with the stakeholders’ expectations, said business can better its reputation and effectively respond to legitimacy threats.<sup>4</sup>

Overall, Porter and Kramer emphasize the importance of CSR for both business and for stakeholders by explaining that successful corporations need a healthy society and any business that pursues its end at the expense of the society in which it operates

will find its success to be illusory and ultimately temporary. Since corporations and society are mutually dependent on each other, business decisions and social policies should benefit both sides and have a shared value. A business or a society that pursues policies that benefit its own interests at the expense of the other risks finding itself on a dangerous path or a temporary gain to one will undermine the long-term prosperity of both. Efficient uses of natural resources allow businesses to be more productive while safe working conditions attract customers as well as lower the internal costs of accidents.

In terms of attracting investors, investors are becoming increasingly more selective when making decisions. Investors are not only interested in high returns on investment, but also in knowing that the organizations where they invest are socially and ethically responsible. Thus, it is important for local businesses to adjust to international trends towards CSR to ensure that investments stay local.

## Strategic CSR

Porter and Kramer make a distinction between responsive CSR and strategic CSR. Some companies have a responsive approach to CSR due to society-push or simply they just engage in pure philanthropy and attempt to be a good citizen. Vogel writes that still there has been no proof of CSR as a business case.<sup>5</sup> He analyses the research done in this matter and concludes that there might be a connection between virtue and financial performance but this is hard to prove.

The missing evidence between CSR and CSP (Corporate Social Performance) does not prove that CSR cannot be profitable; rather it is misleading trying to measure CSR activities on business performance. Vogel concludes that SRI (Social Responsible Investments) might not be more profitable than normal investments but they are not risky. And by performing CSR activities, companies might attract more and higher quality investors, and the effect hereof creates a win-win situation for both companies in form of liquidity and reputation, thus company value.

Campbell contributes to the discussion of using CSR as a strategic tool. He emphasizes that the engagement and the necessity of CSR is very dependent on the company situation. Weak and strong companies have different preferences and the weak company might be more focused on survival than any other aspects.

For example, the world's second largest shipping company, Mediterranean Shipping Company (MSC), does not have a Sustainability Report, either in their own website [mscgva.ch](http://mscgva.ch), or in the internet. It is not possible to find data or material of any sort concerning CSR and sustainable awareness by the company. This lack of information may not be a reflection of MSC's CSR intent. It may be a missed opportunity for promotion about CSR and sustainable activities by MSC, or maybe could mean that at the moment sustainability is not a MSC main objective, and MSC has other priorities, i.e., to increase TEU capacity or the number of ships in the market share, etc.

A competitive environment can also play a role, and CSR activities might or might not be vital for company survival. Whether companies choose to express their CSR activities explicitly or keep them at an implicit level it differs globally due to National Business Systems.

## Triple Bottom Line

### *The Economic Aspect of CSR*

Corporate social responsibility should take into consideration and find a balance between the financial, social and environmental factors, which are also referred to as the triple bottom line. However, it should be noted, that the triple bottom line is not a replacement for financial results as an indicator of the company's performance. It is a supplement to financial results, which remain the first and most important bottom line.<sup>6</sup>

A conflict is often seen to exist between CSR and business, since the goal of companies is generally gaining profit instead of pursuing common interest. However, companies are a part of society and cannot operate in complete disagreement with widely supported values. Companies have to ensure sustainable economic growth and take into consideration the economic influences they have on stakeholders.<sup>7</sup>

The link between CSR and financial performance is complicated. In general, it can be stated that responsible actions can produce costs, but due to those actions cost savings in the form of learning and increased efficiency can be achieved. Responsible actions can also produce concrete improvements that are valued by the stakeholders and can lead to both cost savings and increase in the company's income.<sup>8</sup> There is a lack of strong empirical support for the link of social responsibility and financial performance but some efforts for assessing the monetary benefits of CSR have been studied.

The economic aspect of CSR in a company can change according to the prevailing economic situation. The economic attitudes of the companies are very different for example after a depression versus during a strong economic growth period. The companies tend to engage in CSR when they can afford it and there are no other pressing circumstances requiring their economic attention. However, nowadays the decision making process does not rely solely on economic criteria. Long-term success can be reached when the stakeholder benefits and the company's economic perspectives are in balance.<sup>9</sup>

In CSR, the economic aspect not only takes into consideration the economic benefit, but also the environmental and social benefits the company gains by acting responsibly.<sup>10</sup> A company can, at the same time, concentrate on profit maximization and take into account the social demands.<sup>11</sup> CSR is viewed as a necessary business practice in sustaining and growing the business. One of the key benefits of engaging in CSR actions is the ability to create important cost savings through pro-active decision-making, leading to the avoidance of negative societal effects.<sup>12</sup>

Corporate social responsibility can affect the economic functions of a company

by increasing its reputation and brand. CSR increases the attractiveness of the company as an employer and strengthens the loyalty of the employees. CSR also increases the risk management capabilities the corporation possesses.<sup>13</sup> Shipping sector operators are no different from brand owners in any other industry sector. They also need to protect their brand image by demonstrating to their stakeholders that their ships and services are safe and environmentally sound. Even though shipping companies do not necessarily face this kind of publicity and consumer pressure issues directly themselves, many of their customers will. These customers may in that case seek to manage the risks to their reputation by selecting shippers that are verifiably engaged in CSR.<sup>14</sup>

Shipping companies are often concerned with the engagement costs of CSR, which are related to financial and time costs. Some shipping companies seem to believe that it takes too much time to carry out CSR processes and that it does have extra costs associated with it. These costs of CSR activities may include research, engagement, data collection, analysis costs, external consultants, internal staff time, stakeholder participation, report writing and communication, internal management and internal and external auditing. However, generally these costs are seen as minimal and warranted by the shipping companies.<sup>15</sup>

Social responsibility can be perceived as long-run profit maximization.<sup>16</sup> Shipping companies should focus on obtaining long-term profits rather than quick short-term profits, which are often easy to achieve by violating standards and regulations. These long-term profits should not only be monetary profits, but also social and environmental benefits, which are often challenging to measure and can be seen only after a while.<sup>17</sup>

### *The Social Aspect of CSR*

The social aspect of CSR refers to actions taken by a company where the goal is to create business practices that are fair and beneficial to the labor force, the community and the region where the company operates. A company that acts socially responsible takes into account the well-being of the labor force, the corporation and other stakeholders of the company. Social responsibility also connects these stakeholder groups together. A CSR compliant company aims to gain benefits to its interest groups without exploiting or endangering them.<sup>18</sup>

A company engaged in CSR does not take part in child labor or forced labor and tries to investigate the background of its suppliers and sub-contractors so that they do not engage in such behavior either. Generally, when a CSR compliant company chooses its sub-contractors it should have pre-determined, set criteria that include a requirement for responsibility and transparency. This, in return, can increase the efficiency of the business relationship. The aim of a CSR compliant company is to pay a fair salary to its employees and provide them with a safe working environment and working hours meeting the legal standards. A company engaged in CSR tries to strengthen and support the growth of its community by contributing to, for example, health care and education.

One important factor to take into consideration in the social aspect of CSR is globalization. The ethical business conduct rules vary in different countries with different rules and regulations. Companies engaged in CSR often return a part of the profit they have gained to the producer of the raw material, for example, in fair trade agriculture to the farmers, who usually operate in developing countries. A CSR compliant company offers a fair price for their products and services to the producers of the raw material and to other suppliers.

Social responsibility is closely linked to well-being and learning. The main aspects of social responsibility are the well-being and skills of the workers, human rights, product liability and consumerism.<sup>19</sup> Voluntary initiatives in the field of workplace conditions help defend against potential consumer boycotts as well as formal accusations of unacceptable or illegal business practices. Such initiatives can also prevent the need for government regulation by demonstrating that the industry practice satisfies the public interest.<sup>20</sup>

In the short run, manning ships with low-cost seafarers has been proven to lead to cost reduction and competitiveness. Nevertheless, employing low-cost seafarers can risk the shipping companies' competitiveness in the long run. For example, poor adherence to regulations by low-cost developing-world crews can harm the reputation of the shipper and might eventually lead to higher costs in the form of insurance premiums, bank loan rates, crew penalties and company fines.<sup>21</sup>

The goal of a socially responsible shipping company should be to obtain the best available staff onboard and select quality flags as well as place emphasis on proper recruiting, invest in training of the staff and provide good terms and working conditions to them. In addition, the company should communicate openly with its different stakeholders.<sup>22</sup> A shipping company can provide safe and efficient services as well as protect the marine environment when it has a skilled, satisfied and loyal staff onboard. The duty of a shipping company engaging in CSR is to create a social responsibility culture among its personnel.<sup>23</sup>

A committed workforce is regarded as a prerequisite for a company's commercial success. Responsible human resource management policies can lead to competitive advantages in recruiting and retention of talented and motivated employees in an industry experiencing difficulties with labor shortage.<sup>24</sup> Companies that place an emphasis on CSR also tend to have more loyal and committed employees.<sup>25</sup> It can also be concluded that a competent, rested and well-motivated crew can reduce the company's operational costs and the costs relating to the ship's maintenance by increasing efficiency through their knowledge and performance and through their commitment to the goals of the company. A competent crew has an important role in protecting the owner's investment in the form of taking care of the expensive vessels and equipment.<sup>26</sup>

### *The Environmental Aspect of CSR*

A socially responsible company tries to operate in a manner that causes minimal harm to the environment and tries to reduce its environmental impacts as much as

possible. The environmental aspect in corporate social responsibility can mean that a company tries to manage the consumption of energy and non-renewable resources as well as to reduce the waste amounts they produce and to dispose the waste in a safe and legal manner, which in return reduces their ecological footprint. A company engaging in CSR thinks about the full life cycle of their products or services, which means that they take into consideration all the environmental impacts their product or service might produce in all its production phases, starting from raw material growth and harvesting to end disposal by the user. CSR companies often conduct life cycle assessments to their products or services to determine the environmental costs of the different phases. A company engaged in CSR also tries to avoid depleting resources. In the long run, being environmentally sustainable is beneficial for the company.<sup>27</sup>

Environmental concerns practically dominate many political, practical and reputational aspects of shipping. These issues are being actualized at all levels: local, national and international. Shipping, along with other ocean industries, is collectively considered to be responsible for the decline of marine environmental health. As a result, the risk of losing the “social license” to operate at sea has increased. Only fairly limited efforts to act in a more environmentally sustainable way and to differentiate from poor performers have been made by responsible companies.<sup>28</sup>

Environmental social responsibility in shipping is motivated mainly by the need to comply with existing and forthcoming regulation, by the desire to identify efficiency gains by incorporating environmental aspects in the company’s strategy and by the desire to gain competitive advantage by establishing a “green” profile. The relevance and importance of the environmental social responsibility in shipping is not going to diminish in the upcoming years. The shipping companies know that neglecting their environmental risks can come with a high price. There is potential to learn how to turn the environmental social responsibility into a business opportunity in the future.<sup>29</sup>

The considerations that could be taken in shipping to reduce the environmental impacts of its operations could include speed reduction or slow steaming. This would benefit the environment and result in noticeable cost savings.<sup>30</sup> Other considerations are linked to fuels, which include biofuels and liquefied natural gas (LNG) and also to new technologies, such as fuel cells and waste recovery systems. These future fuel types and the new technologies could also result in considerable fuel cost savings and reduce emissions.<sup>31</sup> Eide et al. argue that reducing emissions through new technologies and operational measures in shipping seems to be at least cost neutral. These measures and developments could result in fuel savings and the payback of the capital costs would come in a comparably short period of time. However, the new fuels and new technologies need to be further studied to know their true cost saving potentials and benefits for the shipping companies.

Many companies in the shipping sector are aiming at greening their profiles and are actively involved in environmentally sustainable and CSR strategies. These greening attempts include initiatives, proposal of new designs, marketing campaigns and a change of attitude in sourcing as well as taking part in innovative projects and



research that aims to develop more sustainable new concepts such as greener designs and new fuel types. Shipping companies are also involved in the research on the fields of new fuels and technologies in order to increase the efficiency of their operations and so that they would meet the standards of prevailing and new regulations. Current upcoming regulations include for example the reduction of sulfur and nitrogen oxide levels.<sup>32</sup>

## The Key Benefits of Engaging in CSR

Companies engaged in CSR and socially responsible investing have demonstrated that ethical codes, humane social policies, corporate citizenship and proactive environmental procedures reduce corporate risks, enhance the creativity and loyalty of the employees and improve the company's financial performance. Companies that promote sustainability and are concerned and aware of the social, environmental and economical impacts of their operations provide more predictable corporate results for their stakeholders.<sup>33</sup>

The benefits of engaging in CSR can be both monetary and non-monetary. Companies may engage in CSR to avoid exposure of unethical business practices, poor performance or potential negative impacts on local communities etc. Companies may also seek to achieve competitive advantage by going beyond regulations, implementing management systems, working proactively or strengthening employee pride and loyalty.<sup>34</sup> Other somewhat negative incentives to engage in CSR are potential pressure from internal stakeholders and already existing problems in the company's field of operation, such as environmental problems or societal problems. On some sectors, the pressure of external stakeholders such as NGO's or the potential of new regulatory measures may work as incentives to engage in CSR.<sup>35</sup>

The main business benefits associated with the implementation of CSR can be derived from several theoretical and empirical studies<sup>36</sup>; the benefits largely depend on the measures taken, the costs affiliated to them and the time period considered. Benefits can be gained in different fields, such as environment, human resources, customer relations, innovation, risk and reputation management and financial performance. In the environmental field, measures to reduce energy consumption as a CSR measure can lead to cost savings. Rising energy costs and the pricing of emissions increase the cost-saving potential of environmental CSR. In the field of human resources, CSR can reduce the employee turnover and improve employee motivation and efficiency by improving the working environment. From the innovation perspective, CSR can benefit the company in three main ways: innovation resulting from stakeholder communications, identifying business opportunities based on societal challenges and creating an innovative working environment. In the field of risk management CSR enables the companies to prepare for new regulations and enhance their reputation.<sup>37</sup>

## Institutional Structure of the Industry Leaves CSR Redundant?

The absence of international organizations and enforcement mechanisms is less characteristic for the shipping industry than for land-based industries. With the international nature of shipping, the potential hazards unsafe ships and their cargo may present to local environments have become evident to most nation states. A belief that safety of shipping operations is achieved most effectively at the international level rather than by individual countries acting unilaterally was spread internationally. Thus, there has been a greater willingness to work to ensure global standards in shipping than in other industries.

### *International Maritime Organization (IMO)*

A demonstration of this willingness came with the formation of the International Maritime Organization in 1948 entering into force from 1958. IMO is working to ensure safety and environmental standards within the shipping industry globally and has developed international conventions such as Safety of Life at Sea (SOLAS) and the International Convention for the Prevention of Pollution from Ships (MARPOL). The IMO has worked both within a regulatory and a self-regulatory approach toward the industry by developing regulations that become binding upon ratification as well as voluntary codes of conduct.

Traditionally, the IMO standards have concentrated on the technical dimensions of shipping activities such as ship construction, maintenance and operation of equipment. With the increasing recognition of the importance of human factors on safety, the IMO has focused more on developing standards aiming at influencing human behavior. In 1997, the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW) came into force. The STCW convention sets global requirements to seafarers' training and competencies and empowers IMO to check governmental follow-up actions. Also, the International Safety Management Code (ISM code) entered into force in 1998. The STCW-convention and the ISM-code are expected to raise standards of management and shipboard personnel leading to improved safety and pollution prevention globally. With the increase of international terrorism, security has been lifted on the IMO-agenda resulting in the International Ship and Port Facility Security (ISPS) Code.

IMO's stronger emphasis of the human element has been justified out of a wish to more effectively ensure safety and pollution prevention and not so much out of a wish to safeguard the welfare of seafarers per se. The latter concern has been addressed more forcefully by another UN agency, the International Labour Organization.

### *International Labour Organization (ILO)*

In addition to conventions outlining general labor rights, the ILO is focusing on the welfare of workers in different sectors. The special nature of the conditions

of work and life of seafarers has led ILO to develop a range of conventions and recommendations for the shipping industry. Close to 50 different conventions and recommendations exist pertaining to all phases in a seafarer's career ranging from recruitment practices to repatriation. The instruments, when taken together, constitute a comprehensive set of minimum standards. They are often referred to as the "International Seafarers' Code." For example:

- the minimum age for admission to employment is defined as 15 years
- a medical examination is compulsory prior to employment aboard ship and periodically thereafter
- hiring for shipboard jobs must be conducted with no fee charged to the seafarer
- an indemnity must be paid to a seafarer who loses employment because of a shipwreck
- articles of agreement must contain certain details and they should be signed under certain conditions
- seafarers signed off in a foreign port must be repatriated
- seafarers must enjoy certain social security benefits
- officer competency certificates must be issued under certain conditions
- food, catering and accommodation must meet particular standards
- ship's cooks and able seamen must have certain qualifications
- vocational training and welfare facilities must conform to set standards
- measures must be taken to help prevent occupational accidents to seafarers and to report, investigate and analyze such accidents
- young seafarers under the age of 18 years must be protected with respect to their health, safety and general welfare.

Both the IMO and the ILO depend on ratification of enough member states to ensure binding international rules. The fact that a wide range of international rules have been devised by both organizations into force, illustrates the idiosyncratic nature of shipping. National governments have shown a willingness to support defined minimum standards outlining the confines of industry actors' playing field; these are standards that can be retrieved in national regulation, collective agreements and employment contracts globally. Thus, employment conditions of seafarers are, in many parts of the world, more regulated than those of land-based workers.

## Enforcement Mechanisms

To be effective, codified rights have to be enforced. As regulatory agencies, IMO and ILO are responsible for the labor conditions of seafarers, marine environmental protection and safety at sea, but the agencies depend on member states to secure enforcement of rights and standards. The agencies are not empowered to ensure that its member states actually comply with the standards they have approved. The International Commission on Shipping (ICONS) in 2000 performed an extensive global stakeholder dialogue within the maritime industry and concluded that "There

is a general view that there is a sufficiency of law and regulation, but a lack of uniform enforcement, and in some cases a deliberate intent to avoid enforcement.”

### *Flag and Port State Control*

International law assigns responsibility for supervision and protection of seafarers’ welfare on Flag states. Flag states differ considerably with regard to enforcement. National laws passed often give only theoretical remedies for seafarers and flag state audits may be both infrequent and lax. Some flag states use this latitude as a competitive advantage to attract industrial actors from the sub-standard segment of the shipping market. Flag states also tend to renege more on social responsibilities than security—“Among all of the flag state responsibilities, the one that is mostly ignored is the requirement to ensure the existence of adequate labour conditions on board vessels flying its flag.”

Although the IMO has attempted to take on a stronger compliance role through development of, for instance, the STCW White List and the voluntary Flag State Self-Assessment Form, the *de facto* inability of both IMO and ILO to secure implementation and to sanction non-compliant flag states was raised by the International Commission on Shipping as a major source of concern.

Latitude shown by flag state administrators may, however, be countered by port state controls. ILO Convention No. 147 empowers a state party to inspect any foreign ship calling at its port on the basis of a complaint or evidence that it does not conform to standards of the convention, regardless of whether the flag state of the ship has ratified it. Some flag states use this latitude as a competitive advantage to attract industrial actors from the sub-standard segment of the shipping market. Flag states also tend to renege more on social responsibilities than security. Vessels are rarely detained solely because of violation of ILO convention No. 147 and inspectors will usually try to link deficiencies related to social issues to safety or environmental deficiencies. The port state control system is not an effective mechanism to ensure that the welfare of crew meets international standards and “there were strong calls from several parties for port State control authorities to greatly increase their vigilance with regard to the human elements and to give particular attention to the ILO No. 147 matters during inspections.”

### *Trade Unionism, Collective Bargaining, Detentions*

With the decoupling between flag state and ship-owning country, and with increasing international competition the growing separation between ship-owning countries and labor-supplying countries have presented trade unions with a challenge. The response to this challenge has partly been to oppose one of the perceived root causes of the challenge. The International Federation of Transportation Workers (ITF) has for half a decade worked to remove Flags of Convenience, arguing that when “genuine link” between the ship and the flag is missing, enforcement of seafarers’ rights becomes problematic.

Partly, this challenge has been met by development of framework agreements forming the basis for collective bargaining (ITF-agreement, Total Crewing Cost-agreements, ILO agreement). Furthermore, more global alliances between trade unions have been formed. When the Norwegian Shipping Association (representing Norwegian ship-owners and the Norwegian flag NIS) bargain with the most influential Philippine trade union AMOSUP, Norwegian trade unions with which AMOSUP has bilateral agreements, co-sign the collective bargaining agreement, thus adding strength to the agreement. The Philippine Overseas Employment Administration (POEA) acts as arbitration authority.

In a labor-supplying country like, for instance, the Philippines, several grievance procedures for crew are in place. If POEA does not support the seafarer's complaint on a principal allegedly reneging on his responsibilities, the seafarer can call for arbitration by the National Labor Relation Commission or by voluntary arbitrators appointed by the National Conciliation and Mediation Board. Alternatively (or eventually) a seafarer can resort to the use of formal litigation within the court-system to get his grievance properly addressed.

Seafarers' work being contractual and with an oversupply of seafarers, however, some are reluctant to file formal complaints and grievances. In opposition to land-based overseas workers, an elaborate institutional system is in place. With regards to protecting seafarers while out at sea, governments in home countries have larger difficulties.

Trade unions and confessional organizations such as Apostleship of the Sea and Stella Maris then play an important role in seeking to secure workers' rights. They perform unannounced ship visits both randomly and upon tips from seafarers. Detection of poor labor conditions and/or violations of seafarers' rights may be brought up with local authorities potentially resulting in costly detentions and negative records for ship-owners. Fear of becoming informally blacklisted may, however, make seafarers' abstain from contacting ITF or Apostleship of the Seas. And unannounced calls can also be paid on just a minuscule segment of visiting ships. Adding the reluctance of both flag and port state administrations to crack down on poor labor conditions, the fact that sub-standard ship-owners can operate their daily business with a constant violation of ILO and IMO-rules as their *modus operandi* is explained.

## The Nexus Between CSR and Shipping Industry

Shipping industry is an international industry by nature. Shipping companies' services are produced to satisfy the derived demand for the transport of cargoes. This characteristic means that shipping is an activity conducted on a business-to-business basis. Thus, for many experts in the field there was no reason for companies to invest in advertising or in any other activity that could improve their image. What was always crucial for the survival of such companies, especially those of the bulk-shipping sector, in the highly volatile and competitive environment of shipping markets, was

their ability to produce low-cost services. Quality of services or any other characteristic that might improve the image and reputation of a company added advantage only to the extent that the company was able to offer lower cost services.

Traditionally, regulatory bodies at national or international level had focused their attention on the ship owners' side enforcing various conventions and regulations that imposed minimum standards for the operation of shipping companies. This effort however did not prove to be successful not only due to the ineffectiveness and inefficiency of various control mechanisms (i.e., flag states, classification societies, etc.), but also due to quality factors prevailed in shipping industry. Quality has a price and, as with all other goods and services, this price is determined by demand and supply mechanisms. Consequently, according to the literature neither ship-owners nor regulation alone can force or impose this price if quality is not demanded by the users of the shipping service, the manufacturers, traders, freight forwarders, or the final consumers. Various market actors (i.e., charterers, surveyors, etc.) were very often ready to lower these minimum standards if this meant increase in the profit margin. In this context shipping industry created negative externalities, which contributed to the creation of a low public image. Loss of lives at sea, damages to the marine environment, and maritime frauds, all contributed to the creation of the bad reputation that shipping industry faces. Such practices clearly suggest that one cannot rely merely on market forces to promote ethical behavior or globally responsible behavior. Although freight markets have recently encouraged shipping companies to deal with the advantages that quality and environmental concern might offer, they have not been sufficient in ensuring such a behavior to all shipping companies.

The biggest problem concerning the industry's bad image is related to the fact that shipping is a responsive industry, not a proactive one. It is evident then that any attempt to create a good public image for the shipping industry should focus on the need to minimize the negative externalities and further to improve the safety and quality standards of the shipping operation. In order to cope with this problem, International Maritime Organization (IMO) moved towards adopting regulations that set minimum standards regarding the safety level of the services offered by the shipping companies. The increased awareness of various stakeholder groups further promoted this endeavor.

As a result, the International Safety Management Code (ISM Code) came into force. The proper implementation of the Code will certainly contribute to the increase of the safety standards and thus will improve the image of the industry. As such, it can be perceived as a first attempt towards social responsibility. However, the implementation of the ISM Code, as well as the various other regulations or conventions imposed by the IMO, is obligatory and not a matter of choice for the shipping companies. It is a precondition to "stay within the rules." Furthermore, ISM Code helps companies focus internally on matters related to their efficiency. As it has been described by a ship-owner, the three main advantages of the ISM Code for the company are: first, the compliance with regulations, second, the increase of maintenance and safety awareness among employees and the reduction in maintenance

costs, and third, the more service centered company. Only those companies that fully comply with the Code's requirements enjoy these advantages. However, as it has been already mentioned, compliance with the ISM Code does go much further than mere certification and the depth of compliance still leaves much to be desired with regard to the enforcement of quality as well as the commitment of the shipping companies.<sup>38</sup> Indeed, data published by MOU's (Paris MOU, 2003; Tokyo MOU, 2003) reveal that although fewer ships have been detained, the number of deficiencies has slightly increased over the past years.

Given the substandard ships that are still in existence producing negative externalities and damaging the image of the industry, a question that is raised is what else needs to be done in order to cope with the problem. Is there any possibility of any regulatory reform to further help solving the problem? As long as the phenomenon is not only related to the substandard operators but also to other parties involved, the answer to the question is ambiguous only to the extent that these new regulations are valid for all parties concerned. Needless to say that control should be equally strict all over the world. In the meantime, what could be more effective in dealing with this issue is to raise the awareness of the CSR to all the stakeholders of the shipping industry. Only when shipping companies and other parties involved in the shipping industry practice a proactive approach to monitoring and evaluating their impact on stakeholders and the wider society can this issue be eliminated. Whenever companies move beyond the requirements of the regulations and start to formulate and implement socially responsible policies and procedures, then business practices will meet society's expectations.

Such issues raise a great concern on CSR consumption. This is not to say that the formulation and implementation of CSR policies at company level offer a panacea for all negative business practice, nor that it is the highway to business and wider society prosperity. However, CSR can be a step-forward to a better understanding of social interaction and interdependence between business and society in general and an alternative way of business conduct from which both business and various stakeholders can mutually benefit under certain circumstances. The definition of CSR employed in this analysis suggests that enterprises should systematically monitor and evaluate their impact on all stakeholders and wider society in order to be considered as socially responsible actors. It is worth saying that each enterprise is or will be (if management wishes) involved in CSR in its own unique way, depending on socio-economic traditions predominant in the area the enterprise is located and on its resources, core competences and stakeholders' interests.<sup>39</sup> Given that ISM Code enforces companies to focus on their internal articulations being at the same time in compliance with the regulations, it cannot be considered as an index of their active attitude towards social responsibility. What is needed to do so is the implementation of other non-obligatory tools that allow companies also to focus on their external environment trying to estimate the impact of their activities on the society. For example, the compliance with ISO 14001 certifies the implementation of an environmental management system, whereas the compliance with ISO 9002 certifies the implementation of a quality management system. While corporate expenses for the

delivery of the certification under these standards are easily realized, the benefits obtained are visible in the long run and occasionally are intangible. A company that complies with ISM Code, ISO 9002 and ISO 14001 demonstrates that it focuses not only on the internal efficiency, but also on the quality of services that produces, as well as on the effects that its operation has on the environment.

In this context, the approaches that shipping companies have employed in terms of their social responsible behavior vary. Based on the definition of CSR employed in this analysis we can distinguish three approaches on the matter. The first could be characterized as adverse to the notion of CSR, the second as typical, while the third as supportive.

The first approach is implemented by a minor group of companies, those called “substandard operators.” Competitiveness is a goal of primary importance for them, even if its achievement means decreasing the operating cost by lowering safety and quality standards. An OECD study has indicated that a substandard operator faces a cost advantage ranging from 13 percent to 15 percent compared to his quality competitor who applies a standard level of operation. By implementing this approach, this group of companies, produces negative externalities that destroy the public image of the whole industry. To prevent them from deriving benefits by neglecting to conform to the agreed standards, regulatory bodies at national and international level enforce new regulations. This was the case for the ERIKA I and ERRIKA II packages that European Commission adopted soon after the Erika incident in 1999 and the “Prestige” accident in 2002. Other parties in the maritime industry also adopt this approach as they derive short-run benefits from disregarding agreed standards concerning vessel quality. Apart from ship operators these parties occasionally involve Flag States, charterers, and classification societies.

The second approach, the so-called typical, is implemented by the majority of companies and can be described as an attempt simply to stay within the rules of the game.<sup>40</sup> Under this approach, the responsibility of the companies is to comply with the rules while they are pursuing their basic goal, which is to create profits for their shareholders. These companies apply a standard level of operation and conform to requirements of regulations and conventions that constitute the regulatory framework of world shipping, no matter what the cost for the conformance is. In addition, such companies implement fair and commonly accepted commercial practices in their operation. This means that they manage their activities in a way that neither produces externalities by intention nor affects the public image of the industry.

Finally, the supportive approach is implemented by a group of companies that move beyond the compliance to the rules, comply with non-obligatory standards or even set their own standards regarding their operation. Since limited research on the application of CSR in shipping has been conducted there are no data available regarding the CSR practices adopted by the shipping companies. Thus, in the present survey it is used as a criterion for the classification of the attitude of these companies toward CSR use in their decision to implement voluntarily the aforementioned non-obligatory standards. Companies, which are always eager to undertake the cost of implementing



non-obligatory rules, and standards that help them behave in accordance with the society's expectations should be considered as socially responsible.

## CSR Barriers

Barriers to CSR participation exist in all sectors. At the most basic level, lack of knowledge of what CSR is, how to do it and the benefits that can flow from the application of CSR principles and practices are by far the most common barriers. The CSR playing field is large, multifaceted and constantly changing. Thus even with the basic knowledge in hand, it can still be challenging for both individual companies, as well as business sectors as a whole, to determine the components of CSR that are material to their particular needs or circumstances.

Evaluating options and identifying the CSR “acupuncture points” capable of generating measurable benefits obviously requires an approach that is both well-informed and strategic. Moreover, and as noted in this analysis, CSR is a long-term value proposition. Results inevitably take more than a few financial reporting periods to materialize; hence investing in social and environmental performance requires access to “patient” capital. Barrier to participation in CSR activities can also be systemic, particularly in industries that, like the shipping industry, are already highly regulated and have to function across diverse public policy regimes. Arguably, the more disparate, fragmented and dispersed a business sector is, the more challenging it will be to develop a cohesive approach to CSR opportunities and benefits.

Last but not least, at both an industry level and an individual firm level, CSR activities can be complex and costly. The transaction costs involved can be prohibitive for some SMEs and/or businesses that simply do not have the margin to absorb additional costs, even costs that may be capable of paying dividends further down the road.

## Strategies for Addressing CSR Barriers: The Role of Industry Associations

Although most of the aforementioned barriers likely apply in the shipping sector, it is important to note that none are new. As is the case with any aspect of business innovation, the process of figuring out the best way to address them is an iterative one involving learning, experience, compromise, negotiation and an ability to work with different perspectives. Experience in other jurisdictions and sectors, suggests that industry association engagement on CSR can be an effective strategy for overcoming CSR barriers. The experience of the natural resource sector and other large-scale export industries in dealing with some of the challenges inherent to CSR participation may be instructive from a shipping sector perspective.

There are at least seven different categories of potential benefits that can flow to industry associations that initiate and maintain a CSR program for their members:

1. Attract and retain members: CSR programming increases the value and relevance of the association to current and prospective members. It can also reduce the risk that members will have their CSR needs met by other organizations.

2. Enhance innovation: Cost-effective pre-competitive CSR collaborations can result in industry innovation, enabling the industry to improve its collective CSR impacts.

3. Build positive government and NGO relations: Associations which increase their CSR expertise will be better positioned to contribute positively to regulatory initiatives by government and other agencies and to engage constructively with NGOs and other stakeholders. As well, associations which have voluntary industry CSR standards which exceed compliance requirements are able to forestall government regulation.

4. Identify industry priorities: Many generic global CSR initiatives and standards are now available and this in turn can make priority-setting difficult. An industry approach can assist member companies to develop an industry relevant model tailored to the sector's most material risks and opportunities.

5. Fulfill association goals: Industry association goals are typically to assist its members to be competitive and profitable. CSR is one tool to enhance member profitability and competitiveness.

6. Build industry reputation and brand: An industry association CSR program demonstrates the industry's commitment to sustainable practices and leadership on CSR. It can build positive stakeholder relationships with customers, communities, NGOs, suppliers, and others, and enhance the sector's social license to operate and grow.

7. Enhance employee recruitment and retention: Industry associations with CSR programs are able to attract and retain the best and brightest employees who prefer to work for organizations aligned with their values.

As the foregoing suggests, a number of benefits can accrue to industry associations which develop programs to help their members improve the sector's CSR performance. Many of these potential benefits would be:

- Access to information on emerging CSR trends and issues of relevance to them
- Assistance in understanding stakeholder interests
- CSR training and tools
- Opportunities for peer-based learning and knowledge-sharing
- Collective action on solutions difficult for the company to tackle on their own
- Ability to have a voice in development of CSR standards for their sector

## Conclusion

Companies have pressure to be cost efficient, as customers want to pay less for products. Therefore companies try to be as cost efficient as possible. One possibility

is using labor from countries with cheap labor force. Transportation costs are one way that companies can lower their operating costs when their only business strategy is to offer services at lowest cost. Since customers of transportation companies only care about their transportation costs, transportation companies need to reduce costs in all areas of business, which can lead to irresponsible business practices and to general neglect for safety. The pressure to be cost efficient is even higher on maritime transportation sector, because for years it has been the cheapest way to transport goods all over the world. In order to be a safe and punctual transportation method, shipping needs to follow international laws and regulations, which may cause conflict between safety management and constant need to be cost efficient. Therefore shipping companies, which are following these rules, usually follow the bare minimum or the base level of safety, environment and social management. Since their responsible actions are to merely follow the rules and the bare minimum, according to international regulations, it cannot be defined as responsible business, since CSR is based on voluntarism to act responsibly. However, because customers now demand more than just the lowest prices for products they purchase, responsible business culture and CSR terms has spread from land based industries to shipping industry as well. Increasing trend shows that shipping industry already use CSR and acts responsibly, not just following international rules and regulations, but also voluntarily, acting responsibly on their own areas of business.

Responsible business creates positive image and reputation to a company and also helps to preserve the image thorough crises, like accidents or oil spills. Company, which is caught acting irresponsibly by customers, audits or NGOs may suffer from a weakened brand value, which has a negative effect on the company in economical sense. Acting responsibly cannot be seen as only a way to increase and preserve the good reputation of the company. CSR can increase company's economic growth in the long run. It is not just a tool to act responsibly in a business environment; it is also a tool to improve company itself. Many CSR methods are directed to improve benefits of the workers, by improving working environments, creating safer working methods and prolonging careers. Especially in shipping industry, satisfaction of the employees to their working environment is crucially important, because of challenging schedules and long working periods on board. Skilled workers can be seen a strength to a company and worth keeping. Human resource management has an important role in the shipping industry, since the employees often come from different backgrounds and culture.

Today shipping companies are willing to act responsibly and many of them are able to use CSR as a part of their marketing strategy. Several examples from their websites showed that shipping companies can act responsibly and are willing to develop their CSR strategies in order to ensure sustainable transportation for products and passengers. Large and medium sized shipping companies have adopted CSR terms and are using them effectively together with their customer companies. Smaller shipping companies are still trying to find ways to promote their responsible business as a strategy. However, those small companies might have a lot of potential to act locally and sustainably; they just need to find a way to emphasize it to the public.

Shipping is international business, which affects the lives of many people worldwide. Thus it also has a large impact globally. By acting responsibly shipping industry not only promotes responsible business to other shipping companies, it also promotes it to other land based companies and encourages also them to act responsibly. Since shipping industry has adopted the policy of CSR it will also spread it to other industries.

## Notes

1. M.E. Porter and M.R. Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review* (December 2006), pp. 78–92.
2. *Ibid.*
3. *Ibid.*
4. H. Jenkins, "A Critique of Conventional CSR Theory: An SME Perspective," *Journal of General Management*, 9(4) (2004), pp. 55–75, <https://doi.org/10.1177/030630700402900403>.
5. D. Vogel, "The Market for Virtue? The Business Case for Corporate Social Responsibility," *California Management Review* 47(4) (Summer 2005), <https://doi.org/10.2307/41166315>.
6. P. Vilsted, *CSR in Shipping, Corporate Social Responsibility and the Shipping Industry—Project Report*. DNV research. Report no. 2004–1535 (2004).
7. K. Sorsa, *Itsesääntely ja yhteiskuntavastuu. Työ- ja elinkeinoministeriön julkaisuja. Kilpailukyky* 45/2010 (2010).
8. K. Sorsa (2010).
9. J. Kujala, "Vastuullinen johtaminen ja yrityksen pitkän aikavälin menestys: Yrityksen ja sidosryhmien välisen vuorovaikutusprosessin tarkastelu. Loppuraportti. Tutkimus- ja kehityshanke. Tampereen yliopisto, johtamistieteiden laitos," (2009), [http://www.tsr.fi/c/document\\_library/get\\_file?folderid=13109&name=dlfe-1927.pdf](http://www.tsr.fi/c/document_library/get_file?folderid=13109&name=dlfe-1927.pdf), accessed May 18, 2017.
10. J. Elkington, "Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development," *California Management Review* 36(2) (1994), pp. 90–100, <https://doi.org/10.2307/41165746>.
11. A.M. Quazi and D. O'Brien, "An Empirical Test of a Cross-National Model of Corporate Social Responsibility," *Journal of Business Ethics* 25(2000), pp. 33–51, <https://doi.org/10.1023/A:1006305111122>.
12. D. Grewal and N.J. Darlow, "The Business Paradigm for Corporate Social Reporting in the Context of Australian Seaports," *Maritime Economics & Logistics* 9 (2007), pp. 172–192, <https://doi.org/10.1057/palgrave.mel.9100178>.
13. J. Elkington (1994), pp. 90–100.
14. D. Neef, "Corporate Social Responsibility Comes to Maritime Shipping," *Safety4sea*, September 26, 2012.
15. D. Grewal and N.J. Darlow (2007), pp. 172–192.
16. A.B. Carroll, "Corporate Social Responsibility: Evolution of a Definitional Construct," *Business Society* 38(3) (1999), pp. 268–295, <https://doi.org/10.1177/000765039903800303>.
17. D. Grewal and N.J. Darlow (2007), pp. 172–192.
18. J. Elkington (1994), pp. 90–100; A.B. Carroll (1999), pp. 268–295.
19. K. Sorsa (2010).
20. M. Urminsky, ed., *Self-Regulation in the Workplace: Codes of Conduct, Social Labeling and Socially Responsible Investment*. MCC Working Paper No. 1. International Labour Office. Geneva (2001).
21. M. Progoulaki, and I. Theotokas, "Human Resource Management and Competitive Advantage: An Application of Resource-Based View in the Shipping Industry," *Marine Policy* 34 (2009), pp. 575–582; D. Neef (2012).
22. P. Vilsted (2004).
23. M. Progoulaki and M. Roe, "Dealing with Multicultural Human Resources in a Socially

- Responsible Manner: A Focus on the Maritime Industry,” *Journal of Maritime Affairs* 10 (2011), pp. 7–23, <https://doi.org/10.1007/s13437-011-0003-0>.
24. T. Pawlik, P. Gaffron and P.A. Drewes, “Corporate Social Responsibility in Maritime Logistics,” in D-W. Song and P.M. Panayides, eds., *Maritime Logistics: Contemporary Issues* (United Kingdom: Emerald Group Publishing, 2012), <https://doi.org/10.1108/9781780523415-011>.
25. Lloyd’s List, “Corporate Social Responsibility: Shipping Sees the Broader Benefits of Acting Responsibly,” *Lloyd’s List* (May 25 2010), pp. 4.
26. M. Progoulaki and I. Theotokas (2009), pp. 575–582; M. Progoulaki and M. Roe (2011), pp. 7–23.
27. J. Elkington (1994), pp. 90–100.
28. The Maritime Executive, “Maritime Leadership in Corporate Ocean Responsibility,” *Maritime Executive*, Tuesday, January 18, 2011.
29. M. Acciaro, “Environmental Social Responsibility in Shipping: Is It Here to Stay?” *The Quarterly Newsletter of the International Association of Maritime Economists* (March 2012), pp. 27–30.
30. P. Cariou, “Is Slow Steaming a Sustainable Means for Reducing CO2 Emissions from Container Shipping?” *Transportation Research Part D: Transport and Environment* 16 (3) (2011), pp. 260–264, <https://doi.org/10.1016/j.trd.2010.12.005>.
31. M.S. Eide, T. Longva, P. Hoffmann, Ø. Endresen and S.B. DalsØren, “Future Cost Scenarios for Reduction of Ship CO2 Emissions,” *Maritime Policy & Management* 38(1) (2011), pp. 11–37, <https://doi.org/10.1080/03088839.2010.533711>.
32. M. Acciaro (2012), pp. 260–264.
33. I. Fafaliou, M. Lekakou and I. Theotokas, “Is the European Shipping Industry Aware of Corporate Social Responsibility? The Case of the Greek-Owned Short Sea Shipping Companies,” *Marine Policy* 30 (2006), pp. 412–419, <https://doi.org/10.1016/j.marpol.2005.03.003>.
34. A. Poulouvassilis and S. Meidanis, *Sustainability of Shipping—Addressing Corporate Social Responsibility Through Management Systems* (2013, <http://www.commonlawgic.org/sustainability-of-shipping.html>, accessed February 8, 2013).
35. K. Sorsa (2010).
36. M. Hopkins, *Corporate Social Responsibility: An Issues Paper*. Policy Integration Department, World Commission on the Social Dimension of Globalization, International Labour Office. Working Paper No. 27 (2004); International Labour Organization, Geneva, European Multistakeholder Forum on CSR, *Final Results and Recommendations*. CSR Forum 2004, Final report (29 June 2004); D. Grewal and N.J. Darlow (2007), pp. 172–192; A. Poulouvassilis and S. Meidanis (2013).
37. Commission of the European Communities, Commission staff working document accompanying document to the Communication from the Commission on the European Competitiveness Report 2008 COM (2008)774 final; SEC (2008) 2853.
38. P. Donner, “No Room for Complacency on ISM Code Compliance,” CD-ROM ed., Proceedings of the Second International Conference on Safety of Maritime Transport, Chios, Greece (2001).
39. M. Palazzi and G. Starcher, “Corporate Social Responsibility and Business Success,” <http://www.ebbf.org> (2001).
40. Friedman (1962).

## Biographical Statement

Vaibhav Birwatkar is a post-doctoral scholar at Universitatea Pedagogica de Stat “Ion Creanga” in Moldova, Chisinau, and is also a consultant for Behavior Education Services Team (BEST), USA.