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# CORPORATE SOCIAL RESPONSIBILITY AND SHIPPING

Views of Baltic Sea Shipping Companies on the Benefits of Responsibility

Vappu Kunnaala

Mirja Rasi

Jenni Storgård



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## FOREWORD

Corporate social responsibility is a voluntary undertaking that many companies are starting to adopt in their operations in increasing volumes. Companies have started to realise 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. The notion of corporate social responsibility is fairly new in the shipping sector, but it has been recognised to be a useful tool for increasing maritime safety and the companies' competitive advantage.

This research is being conducted as a part of the project Competitive Advantage by Safety – CAFE, work package 3, assignment A. The purpose of the work package is to identify the corporate social responsibility issues in Baltic Sea shipping. The aim is to also increase awareness of corporate social responsibility in general and among the shipping companies, and to demonstrate that engaging in corporate social responsibility actions can bring benefits to the companies.

The project Competitive Advantage by Safety (CAFE) is designed to develop safety operations on the sea, for example by anticipating the safety measures to be taken and by helping the shipping companies to improve their competitiveness through improved safety actions. This study is task A of the work package 3: Corporate social responsibility in international shipping and its title is Corporate Social Responsibility in the Baltic Sea Maritime Sector. The research was carried out by researcher Vappu Kunnaala, research expert Mirja Rasi and project manager Jenni Storgård from the University of Turku, Centre for Maritime Studies.

The project is financed by the European Union European Regional Development Fund, the City of Kotka, Varustamosäätiö, Kotka Maritime Research Centre corporate group (Aker Arctic Technology Inc., the Port of HaminaKotka, the Port of Helsinki, Kristina Cruises Ltd, Meriaura Ltd.) and the following project partners: the Kotka Maritime Research Centre, the Centre for Maritime Studies at the University of Turku, Kymenlaakson ammattikorkeakoulu University of Applied Sciences, Turku University of Applied Sciences and Aalto University.

The researchers and the Centre for Maritime Studies want to thank all the shipping companies who took part in our research by answering the questionnaire. The researchers would also like to thank the financiers of the project and the other project partners. In addition Ph.D. Jani Häkkinen and M.Sc. Olli-Pekka Brunila are acknowledged for reviewing the report.

Kotka, 17 October 2013

Vappu Kunnaala  
Centre for Maritime Studies  
University of Turku

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## ABSTRACT

The safety of shipping operations in the Baltic Sea is an extensively studied issue due to the density of traffic and the ecological sensitivity of the area. The focus has, however, mainly been on ship technology or on traffic control measures and the operative safety aspect of shipping is in a minor position in maritime safety studies and is lacking in terms of solutions. Self-regulatory and voluntary measures could be effective ways to improve the operational safety of shipping. Corporate social responsibility, or CSR, is one example of a voluntary measure that the shipping companies can take. CSR can enhance maritime safety and improve the shipping companies' competitiveness.

The aim of this study is to increase the knowledge of CSR in the maritime sector and study its applicability and benefits to the shipping companies. The research comprises of a theory part and a questionnaire study, which examine the significance of corporate social responsibility in shipping companies' maritime safety and competitiveness. The aim of the questionnaire study is to find out how corporate social responsibility is implemented in the shipping companies.

According to the literature review, responsible actions can produce financial and time costs, but due to these actions cost savings in the form of learning and increased efficiency can be achieved. Responsible actions can also produce concrete improvements and a reputation of responsibility that can lead to both cost savings and increase in the company's income. CSR is recognised as having real business benefits in terms of attracting customers and high-quality employees. In shipping, CSR usually focuses on environmental issues. Environmental social responsibility in shipping is mainly motivated by the need to comply with existing and forthcoming regulation. Shipping companies engage in CSR to gain competitive advantage and to increase maritime safety. The social aspects of CSR take into account the well-being and skills of the employees, corporation and other stakeholders of the company.

The questionnaire study revealed that the most common CSR measures in shipping companies are environmental measures, and that environmental concerns are considered to be the most important reason to engage in CSR. From the preliminary question about the concept of CSR it can also be seen that safety issues are commonly considered to be a part of CSR and safety gains are the second most important reason to engage in CSR. From the questionnaire, it can also be extrapolated that gaining a better reputation is one of the most important reasons to engage in CSR in the first place. For example, the main economic benefit was seen to be the increase of customer numbers as a result of a better reputation.

Based on the study, it would seem that companies are starting to realise that they might gain competitive advantage and be favoured as shippers if they engage in sustainable, responsible operations and present themselves as "green".

## TIIVISTELMÄ

Merenkulun turvallisuutta Itämerellä on tutkittu laajasti alueen suurten liikennemäärien ja ympäristön haavoittuvuuden vuoksi. Tutkimuksen pääpaino on kuitenkin ollut lähinnä alusten teknisissä ratkaisuissa tai liikenteen ohjauksessa, jolloin operatiivisen turvallisuuden osa-alueet ovat jääneet vähemmälle huomiolle ja siihen liittyvät ongelmat ovat yhä suurilta osin ratkaisematta. Itsesääntely ja muut vapaaehtoiset toimenpiteet voisivat olla tehokas keino parantaa merenkulun operatiivista turvallisuutta. Vastuullinen liiketoiminta on yksi esimerkki vapaaehtoisista toimista, joita voidaan toteuttaa merenkulkualalla. Vastuullinen liiketoiminta on keino parantaa merenkulun turvallisuutta sekä varustamoyritysten kilpailukykyä.

Tämän tutkimuksen tarkoituksena on lisätä tietoisuutta yhteiskuntavastuullisesta liiketoiminnasta merenkulkualalla sekä selvittää, miten vastuullisuutta sovelletaan merenkulussa ja mitkä seikat motivoivat varustamoita toimimaan vastuullisesti. Tutkimus koostuu teoriaosuudesta ja kyselytutkimuksesta, jotka käsittelevät vastuullisuuden vaikutuksia varustamoyritysten kilpailukykyyn ja merenkulun turvallisuuteen. Kyselytutkimuksen tarkoituksena on selvittää, millä tavoin vastuullista liiketoimintaa sovelletaan merenkulkualalla.

Kirjallisuuskatsauksen mukaan vastuullisuus voi tuoda yrityksille rahallisia ja ajallisia kustannuksia, mutta vastuullinen toiminta voi tuoda myös kustannussäästöjä esimerkiksi oppimisen ja toiminnan tehostumisen myötä. Vastuullinen liiketoiminta voi myös tuottaa konkreettisia parannuksia ja kohentaa yrityksen mainetta, mikä voi johtaa sekä kustannussäästöihin että lisätä yrityksen tuloja. Vastuullisuus voi myös houkuttaa lisää asiakkaita ja ammattitaitoisia työntekijöitä. Merenkulkualalla vastuullisuus liittyy usein ympäristöön. Ympäristövastuun pääpainona merenkulussa on usein pyrkimys noudattaa nykyisiä ja tulevia ympäristösäännöksiä. Varustamoyritykset toteuttavat vastuullista liiketoimintaa saavuttaakseen kilpailuetua ja parantaakseen merenkulun turvallisuutta. Sosiaalisen vastuun alalla varustamot ottavat huomioon työntekijöiden hyvinvoinnin ja osaamisen sekä yrityksen eri sidosryhmät ja niiden vaatimukset.

Kyselytutkimuksen perusteella vastuullisuuteen liittyvät toimenpiteet liittyvät useimmiten ympäristöön ja ympäristöseikat ovat tärkein syy toimia vastuullisesti. Vastuullisen liiketoiminnan käsitettä koskevaan kysymykseen annettujen vastausten perusteella voidaan sanoa, että turvallisuutta pidetään yleisesti olennaisena osana vastuullista liiketoimintaa. Lisäksi turvallisuuden edistämistä pidettiin toiseksi tärkeimpänä syynä toteuttaa vastuullista liiketoimintaa. Tuloksista voidaan myös päätellä, että paremman maineen saavuttaminen on yksi olennaisimmista syistä toimia yhteiskuntavastuullisesti. Tärkeimpänä vastuullisuuden taloudellisena hyötynä pidettiin hyvästä yritysmaineesta johtuvaa asiakasmäärän kasvua.

Tutkimuksen perusteella voidaan havaita, että varustamot ovat havainneet voivansa saavuttaa kilpailuetua toimimalla vastuullisesti ja olla suosituimpi vaihtoehto varustamoiden joukossa, mikäli ne toimivat kestävä kehityksen mukaisesti ja tuovat itsensä esille vastuullisena ja ”vihreänä” varustamoyrityksenä.

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## **1 INTRODUCTION**

### **1.1 Background**

The majority of globally transported goods are moved through ocean transport. It is a cheap and efficient means of international transportation. Nevertheless, when maritime shipping and the full life cycle of the shipping companies' operation is viewed as a whole, questions of sustainability begin to emerge. For example, the shipping industry is shown to release a great amount of greenhouse gases, costs of which are not included in the direct pricing of maritime shipping. Also the possibility to register ships in other jurisdictions with lax environmental standards is discouraging the sustainable development of the shipping industry (McGuire & Perivier, 2011). Other substantial problems may arise from the ships' decommissioning processes, which can lead to exposure to hazardous substances such as asbestos and heavy metals, as well as oil discharges. In addition, scrapping processes involve occupational health and safety dangers. More than 80 % of ship scrapping takes place in the developing world, most commonly in India, Pakistan, Bangladesh, China and the Philippines, which have low labor costs and where the use of recycled material is high. Additionally, in these countries organized waste management is virtually non-existent, efforts to secure safe working conditions are scarce and they lack environmental standards or enforcement (McGuire & Perivier, 2011; Vilsted, 2004).

In addition, all shipping companies are not similar. There are companies that buy cheap second-hand ships, operate them as cheaply as possible, neglect safety measures and eventually abandon the ships and their crews at some obscure port. There are also companies that are very active in promoting safety in shipping. These companies are willing to implement new technologies, act as good employers and achieve a good reputation. The problem is that both types of companies are competing in the same market (Goss, 2008).

The companies that incorporate corporate social responsibility and thereby safety aspects in their operations, seem to succeed better in the competitive market. However, corporate social responsibility combined with shipping companies and maritime safety has not yet been researched widely. Therefore it is the aim of this research to demonstrate that corporate social responsibility and safety operations are profitable for shipping companies to invest in.

This study is a part of the Competitive Advantage by Safety (CAFE) project, which is designed to develop safety operations at sea for example by anticipating the safety measures to be taken and by helping the shipping companies to gain competitiveness through improved safety actions. The study is task A of the work package 3: Corporate social responsibility in international shipping and its title is Corporate Social Responsibility in the Baltic Sea Maritime Sector.

The CAFE project is based on earlier projects of Merikotka Research Centre, called METKU and SAFGOF. The project is financed by European Union, the European Regional Development Fund, the City of Kotka, Varustamosäätiö, the Kotka Maritime

Research Centre corporate group (Aker Arctic Technology Inc., the Port of Hamina, the Port of Helsinki, the Port of Kotka, Kristina Cruises Ltd, Meriaura Ltd.) and project partners: the Kotka Maritime Research Centre, the Centre for Maritime Studies at the University of Turku, Kymenlaakson ammattikorkeakoulu University of Applied Sciences, Turku University of Applied Sciences and Aalto University.

The METKU and SAFGOF projects indicated that the safety culture of shipping companies has improved through stronger management commitment and attitude changes towards safety. The project results demonstrated that on one hand, there has been a decrease in minor accidents, while the amount of the major accidents, on the other hand, has begun to increase. It was noticed that the safety management has to improve in the field of reporting and safety level measurements. With the help of the two projects, the safety responsibilities of shipping companies were defined and it was shown that planning and systematic operation improvements enhance operation quality. The roles and procedures in the shipping companies were also clarified.

## **1.2 Research questions, method and structure**

The aim of this study is to increase the knowledge of maritime safety in shipping and competitiveness amongst shipping companies, which engage in voluntary corporate social responsibility activities in their operations. The results are designed to encourage and guide the Baltic Sea area shipping operators to adopt corporate social responsibility in their operations. The results are intended to be utilized in disseminating information concerning corporate social responsibility in shipping and to work as a base for wider discussion on the subject.

The research aims to answer the following questions:

- How does CSR apply to maritime sector and how is CSR perceived in shipping?
- Does CSR contribute to maritime safety?
- Does CSR contribute to the shipping companies' competitiveness?
- Have shipping companies in the Baltic Sea area implemented CSR in their operations?
- Why do shipping companies engage in CSR?

The study comprises of a theory part and a questionnaire study, which examine the significance of corporate social responsibility in shipping companies' maritime safety and competitiveness. The study is qualitative in nature, but the data analysis is carried out with quantitative methods as well. The research is carried out by forming a theory of corporate social responsibility and shipping with the emphasis on maritime safety and competitiveness. The literature and the information for the theory part are gathered from industry literature, research papers, scientific articles and the ship-owners' associations and operators. The literature review is accompanied with a questionnaire study of corporate social responsibility. The idea is to send a Webropol questionnaire via e-mail to a representative number of shipping companies operating in the Baltic Sea area.

The paper begins with an introduction that provides background information about the study. Chapter 2 introduces the concept of corporate social responsibility and continues to the notion of CSR in the shipping companies. Chapter 3 contemplates the effects of engaging in CSR to the companies. Chapter 4 introduces the results of the questionnaire study. Lastly the results are followed with a summary of the results and conclusions in chapter 5.

## **2 CORPORATE SOCIAL RESPONSIBILITY IN THE MARITIME SECTOR**

### **2.1 The general concept of corporate social responsibility**

In the corporate social responsibility concept, the companies voluntarily take part in actions that contribute to a cleaner environment and a better society through interaction with their stakeholders and by integrating these concerns into their business operations, which potentially also results in economic benefits (Commission of the European Communities, 2001; Kujala, 2009). This means that corporate social responsibility takes into account the environmental, social as well as economic aspects of the operations of a company.

CSR in practice means cooperation and interaction between different stakeholders in order to identify and control unwanted externalities and maximise the positive externalities. Companies engaged in CSR operate in a financially and ecologically sustainable manner and consider the demands of their stakeholders (Sorsa, 2010). CSR is concerned with treating the stakeholders of the companies ethically or in a responsible manner. Stakeholders exist both within a company and outside. The wider aim of social responsibility is to create higher standards of living, while preserving the economic profitability of the company (Hopkins, 2004).

There are two different conceptions concerning responsibility. Firstly, responsibility can be seen as an internal tool of the company's management, where responsibility is a tool to improve the company's operations and therefore improve the company's financial performance. Secondly, the demand for responsibility can originate outside the company, for example from stakeholders and legislation, thus making responsibility more than just an internal issue (Sorsa, 2010).

Currently the United Nations Global Compact (UNGC) and its 10 principles is the universally accepted framework for companies committed to CSR (UNGC, 2013). In the European Union, the framework is based on the Commission's Green Paper Promoting a European framework for Corporate Social Responsibility (COM (2001)366) (Commission of the European Communities, 2002). The European Commission has stated that a strategic approach to CSR is increasingly important to the competitiveness of enterprises and it can bring benefits in the form of risk management, cost savings, access to capital, customer relations, human resource management and innovation capacity. Higher levels of trust from employees, consumers and citizens can help to create an environment in which enterprises can innovate and grow (European Commission, 2011).

The international standard ISO 26000 provides guidance to companies in the field of CSR. The standard covers the terminology and principles of CSR, stakeholder communications and other core issues of CSR. Unlike other ISO standards, ISO 26000 is not intended as a basis for certification. Instead, it is meant as a comprehensive guidance document for public as well as private organizations of all sizes wishing to become more effective in fulfilling their social responsibility (ISO 26000:2010 Guidance on social responsibility). According to ISO 26000, the seven core subjects of

CSR are organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement and development (ISO 26000:2010 Guidance on social responsibility)

There is no generally agreed measurement system for CSR performance. Currently, the Global Reporting Initiative or GRI is the industry leader in providing a set of voluntary principles for companies in the area of CSR (Hopkins, 2004).

## **2.2 Corporate social responsibility as a form of self-regulation**

CSR goes beyond merely following the mandatory rules and regulations of the International Maritime Organisation (IMO), by adopting voluntary actions and practicing self-regulation. CSR can thus be seen as a form of corporate self-regulation integrated into a business model. The CSR concept entails that a company works as a mechanism that monitors itself and ensures that its activities comply with the laws, ethical standards and international regulations and norms (Hart, 2010). Governments and companies have promoted CSR as a part of justification to self-regulation, because it has been noticed that the companies can benefit from being voluntarily socially responsible.

In self-regulation, the industry itself establishes the standards it complies with. The characteristics of self-regulation are that it is swift and flexible as well as goal based. The enforcement comes from peer pressure, concerns about public reputation, morality of cooperation and third party pressure. Some form of governmental regulation is also required, together with other policy instruments to make it work properly. The scope and focus of self-regulation are sensitive and situational. The information basis is in detailed knowledge and in informal insider information. Self-regulation is open for competition and the approach to it can be international and even global. The incentives for it are economic (Kuronen & Tapaninen, 2009; Kuronen & Tapaninen, 2010).

## **2.3 Executing corporate social responsibility**

According to Lovio (2000), there are three ways of executing responsible operations in a company. These three ways are charitable work approach, procedure approach and core business approach. The charitable work approach means that a company voluntarily takes part in charitable work to solve important problems in the society by sponsoring and donating funds. The charitable work approach can be problematic, if a company is part of any unethical functioning in their operations.

The second way to execute responsible operations is the procedure approach. That means that it is not important how the profits of the company are used, but how they are obtained. The profits need to be obtained in a responsible manner that is approved by the society. All of the company's operations need to be carried out by following good business and society norms. This means that the suppliers are tendered and that the company follows the labour code and contracts, produces good working conditions, and

promotes the employees' wellbeing. The company also burdens the environment only within the limits allowed by law and tries to save resources and energy by its own initiatives. The company also pays its taxes, does not violate the competition laws and does not participate in bribery (Lovio, 2000).

The third responsibility approach concentrates on the core business i.e. the product of the company. The company is considered responsible when its product or the service it provides is seen as beneficial for the customer and for the society. Core business approach tries to concentrate on solving societal problems and providing solutions linked to the company's field of industry (Lovio, 2000).

There are also other ways to distinguish different types of voluntary initiatives. The three major categories are: codes of conduct, social labelling and investment initiatives. Codes of conduct are a written policy or statement of principles that can be general rules, companies' own rules or sector-specific self-regulation tools (Urmitsky, 2001). Codes of conduct aim to regulate and harmonize the actions of the management and employees of the company. The implementation of codes of conduct relies heavily on the management and management culture of the company. Codes of conduct are monitored either internally by the management or externally by outside auditors (Sorsa, 2010). Social labelling is a means of providing information to customers or potential business partners in the form of a physical label about the social conditions surrounding the company's operations. In addition to product labelling, social labels can be assigned to companies. Socially responsible investment initiatives are investment-related decisions that seek social change while maintaining economic returns (Urmitsky, 2001).

The CSR process can be summarised into several major steps: planning, in the form of identifying stakeholders and their key values; stakeholder engagement and dialogue; performance measurement, which allows the company to demonstrate its progress to its stakeholders; reporting, as a means of communicating with the stakeholders; auditing and quality assurance; commitment to improve performance and incorporating CSR into operations and policy making (Grewal & Darlow, 2007). The CSR notion endeavours to define, manage and measure the performance of a corporation (Vilsted, 2004). CSR is strongly linked to the values of a company. The involvement of the top management is crucial in CSR, since the managers act as an example and lead the way. CSR needs to be implemented in the strategy of a company, which links the responsibility to the whole staff community (Carroll, 1999; Kujala, 2009).

## **2.4 Stakeholder relations**

Stakeholder involvement is a central part of a company's CSR activity. In addition to commercial stakeholders such as customers, partners and suppliers, companies increasingly seek to identify and consult with non-financial stakeholders such as non-governmental organisations, trade unions and local community organisations. Dialogue with stakeholders and direct involvement helps companies to identify the stakeholders' expectations and to gather alternative views on social, economical and environmental

dimensions of business processes (Poulovassilis & Meidanis, 2013). A shipping company engaged in CSR should be directly connected with the stakeholders and communicate and report openly about their CSR actions and other operations to the public and especially to their stakeholders (Vilsted, 2004).

CSR activities are usually not taken into serious consideration by companies whose activities take place at a business-to-business level, such as shipping companies. For shipping companies the main function is to produce services for transportation needs, thus the basic goal for the companies has always been the ability to produce low-cost services (Progoulaki & Roe, 2011). Nevertheless, the companies that are the major beneficiaries of shipping have themselves become pioneers in the field of CSR. To those major companies, it is important to demonstrate to their stakeholders that they are concerned about the social and environmental implications of their operations and that they aim to minimize them by engaging in CSR and reporting on their performance. They are bound to realize that a major component of their supply chain, that is maritime shipping, is potentially a source of vulnerability for their reputation (Neef, 2012).

The pressure from the stakeholders has changed the business environment of the shipping sector during the past decade. Nowadays, many users of shipping services want to ensure that their goods are being shipped in a socially responsible manner. That is why shipping companies increasingly need to show that they are operating responsibly (Pawlik et al. 2012). Shipping companies can demonstrate social responsibility also by helping to make the industry more transparent and by communicating more openly (Vilsted, 2004).

The expectations placed on shipping companies have also changed and shipping companies need to be increasingly able to communicate with customers and other stakeholders using CSR terminology and demonstrate supply chain responsibility. The stakeholders also expect to be able to trust any data and information presented to them. Companies therefore need to take steps to enhance the credibility and quality of their published information and reports (Poulovassilis & Meidanis, 2013).

## **2.5 Corporate social responsibility in shipping**

CSR is a voluntary undertaking. A socially responsible shipping company works actively to integrate economical, social and environmental concerns in their business operations. Engaging in CSR forms a good basis for managing the company's social and environmental performance. It also offers guidance on stakeholder communication. Social responsibility can even become a part of the company's brand. This can later help the company to sustain its reputation in times of crisis or accidents (Poulovassilis & Meidanis, 2013).

CSR is increasingly recognised as having real business benefits in terms of attracting customers and high-quality employees, including seafarers. In shipping, CSR has tended to focus on environmental issues, such as avoiding pollution and reducing greenhouse gas emissions. CSR in shipping has also been actualized by engaging in local initiatives,

such as charitable donations (Lloyd's List, 2010). When it comes to maritime sector, the main objectives of CSR are considered to be: welfare of workers, protection of the marine environment, human rights and ethical trading, involvement of stakeholders and following business ethics (Marine Insight, 2011).

CSR themes such as safety, health and environment should already be high on the quality shipping companies' list of priorities. However, currently CSR is mostly supported and dominated by land-based industries. However, it is apparent that the interest of many stakeholders in the social, environmental and ethical performance of the shipping industry has increased and that stakeholders pay more attention to sustainability issues and put greater pressure also on the maritime industry (Poulovassilis & Meidanis, 2013). Corporate social responsibility is also increasing in the shipping sector due to the fact that shipping companies try to be more transparent and accountable, try to comply with or even go beyond the rules and regulations and try to avoid fines and detention, which could result from non-compliances. Shipping companies are starting to realise that they might be favoured as shippers, if they engage in sustainable operations. They are also starting to realise that being socially responsible does not always inflict higher operating costs, but more likely will reduce the costs and even limit them (Etsy & Winston, 2006).

According to Fafaliou et al. (2006) there are three different approaches that shipping companies have towards CSR. The first approach is that adopted by substandard operators. For them, competitiveness is a primary goal even if it means lowering safety and quality standards. The second, most typical approach is implemented by the majority of companies. In this approach, the main goal is to comply with the rules while pursuing the basic goal of gaining profit. The third, supportive approach to CSR is implemented by companies that go beyond the compliance of rules and comply with non-obligatory standards. These companies are willing to undertake the costs of going beyond regulation and behaving in accordance with society's expectations. According to Fafaliou et al. (2006) the amount of companies that have taken the supportive approach is increasing. However, these companies are mainly large or medium sized companies, while smaller companies appear to be less eager to engage in CSR. This may result from more limited resources or more short-termed orientation (Fafaliou et al. 2006).

## **2.6 Triple bottom line**

### **2.6.1 The economic aspect of corporate social responsibility**

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 noticed, that the triple bottom line is not a replacement to 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 (Vilsted, 2004).

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 the society and cannot operate in a complete disagreement with widely supported values. Companies have to ensure sustainable economic growth and take into consideration the economic influences they have on stakeholders (Sorsa, 2010).

The link between CSR and financial performance is complicated. Roughly put, 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 (Sorsa, 2010). There is a lack of strong empirical support for the link of social responsibility and financial performance (see e.g. Burke & Logsdon, 1996), but some efforts for assessing the monetary benefits of CSR have been studied. For example Sprinkle and Maines (2010) give some guidance and examples on how CSR could benefit the companies.

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 (Kujala, 2009).

In CSR, the economic aspect does not only take into consideration the economic benefit, but also the environmental and social benefits the company gains by acting responsibly (Elkington, 1994). A company can at the same time concentrate on profit maximisation and take into account the social demands (Quazi & O'Brien, 2000). 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 (Grewal & Darlow, 2007).

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 (Elkington, 1994). Maritime 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 (Neef, 2012).

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 minimal and warranted by the shipping companies (Grewal & Darlow, 2007).

Social responsibility can be perceived as long-run profit maximization (Carroll, 1999). 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 (Grewal & Darlow, 2007).

### **2.6.2 The social aspect of corporate social responsibility**

The social aspect of CSR refers to such actions taken by a company, where goal is to create business practices that are fair and beneficial to the labour force, the community and the region where the company operates. A company that acts socially responsibly takes into account the well-being of the labour 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 (Elkington, 1994; Carroll, 1999).

A company engaged in CSR does not take part in child labour or forced labour and tries to investigate the background of its suppliers and sub-contractors so that they do not engage in such behaviour either. Generally, when a CSR obedient 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 globalisation. 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 obedient 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 wellbeing and learning. The main aspects of social responsibility are the wellbeing and skills of the workers, human rights, product

liability and consumerism (Sorsa, 2010). 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 (Urminsky, 2001).

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 (Progoulaki & Theotokas, 2009; Neef 2012).

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 (Vilsted, 2004). 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 (Progoulaki & Roe, 2011).

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 labour shortage (Pawlik et al. 2012). Companies which place an emphasis on CSR also tend to have more loyal and committed employees (Lloyd's List, 2010). 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 (Progoulaki & Theotokas, 2009; Progoulaki & Roe, 2011).

### **2.6.3 The environmental aspect of corporate social responsibility**

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 far 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 (Elkington, 1994).

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 (The Maritime Executive, 2011).

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 a possibility to learn how to turn the environmental social responsibility into a business opportunity in the future (Acciaro, 2012).

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 (Cariou, 2011). 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 (Eide et al. 2011). Eide et al. (2011) 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 sulphur and nitrogen oxide levels (Acciaro, 2012).

### **3 THE EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY**

#### **3.1 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 (Fafaliou et al. 2006).

The benefits of engaging in CSR can be both monetary and non-monetary. Companies may engage to 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 (Poulovassilis & Meidanis, 2013). 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 (Sorsa, 2010).

The main business benefits associated with the implementation of CSR can be derived from several theoretical and empirical studies (eg. Hopkins, 2004; European Multistakeholder Forum on CSR, 2004; Grewal & Darlow, 2007; Poulovassilis & Meidanis, 2013) and can be summarized as follows:

- Enhances the company's image and reputation.
- Differentiates the company from its competitors.
- Attracts high-quality employees and enhances employee motivation and retention.
- Helps the company to anticipate costs, stakeholder expectations, customer demands and future legislation.
- Improves stakeholder communication.
- Enables better risk management.
- Promotes innovation, creativity and efficiency.
- Enables cost savings e.g. through eco-efficiency.
- Leads to sustainable success of the company.
- The company can retain its "social license to operate".
- Market for socially responsible investment is growing, so company revenue increases from higher sales and market share. The company is also more attractive to investors.

The benefits generated by CSR 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 on 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 (Commission of the European Communities, 2008).

### **3.2 The key detriments of engaging in CSR**

The key concerns when engaging in CSR are connected with financial and time costs. The process is considered to be both time consuming and costly due to the channeling of resources from the core commercial activities. Another concern is the risk involved with reporting and information disclosure. A company has to decide how to balance between the multiple social values and how to avoid focusing on the negative impacts without risking the honesty and transparency and turning the company's CSR activity into mere greenwashing (Grewal & Darlow, 2007).

Companies that ignore social priorities and responsibilities are in risk of losing competitive advantage in terms of gaining market share, attracting talented employees and preserving employee retention. Neglecting environmental issues can have a harmful effect on the company's long-term growth rates and business. A company can contribute to more environmental and societal harm with substandard ships, carbon emissions, by violating employees' human rights and by neglecting the enforcement of regulation (Maritime CSR, 2012).

### **3.3 Gaining competitive advantage from responsibility**

Sometimes the values that the companies endorse are the only thing that separates them from their competitors. Therefore "green marketing" in the form of e.g. creating and publishing company codes of conduct, making statements in media and holding presentations to customers is fairly common within the shipping sector (Holmgren, 2010). Shipping companies try to achieve a unique selling position, which would attract the customers and separate them from their competition. The ethical values of CSR can play a role in building customer loyalty and give in return benefits from building a reputation for integrity and best practice (Paluszek, 2005). Good reputation is an asset in the competitive market. A good reputation can take some setbacks, whereas a bad reputation is more vulnerable and can ruin the business of a company, if they make a mistake.

Many shipping companies seem to believe that they can create competitive advantage by adopting environmentally friendly and CSR strategies. They are therefore putting considerable effort in “greening” their operations and corporate images. It is beneficial for these shipping companies to be ahead of the game by implementing environmental awareness and compliance to their strategies, since it improves their competitive position when the regulations tighten and “green shipping” is increased among shippers. The forerunners might even be able to influence some regulations and therefore have an impact on the success of their shipping company. The “green” or CSR profile of a company is also a factor in procurement decisions and often the more desired alternative, since a “green” company is associated with good quality service and innovativeness (Acciaro, 2012). It is also possible that governments give preference to and help the shipping companies acting socially responsibly to create commercial advantage by reducing their inspections and posing them with smaller port fees (Vilsted, 2004).

Competitive advantage can also rise from anticipating societal changes. Companies can benefit from being early movers in the field of technology and strategy. They can also participate in shaping the overall direction of legislation and public debate (Blowfield & Murray, 2008). A shipping company should constantly develop new ways to broaden and strengthen their existing competitive advantages, in order to gain a long term competitive position in the market (Progoulaki & Theotokas, 2009).

Engaging in CSR also enables the companies to influence their supply chain. In the shipping industry, this means that the shipper looks for the most environmentally friendly transport solutions for its supply chains and chooses the carrier who shares the same environmental values (Holmgren, 2010). Manning agents are also one of the most important suppliers, when it comes to social responsibility. A socially responsible shipping company should make sure that its CSR policies are properly communicated with the suppliers, inquire about the suppliers’ policies, make socially responsible performance pre-qualification criteria and give weight to social responsibility when choosing its suppliers (Vilsted, 2004).

CSR actions are important for competition, since the competitive pressure can come with disadvantages. For example, in order to achieve cost savings crew sizes might be cut down, which can result in overly long working hours and lead to fatigue and casualties, thus compromising the safety of maritime traffic. Competitive pressure has also driven many shipping companies to use cheaper fuels, with higher sulphur and other emission levels, causing atmospheric pollution (Goss, 2008).

### **3.4 Maritime safety issues and CSR**

The maritime sector has been able to increase the technical side of safety, but safety in operations is still lagging behind. Safety management measures are often reactive by nature, even though controlling safety requires proactive and preventive actions. Hänninen (2007) shows that there are major defects in the safety culture of the maritime industry, one of which is the fact that shipping companies are more profit-oriented and

neglect safety issues. Many flag states and shipping companies are following the rules and international obligations on safety and environmental protection, but there are still companies that benefit from unfair competition and take shortcuts by neglecting crew safety and environmental protection to gain short term benefits (European Commission, 2012). Yet due to proper safety management the business of the shipping company can be more competent (Anderson, 2003). For example, safety performance and its strength are often viewed, when a ship is chartered (Hetherington et al. 2006).

The most important risk to maritime safety in the Baltic Sea is the huge traffic volume, especially in the Gulf of Finland (Karvonen et al. 2006; Arola et al. 2007). Economic trends in the maritime industry challenge maritime safety as well. The various ways of internationalizing the ownership of the shipping companies keep on developing (Karvonen et al. 2008). The vessels of a shipping company fly various flags and the personnel are increasingly multinational. The lack of a common language risks the communication between the crew members. In order to lower their personnel costs, shipping companies also recruit crew members from the developing countries (Pun et al. 2002). The low level of education and frequent turnover of the ship crew are considered a big problem in shipping (Karvonen et al. 2008). It is difficult to establish the company's safety values to a crew that is constantly changing and highly heterogeneous.

There are some factors of social responsibility that are specific to the shipping industry and that can have an effect on maritime safety. For example, apart from the ethical aspects, mistreatment of the crews affects the safe operation of ships (Progoulaki & Roe, 2011). The workplace hazards that are distinctive for the shipping sector are fatigue, stress and work pressure, which can contribute to errors of judgement and improper watchkeeping. This is often followed by failure to comply with the rules and regulations set for the operations. Other demands include communication, environmental factors and long periods away from home. These characteristics are potential contributors in a causal chain of shipping accidents (Collins et al. 2000).

The manning of ships has decreased due to the technological developments in ships. This has both a positive and a negative effect for shipping. The positive effect of the technological advances is that the ship design and navigation aid improvements have decreased the occurrence and severity of shipping accidents and incidents. On the other hand, the negative impact has been that by reducing the failures in technology the underlying human errors causing incidents have emerged (Hetherington et al. 2006). The solutions for these social or human factors causing potential accidents could be in proper and extensive training and standard operating procedures, deviation from which would be forbidden. The training and education of the seafarers together with certification are factors, which affect the supply of seafarers, when reflecting crew competence levels. The training of the staff should focus also on soft skills as well as on hard skills. The soft skills reflect onto the safety and cohesion on board as well as on the performance of the individual and the team (Progoulaki & Roe, 2011).

## **4 THE QUESTIONNAIRE STUDY**

### **4.1 Previous studies on CSR and competitiveness**

The links between CSR performance and competitiveness have been studied mostly from an economical point of view (Commission of the European Communities, 2008). In the maritime sector, studies usually comprise of literary reviews, interviews and case studies (Vilsted, 2004; Progoulaki & Theotokas, 2010; Progoulaki & Roe, 2011; Pawlik et al. 2012). Different methods of carrying out CSR performance measurements have also been studied (Poulovassilis & Meidanis, 2013).

Progoulaki and Theotokas (2010) have studied the links of sustainable human resource management and competitiveness. According to the interviewed Greek-owned shipping companies, human resources are not considered to contribute to competitiveness even though studies show otherwise. In another study by Progoulaki and Roe (2011), an on-board survey and research among crew managers and manning agents was conducted. In that study, the need for social responsibility in multicultural crews was contemplated. Case studies concerning CSR in shipping are usually carried out in shipping companies with high performance. Pawlik et al. (2012) introduce a good practice company NYK from Japan. In NYK, CSR has been integrated on both the strategic and operative levels.

Fafaliou et al. (2006) have studied CSR in shipping more generally. Their study attempted to clarify the meaning of CSR in the European maritime sector and examine its application. Formal and informal interviews were held amongst short-sea shipping companies in Greece. The aim was to identify the degree of awareness regarding social responsibility in the companies and to explore their attitudes, perceptions and views towards CSR. In the interviewed companies, CSR was a known concept but it was considered an internal affair of the company, not a tool for meeting the expectations of stakeholders. The companies that were most active in the field of CSR were either subsidiaries of international conglomerates or their management were personally aware of and committed to CSR (Fafaliou et al. 2006).

In other industry sectors, the links between competitiveness and CSR performance have been studied more extensively. For example, in a study on different industry sectors in Europe it was seen that in the construction sector CSR measures of occupational health, security and safety can improve the efficiency of the company (Martinuzzi et al. 2010).

### **4.2 Background information on the questionnaire**

The questionnaire study was conducted during February and March 2013. The questionnaire study was carried out in English using the web based system “Webropol” (<http://w3.webropol.com/>). The recipients were chosen based on a wide web page investigation. The questionnaire was sent to 524 recipients from shipping companies that operate or are located in the Baltic Sea area. Shipping companies from all countries that border the Baltic Sea were invited to answer the survey. No restrictions were made

based on for example the size or type of the company or the type of the company's operation.

The complete questionnaire is included in Appendix 1. The questionnaire was divided into 4 sections. The first set of questions dealt with the background information of the respondents. In the second part, the respondents were asked about their views on the contents and concept of CSR. In addition, the companies were asked about their relationship to CSR. Based on their answers, the participants were divided into three answer groups: companies that are engaged in CSR, companies that are not, but are still interested in the concept and companies that are not engaged in CSR and are not interested in implementing CSR in their operations. The questions asked after this varied slightly depending on the answer group and the latter group was asked no further questions. In the third section of the questionnaire the companies were asked either about their CSR activity and management or future plans concerning CSR, CSR measures and benefits and obstacles for engaging in CSR. The fourth section included questions about the motivations that the shipping companies had to engage in CSR.

The questions were mostly multiple choice questions and yes/no questions, but the questionnaire also included a few open-ended questions. Not all of the freely worded comments to open questions are necessarily included in this report and comments that were similar were often combined.

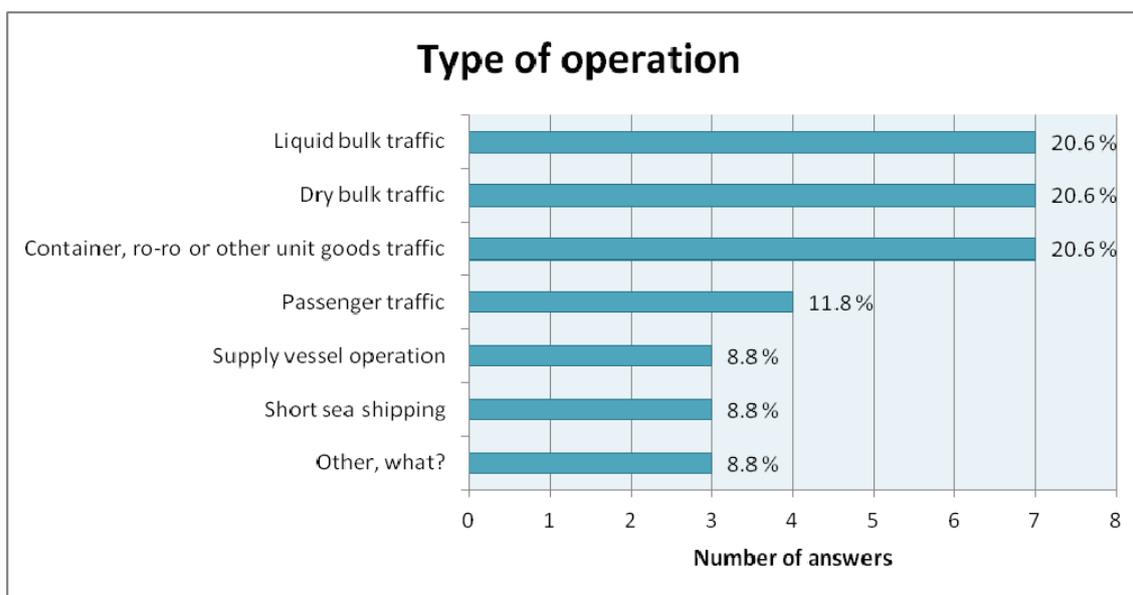
### **4.3 Results of the questionnaire study**

#### **4.3.1 Preliminary questions**

The questionnaire received answers from Denmark, Estonia, Finland, Germany, Lithuania and Sweden. The respondents were mainly management and middle management personnel. Most (63.2 %) of the responding shipping companies were privately owned, the rest were either public owned or part of a larger group of companies or a conglomerate. The size of the companies varied mostly from medium size companies with 6-20 vessels (57.9 %) to large companies with more than 20 vessels (36.8 %).

The companies were asked about the areas they mainly operate in and more than one answer was allowed. The most common answer was the Baltic Sea area (28 % of the answers), but some shipping companies operated also in the North Sea and Europe, in the Atlantic Sea and in the arctic regions. The second most common answer was worldwide operations, which included approximately 22 % of all the answers.

The companies were also asked what their companies' type of operation is. The results can be seen in the figure below (figure 4.1). Some companies also operated in other fields, such as towage, salvage and icebreaking.



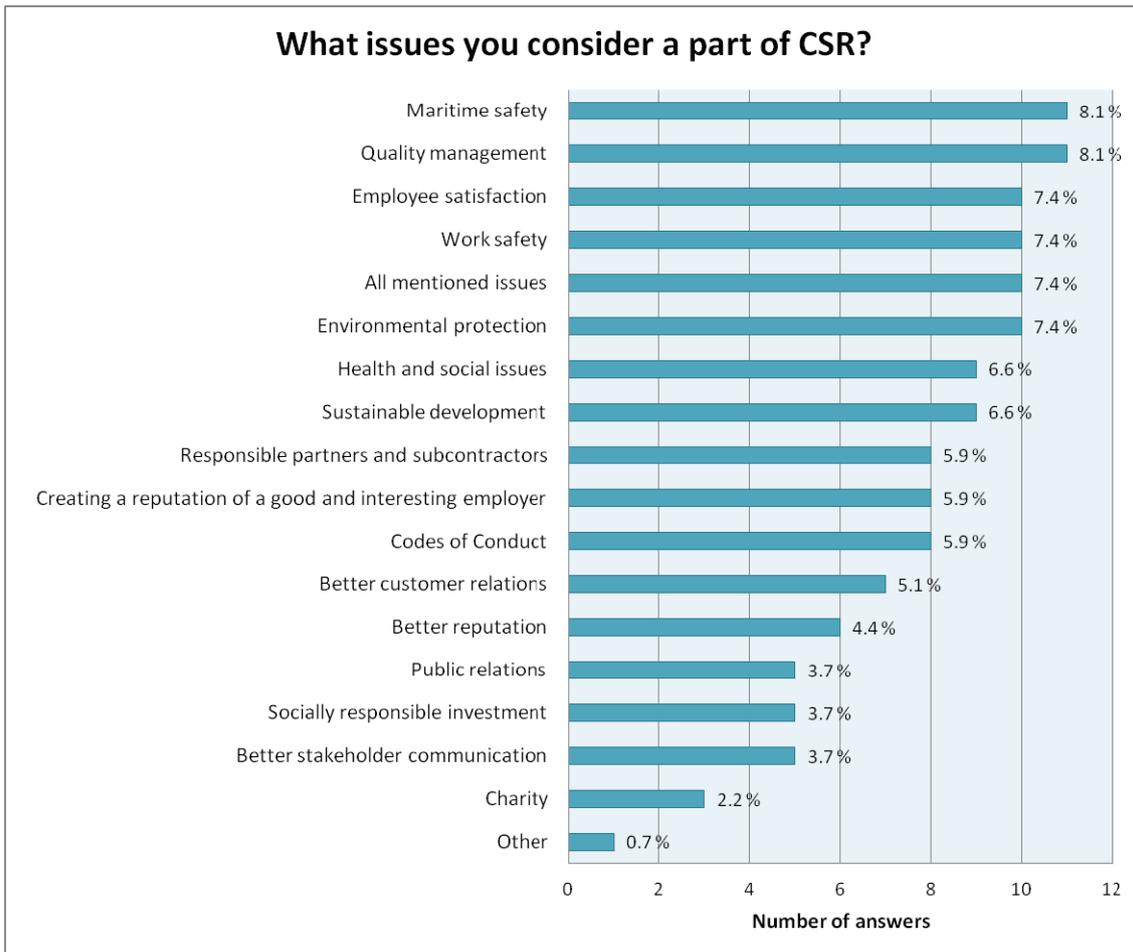
4.1 Type of operation of the responding shipping companies. More than one answer was allowed.

Approximately 68 % of the participating companies had implemented CSR measures in their operations. From the remaining companies that had not yet implemented CSR, 33 % were not interested in implementing CSR into their operations, even in the future.

#### 4.3.2 The concept of CSR

According to the literature review, corporate social responsibility takes into account environmental, social as well as economic aspects in the operations of a company. Engaging in CSR forms a good basis for the company's social and environmental management. It also benefits stakeholder communication and can even become a part of the company's brand (Poulovassilis & Meidanis, 2013). In shipping, CSR has tended to focus on environmental issues (Lloyd's List, 2010).

As a preliminary question, all the participants were asked what issues they consider a part of CSR (figure 4.2). The question was a multiple choice question and the participants were allowed to choose more than one answer. The most frequent answers were maritime safety and quality management. Also employee and work safety related issues, such as employee satisfaction, work safety and health and social issues were often considered a part of CSR. Other answers that were given outside the provided answer categories were human rights and equality, anti-corruption measures and education.



4.2 Issues that were considered a part of CSR. More than one answer was allowed.

In the question, reputational issues such as better customer relations, overall better reputation and public and stakeholder relations were not as often considered a part of CSR. Creating a reputation of a good and interesting employer was also chosen as an answer more often than better overall reputation. This could imply that in some ways, CSR is considered to be a company’s internal matter. Also the fact that quality management, work safety and employee satisfaction were a popular answers would indicate the same. According to the survey, customer relations seem to be considered the most important of all the different reputational aspects. Stakeholder communications received fewer answers.

The views of the companies were rather similar and no significant differences could be found in the views of the different answer groups. This could indicate that the information gathered about CSR and attitudes towards it are rather uniform throughout the shipping industry.

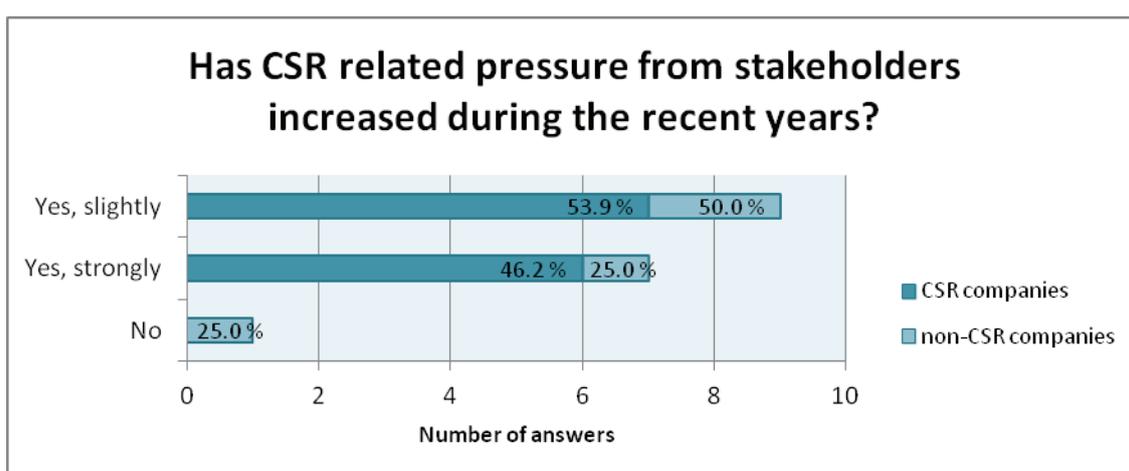
The maritime sector differs from other industry sectors in many ways. During the questionnaire, the respondents were asked what special characteristics of maritime sector should be taken into consideration when implementing CSR in shipping and whether some characteristics make the implementing of CSR in shipping more

challenging. This open-ended question received 11 answers. In the views of the respondents, CSR can be applied in all industry sectors including the maritime sector. Nevertheless, the global nature of shipping imposes difficulties to the implementation of CSR.

Cultural differences both within the industry, resulting from trading in different countries and working with different authorities, and inside the shipping companies can impede the implementation of CSR. The companies also pointed out that compulsory regulation should apply to all companies globally and simultaneously and national regulations should not hinder the local companies' competitiveness. From this answer, it could be perceived that according to the shipping companies the unfairness of regulation impedes the introduction of CSR into the maritime sector. Shipping companies do not want to participate in self-regulation and voluntary actions since their local legislation can already impose higher standards on them compared to other companies. Unfair legislation can invalidate the purpose and benefits of engaging in CSR.

According to the literature review, the pressure from the stakeholders has changed the business environment of the shipping sector during the past decade. Nowadays, many users of the shipping services want to ensure that their goods are being shipped in a socially responsible manner and therefore put greater pressure on the maritime industry. That is why shipping companies increasingly need to show that they are operating responsibly (Pawlik et al. 2012, Poulouvassilis & Meidanis, 2013).

In the questionnaire, the respondents were asked whether they think that CSR related pressure from their stakeholders has increased during the recent years (figure 4.3). According to the answers, over 94 % of the respondents agreed that the stakeholder pressure has increased and 43.8 % of those respondents saw that the pressure has increased strongly. Only one respondent felt that the pressure from stakeholders has not increased at all.



4.3 Changes in CSR related pressure from stakeholders during the recent years.

CSR can be seen as a form of corporate self-regulation integrated into a business model (Hart, 2010). In self-regulation, the industry itself establishes the standards it complies

with. The enforcement comes from peer pressure, concerns regarding public reputation, morality of cooperation and third party pressure (Kuronen & Tapaninen, 2009; Kuronen & Tapaninen, 2010). Governments and companies have promoted CSR as a part of justification to self-regulation, because it has been noticed that the companies can benefit from being voluntarily socially responsible. It is beneficial for the shipping companies to be ahead of the game in CSR. The forerunners can also participate in shaping the overall direction of legislation and public debate (Acciaro, 2012; Blowfield & Murray, 2008).

In the questionnaire, the companies were asked whether they think that responsible actions or companies' self-regulation can have an impact on policy-making. According to 42.1 % of the respondents, it is possible that positive or negative actions can act as a precedent for policy-makers. 31.6 % of the respondents felt that it is possible that if shipping companies act responsibly there is no strong pressure for authorities to implement stricter regulations. 21.1 % said that it is possible in a sense that the implementation of stricter policies may be decelerated, but probably the regulations are going to come into force regardless of the behaviour of the companies. 5.2 % of the respondents answered that responsible actions cannot have an impact on policy making.

### **4.3.3 Managing CSR**

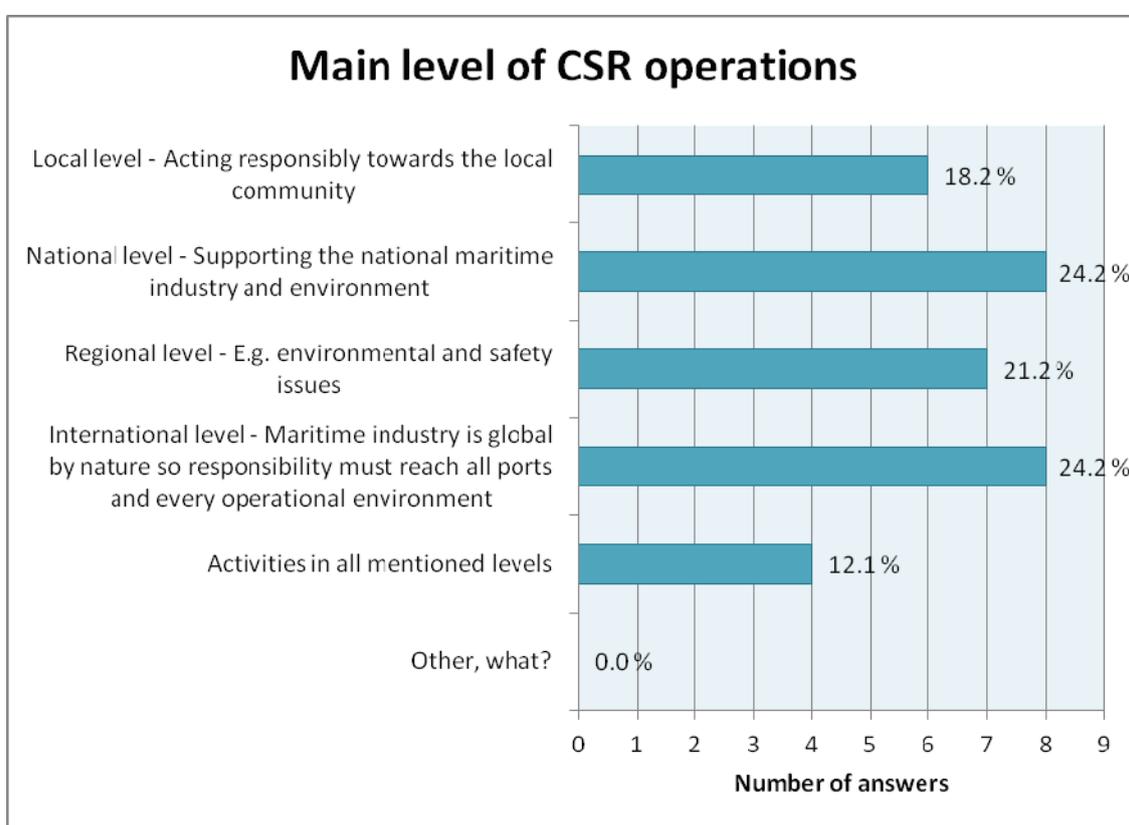
Almost 70 % of the companies that practice CSR had first engaged in CSR after the year 2000. Yet approximately 23 % of the respondents said that their company first engaged in CSR before the year 1990. The most common decade to implement CSR practices had been 2000-2010, during which most of the companies (53.8 %) had first engaged in CSR. It should be noticed that according to the literature review, the pressure to act responsibly has increased in the shipping sector particularly during the last decade (Pawlik et al. 2012). Additionally, when the shipping companies were asked about CSR related pressure from stakeholders, the majority of the companies replied that the pressure has increased during the recent years. The stakeholder pressure might have resulted in several shipping companies engaging in CSR activities.

The respondents were also asked how their company's CSR activities had changed during the years and according to the answers the majority of the companies (84.6 %) had become more involved in CSR. 7.7 % answered that their CSR activities had stayed the same and 7.7 % said that they have become less involved in CSR. The fact that in the majority of the companies the involvement in CSR activities had increased is not surprising since the pressure to act responsibly is growing even more.

When asked about the companies' plans concerning CSR in the future, the majority (69.2 %) of the companies that were already engaged in CSR answered that they will increase their involvement in CSR. 30.8 % said that they will proceed the same as before. None of the companies said that they would decrease their involvement in CSR. When the same question was asked from the companies that were not yet engaged in CSR, 25 % answered that they will engage in CSR in the future and the rest answered that they might do that later on.

According to the literature review, the involvement of the top management is crucial to CSR, since the managers act as an example and lead the way (Carroll, 1999; Kujala, 2009). According to the survey, in 38.5 % of the companies the CSR issues are managed by a quality and environmental manager. In 7.7 % of the companies, there is a designated CSR director. The managing director or the CEO manages the CSR issues also in 7.7 % of the companies and in 23.1 % of the companies it is someone else, such as the vice president, CSR coordinator, CSR board or communications personnel. Surprisingly, in 23.1 % of the cases there was no designated CSR manager in the company.

In the questionnaire, the respondents were also asked what are the main levels where their company directs its CSR actions? The question was a multiple choice question, in which the participants were allowed to choose more than one answer. The division of the answers can be seen in the figure below (figure 4.4).



4.4 The main levels of the companies' CSR actions. More than one answer was allowed.

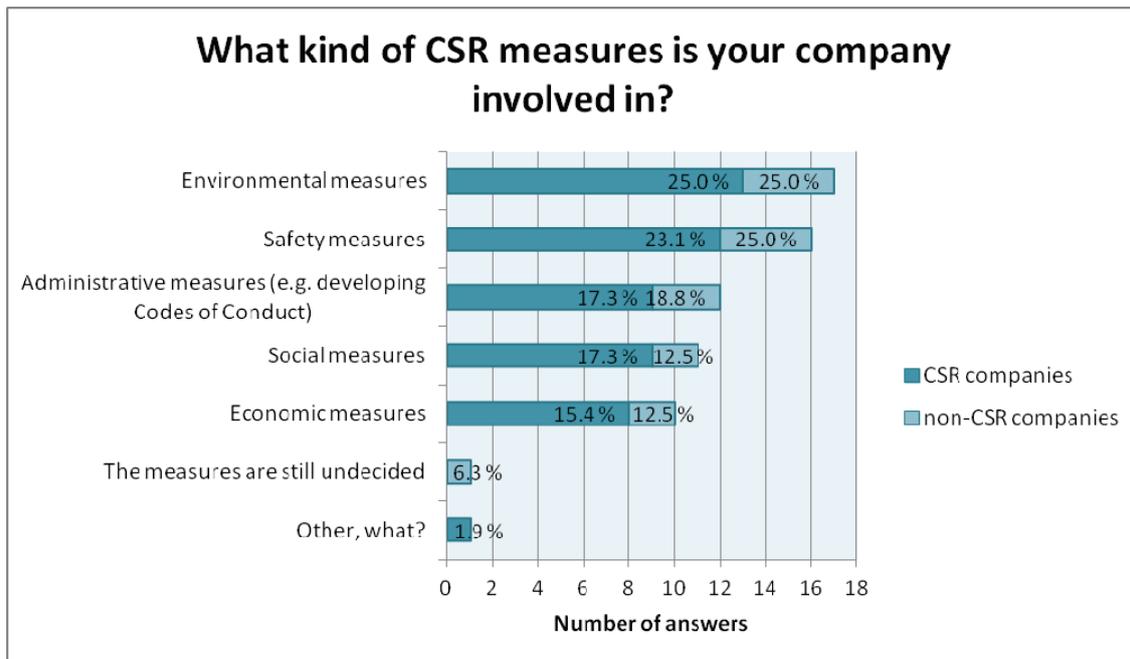
The answers given don't have a huge variety and many of the respondents had chosen all of the different levels individually or the "activities in all mentioned levels" option. Only few responding companies told that their CSR operations are implemented merely at the local and national or local, national and regional levels. On the other hand, 30.8 % of the respondents do not implement their CSR operations at the local level. This is probably based on the fact that the operation areas of said shipping companies are vast or even global. Therefore action at a local level can be deemed unnecessary or difficult to carry out. The shipping companies that engage in CSR at the local level are probably

more related or even dependent on the local community. Their type of operation is probably also more fixed and stationary.

#### 4.3.4 CSR measures

In the corporate social responsibility concept, the companies voluntarily take part in actions that contribute to a cleaner environment and better society by integrating these concerns into their business operations which potentially also results in economic benefits (Commission of the European Communities, 2001; Kujala, 2009).

In the questionnaire, the companies that were already engaged in CSR were asked about the CSR measures they are involved in. The companies that had not yet implemented CSR measures in their operations were asked what kind of CSR measures they would possibly be involved in. More than one answer was allowed. The answers of both answer groups are presented in the figure below (figure 4.5).



4.5 CSR measures that the responding companies are or would be involved in. More than one answer was allowed.

According to the first answer group, i.e. CSR companies, the most common CSR measures implemented were environmental measures and safety measures. One answer outside the provided list was given. That particular company executed CSR by providing education in a local school. The respondents from the first answer group were also asked to voluntarily elaborate the answer and reveal the reasons for choosing the particular CSR measures. Seven answers were given and the answers can be divided into the following answer groups, based on the motivations behind the chosen measures:

- Environmental, safety and moral concerns
- Stakeholder pressure

- Business strategy, chance to earn money
- Sustainable development and constant improvement

The answers varied, but considered mostly economical and moral priorities. The CSR initiatives have to suit the business strategies of the company. Safety and environmental protection were considered important, but the companies also deem important the benefits of sustainable development and constant improvement. One participant also mentioned that stakeholder pressure was a driver when they chose their CSR measures. Apart from this answer, stakeholders were rarely mentioned in the answers of the respondents during the questionnaire.

The companies that had not yet implemented CSR measures in their operations were asked what kind of CSR measures their companies would be involved in. The most frequent answers were environmental measures and safety measures, which both gathered 25 % of the answers. The third most common answer was administrative measures. One company replied that the measures were still undecided.

Almost 80 % of the responding companies that are engaged in CSR said that they measure the impact of their CSR activities. The companies were also asked to elaborate their answers by establishing the means of measurement. According to the answers, the most common way to measure the impact of CSR actions was Key Performance Indicators or KPI's. Other measurement tools were feedback from stakeholders, continuous data collection and reporting, Clean Shipping Index, and measurement of emissions. The companies were also asked whether they have changed their CSR policy or CSR activities based on the fact that they have not turned out to be effective enough. According to the answers, only 15.4 % of the companies had made changes. One company elaborated the answer by saying that the changes were based on continuous development that demands new focus areas.

The survey included a voluntary open-ended question: What have been the most effective CSR measures or activities in your company? Six answers were given. Among them were the following CSR measures that had proven to be effective: raising the general awareness of CSR, sharing best practices in the field of work safety, signing the United Nations Global Compact and safety related KPI's. Charity and educational programmes have turned out to be both effective and given a good reputation to the company and energy efficiency measures have started to pay off.

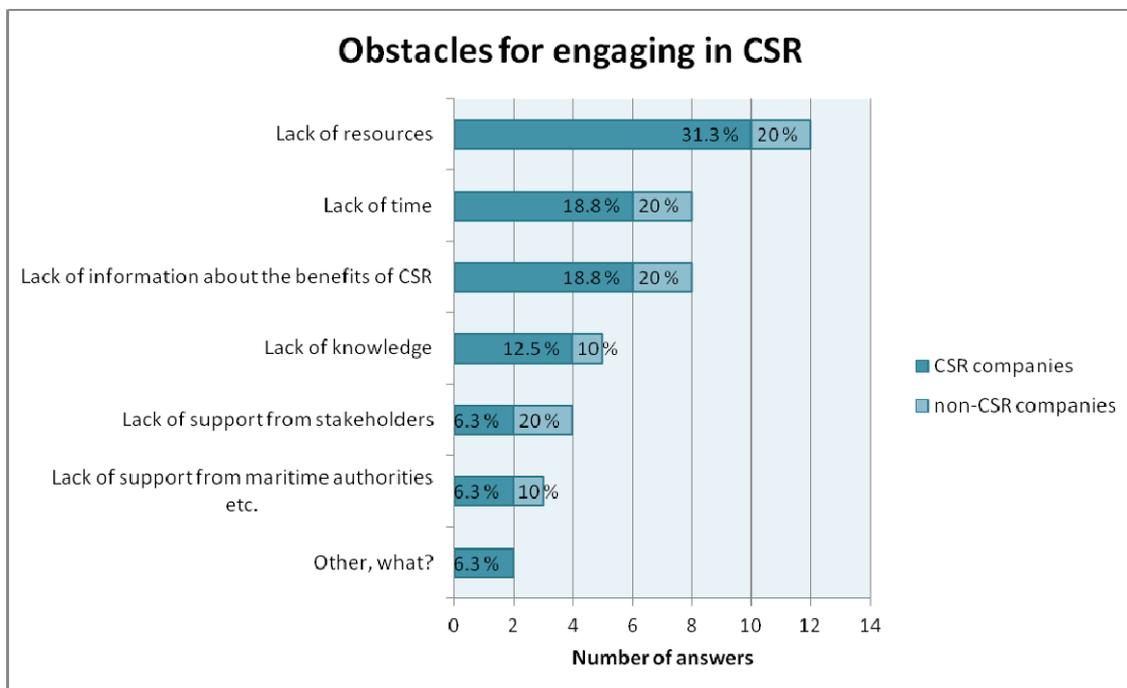
#### **4.3.5 Benefits and obstacles**

According to the literature review, the shipping companies engage in CSR in order to gain a better position in competition and to increase maritime safety, which secures their operating capability and improves their reputation. All of these can be seen as benefits of engaging in CSR. The benefits of engaging in CSR can be both monetary and non-monetary (Poulovassilis & Meidanis, 2013). The benefits heavily 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 (Commission of the European Communities, 2008).

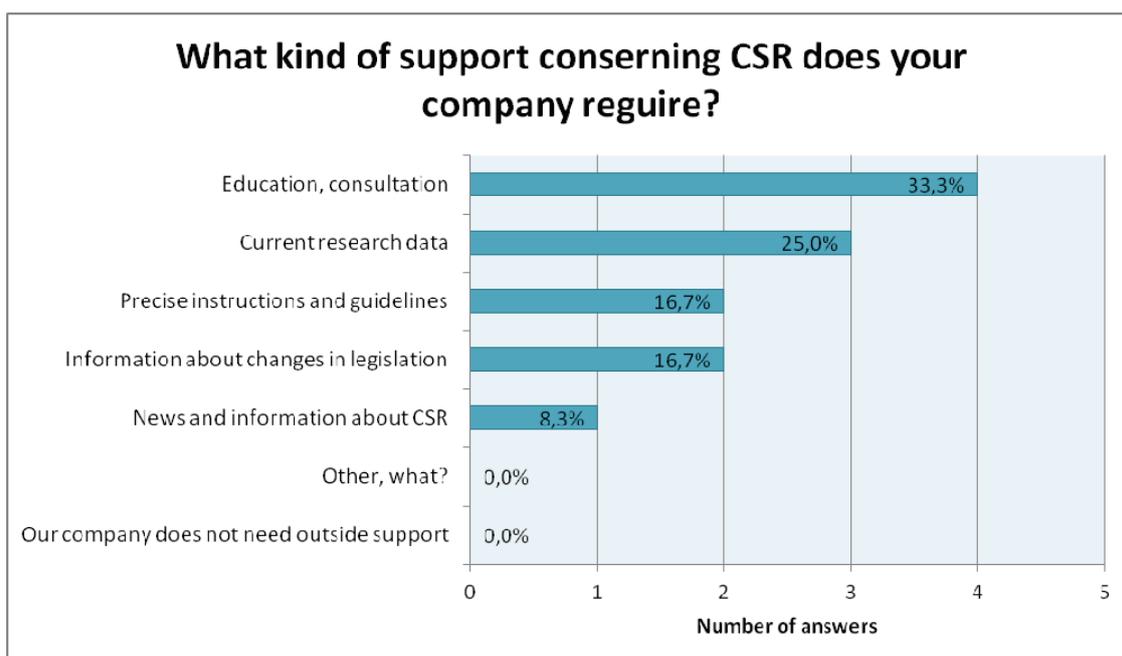
The companies that were engaged in CSR were asked whether the implementation of CSR measures has brought any benefits to their company. Approximately 85% of the respondents felt that their company has gained benefits from CSR. Those benefits were mostly customer satisfaction and image related benefits, such as a good reputation as a responsible, professional and sustainable company. One participant also mentioned employee satisfaction and reduced costs as a benefit gained from engaging in CSR. The sustainability of the company was also seen as a CSR created benefit.

The key concerns when engaging in CSR are connected with financial and time costs. The process is considered to be both time consuming and costly (Grewal & Darlow, 2007). In the questionnaire, the companies that were already engaged in CSR were also asked what kind of obstacles there are for engaging in CSR. The same question was asked from the companies that had not yet implemented CSR (figure 4.6). The respondents were able to choose from one to three most important alternatives. The main obstacle for engaging in CSR was considered to be the lack of resources. Hence it can be said that the obstacles for engaging in CSR in shipping are usually monetary. Engaging in CSR is considered to be costly and time consuming. As an open answer, one respondent mentioned the lack of systems. In the views of the respondents of the companies that are not yet involved in CSR, practically all of the obstacles were considered as important.



4.6 The main obstacles for engaging in CSR. The companies were able to choose from 1 to 3 most important alternatives.

In some cases, the obstacle for engaging in CSR might be that there is not enough knowledge about CSR and its application in the maritime sector. In the questionnaire, the companies that are not yet engaged in CSR were asked what kind of support their company requires concerning CSR. The respondents were allowed to choose from 1 to 3 most important alternatives. The aim of the question was to scan the different ways to disseminate CSR related information in the maritime sector and encourage shipping companies to engage in CSR. The results are presented in the figure below (figure 4.7).



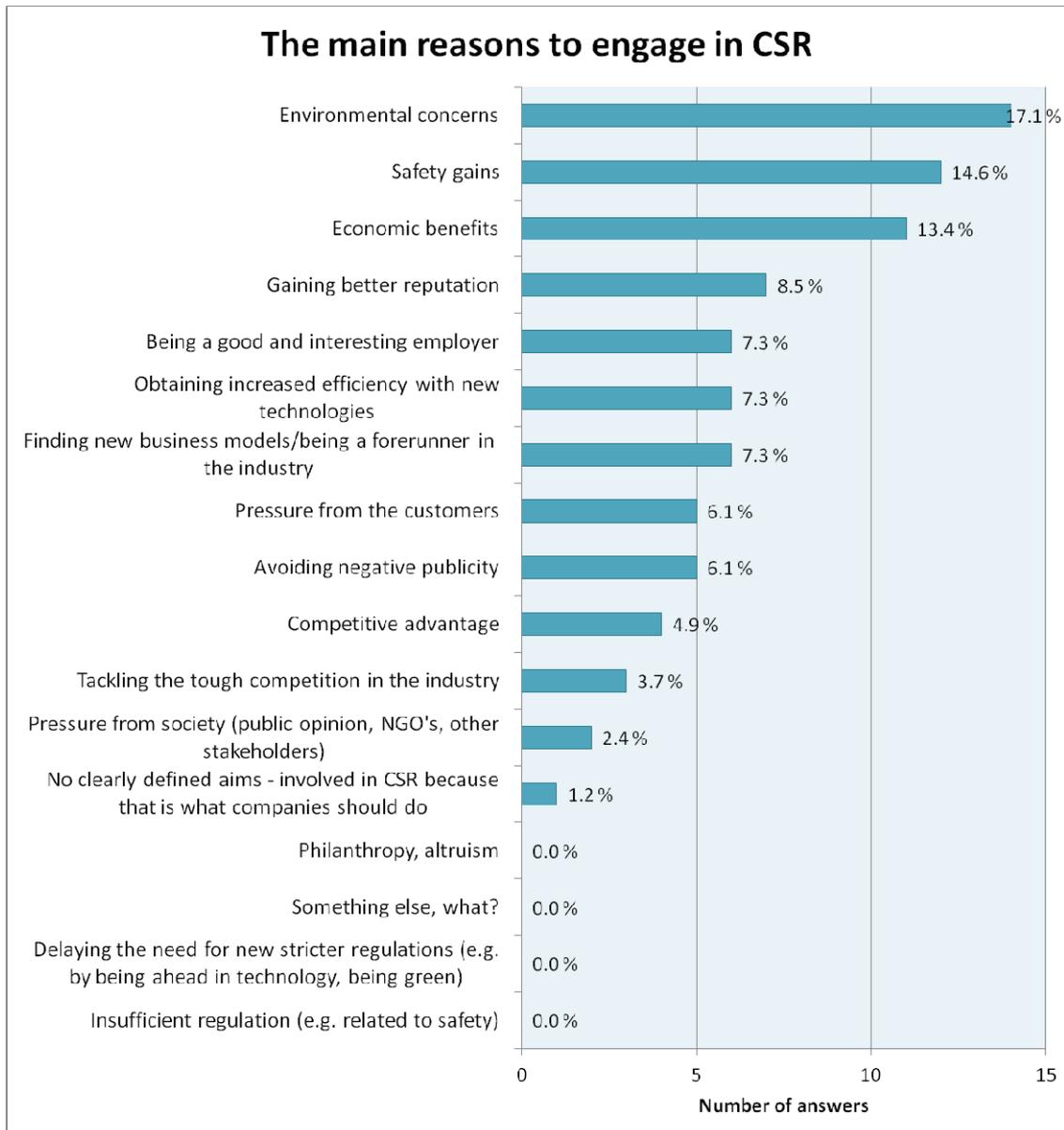
4.7 The main types of support concerning CSR that non-CSR companies need. The respondents were able to choose from 1 to 3 most important alternatives.

All of the respondents chose the alternative “education and consultation”. This shows that more information about CSR, about its implementation and execution and about the benefits of CSR is needed. The second most common answer was current research data. The shipping companies might also be interested in the information concerning the implementation of CSR measures in other shipping companies. The pressure arising from the fact that other shipping companies are already engaged in CSR can work as an incentive to implement CSR measures of their own.

#### 4.3.6 Main motives for engaging in corporate social responsibility

In the questionnaire, all of the participating companies were asked the following question: What are or would be the main reasons why your company engages or would engage in corporate social responsibility? The respondents were allowed to choose up to 5 most important alternatives. The results are presented in the figure below (figure 4.8). According to the answers given, the most predominant reasons for engaging in CSR were environmental concerns (17.1 % of the given answers), safety gains (14.6 %) and economic benefits (13.4 %). Over 82 % of the responding shipping companies had

chosen environmental concerns to be one of the 5 most important motives to engage in CSR.



4.8 *The main reasons to engage in CSR in shipping. The respondents were able to choose up to 5 most important alternatives.*

According to Sorsa (2010), responsibility can be seen as an internal tool of the company but the demand for responsibility can arise from outside the company as well, thus making responsibility more than just an internal issue. When CSR is considered to be an internal issue of the company, it can work as a tool to improve the company's operations, a business strategy and a tool for adjusting the company's internal affairs (Fafaliou et al. 2006; Sorsa, 2010). CSR is not necessarily seen as a tool for meeting the expectations of stakeholders (Fafaliou et al. 2006).

Most of the motives chosen by the respondents were either internal or reputational. The internal motives were business driven, such as economic benefits, or value driven, such as environmental concerns and safety gains. In this case, the social aspects of responsibility concerned internal stakeholders such as employees and the motive was to be considered a good and interesting employer.

Motives or incentives to engage in CSR can be both positive and negative. Negative incentives are for example pressure from internal stakeholders, pressure from external stakeholders such as NGOs, already existing problems in the companies' field of operation, such as environmental problems or societal problems, and the potential of new regulatory measures (Sorsa, 2010).

Pressure from outside the company was seldom mentioned as a motive for engaging in CSR. Even though the companies, in the previous question, said that the pressure from their stakeholders has increased during the recent years (figure 4.3 above). Pressure from customers was answered a few times but pressure from other stakeholders or society or pressure caused by new legislation were not considered as important motives. This could indicate that stakeholders are not very often included in the development of the companies' CSR work in the shipping industry. Nevertheless, it should be noted that in the literature review it is stated that maritime sector operators are no different from the operators of any other industry sector, for 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 the related stakeholder pressure issues directly themselves, many of their customers will. These customers may in that case seek to manage their reputational risks by selecting shipping companies that involved in CSR (Neef, 2012).

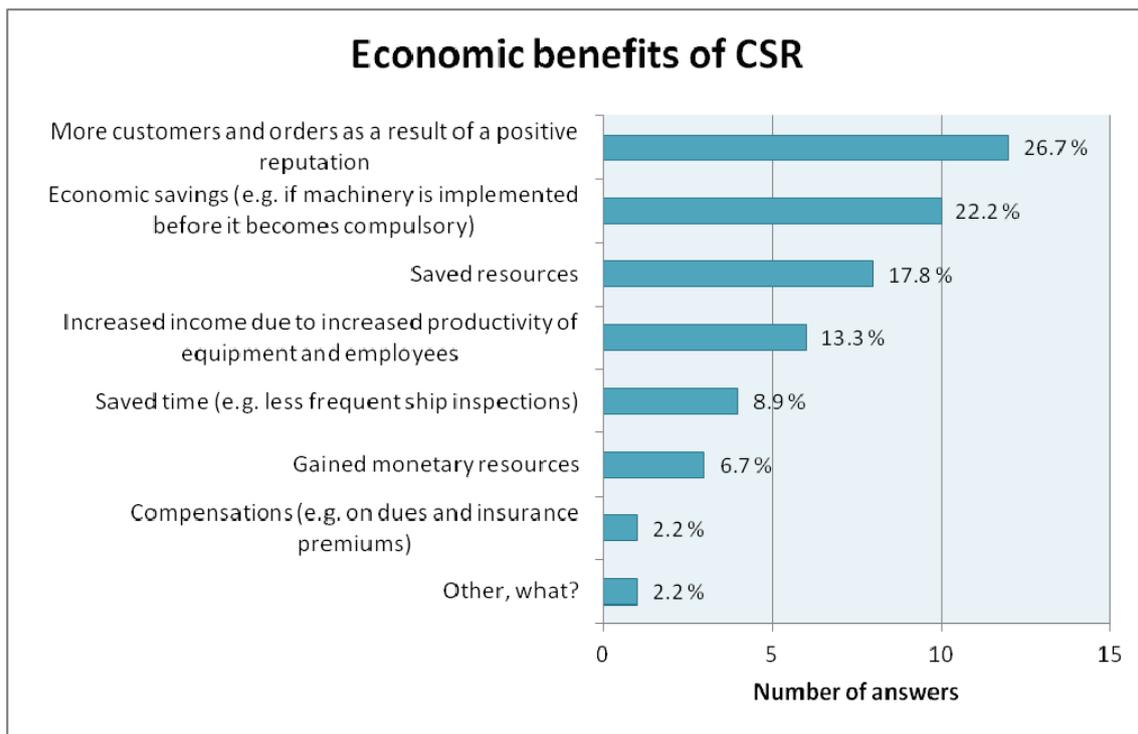
In the preliminary question about the concept of CSR, it can be deduced that safety issues are considered an integral part of CSR. Maritime safety was one of the two most common answers when the participants were asked what they consider a part of CSR. Yet the most common CSR measures implemented seem to be environmental measures and environmental concerns are considered to be the most important reason to engage in CSR. This shows that CSR in shipping focuses mostly on environmental issues, as the literature review also indicated.

From the questionnaire, it can also be deduced that gaining better reputation is also one of the most important reasons to engage in CSR in the first place. This conclusion is in agreement with the literature review, in which it is stated that the shipping companies are starting to realise that they might be favoured as shippers if they engage in sustainable operations (Etsy & Winston, 2006). It also might be that in the views of the companies, a reputation as a safe shipping company does not provide as good a competitive advantage as a reputation as a "green" shipping company. Therefore environmental issues might be somewhat emphasized in the shipping industry.

Corporate social responsibility should take into consideration and find a balance between the financial, social and environmental factors, also known as the triple bottom line. However, financial results remain the first and most important bottom line

(Vilsted, 2004). A conflict is often considered to exist between CSR and business, since the goal of companies is generally to gain profit instead of pursuing common interest. Thus the link between CSR and financial performance is complicated. Responsible actions can produce costs, but due to these actions benefits can be gained. CSR can affect the economic functions of a company by improving its reputation and brand, increasing its attractiveness as an employer and strengthening the loyalty of the employees. CSR also increases the company's risk management capabilities (Elkington, 1994; Sorsa, 2010).

Concerning the economic side of engaging in CSR, the participating shipping companies were asked what they consider to be the most important economic benefits that motivate them to implement CSR. The respondents were allowed to choose from 1 to 3 most important alternatives. The results are presented in the figure below (figure 4.9). The most common answer was the increase of customers and orders that results from a positive company reputation (26.7 % of the answers). Over 70 % of the responding shipping companies had chosen that alternative. One answer outside the given alternatives was also given. That company stressed that reducing carbon dioxide emissions also fuel costs can be reduced.



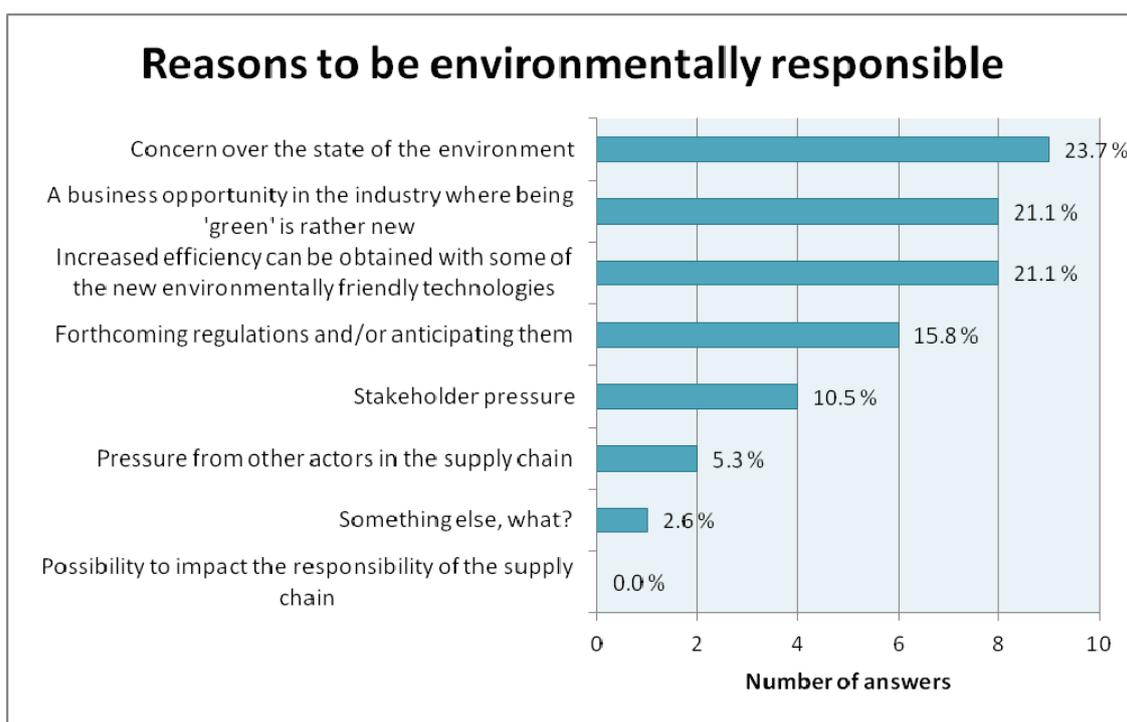
4.9 The economic benefits that motivate to CSR activities. The respondents were able to choose from 1 to 3 most important alternatives.

Even though the most common answer was about positive reputation, the economic benefits of CSR were not only seen to be reputational benefits. Engaging in CSR is seen to have other economic benefits as well. Pure economic savings and saved resources were the second (22.2 %) and third (17.8 %) most common answers. Economic benefits

can be obtained due to increased efficiency and productivity as well. This includes the efficiency of the employees and equipment.

Shipping, along with other ocean industries, is collectively considered to be responsible for the decline of marine environmental health. Hence, in shipping CSR has tended to focus on environmental issues, such as avoiding pollution and reducing greenhouse gas emissions. It should also be noted that sometimes the values that the companies endorse are the only thing that separates them from their competitors (Lloyd's List, 2010; Holmgren, 2010; The Maritime Executive, 2011).

In the questionnaire, the respondents were asked what the main reasons for their company to be environmentally responsible are (figure 4.10). The respondents were allowed to choose from 1 to 3 most important alternatives. The most common reason to be environmentally responsible was concern over the state of the environment (23.7 % of the answers). Approximately 53 % of the responding shipping companies had chosen this alternative. It should be noted that concern over the state of the environment is a motive that seems not to include any potential for economical or reputational benefits. Therefore it can be seen as a purely moral or value driven motive.



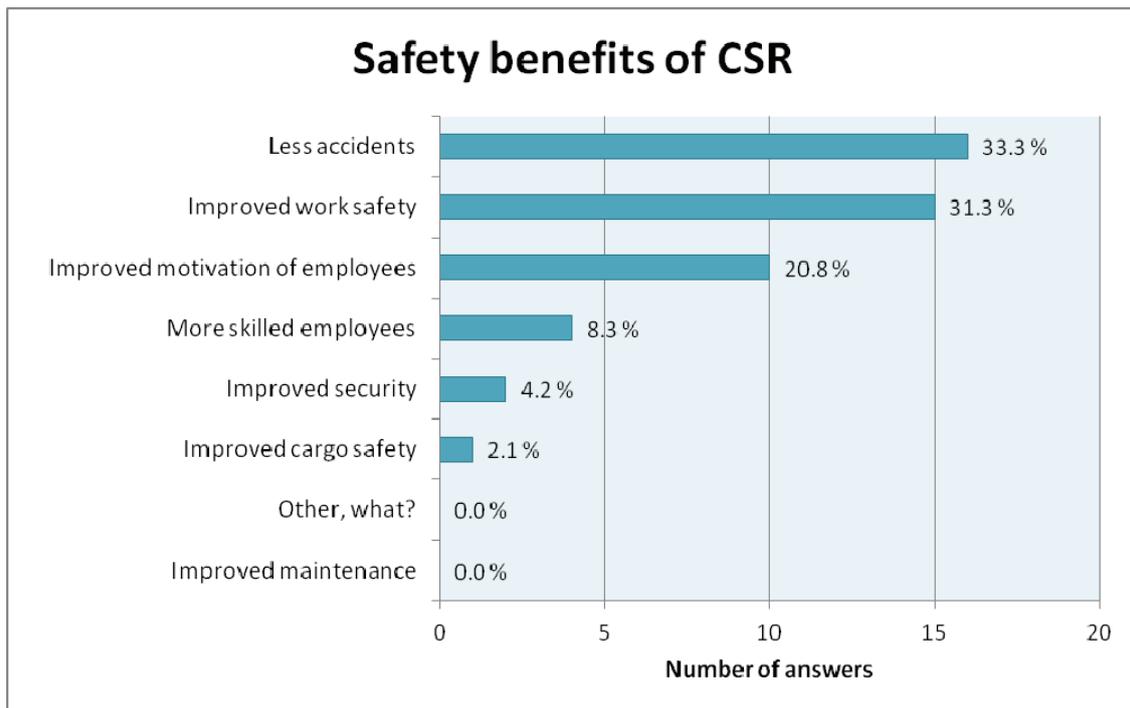
4.10 The main reasons to be environmentally responsible. The respondents were able to choose from 1 to 3 most important alternatives.

The second most common answers were creating a business opportunity in the industry where being “green” is rather new (21.1 %) and increased efficiency obtained through some of the new environmentally friendly technologies (21.1 %). Blowfield and Murray (2008) also note that companies can benefit from being early movers in the field of technology and strategy. Creating new business opportunities and increasing efficiency

are motives that are more business driven as they combine environmental concerns with reputational issues and economic benefits. One answer outside the provided alternatives was also given. Than company stated that the divergence of their region of operation works as a motive to act environmentally responsibly.

Many shipping companies seem to believe that they can create competitive advantage by adopting more environmentally friendly CSR strategies. They are putting effort in “greening” their operations and brand. It is beneficial for these shipping companies to be ahead of the game, since it gains them a competitive position when the regulations tighten and “green shipping” is increased among shippers. The “green” or CSR profile of a company is also a factor in procurement decisions (Acciaro, 2012).

There are major defects in the safety culture of the maritime industry, one of which is the fact that shipping companies are more profit-oriented and neglect safety issues (Hänninen, 2007). Yet due to proper safety management, the business of the shipping company can be more competent (Anderson, 2003). For example, safety performance and its strength are often viewed when a ship is chartered (Hetherington et al. 2006). There are also some factors of social responsibility that are specific for the shipping industry and which can have an effect on maritime safety. For example, the mistreatment of the crews affects the safe operation of ships (Progoulaki & Roe, 2011).



4.11 *The safety benefits that motivate to CSR activities. The respondents were able to choose from 1 to 3 most important alternatives.*

According to the questionnaire, the most important safety benefit that motivates companies to engage in CSR was accident prevention (33.3 % of the answers) (figure 4.11). The respondents were allowed to choose from 1 to 3 most important alternatives and it should be noted that all but one shipping company (94.1 %) had chosen less

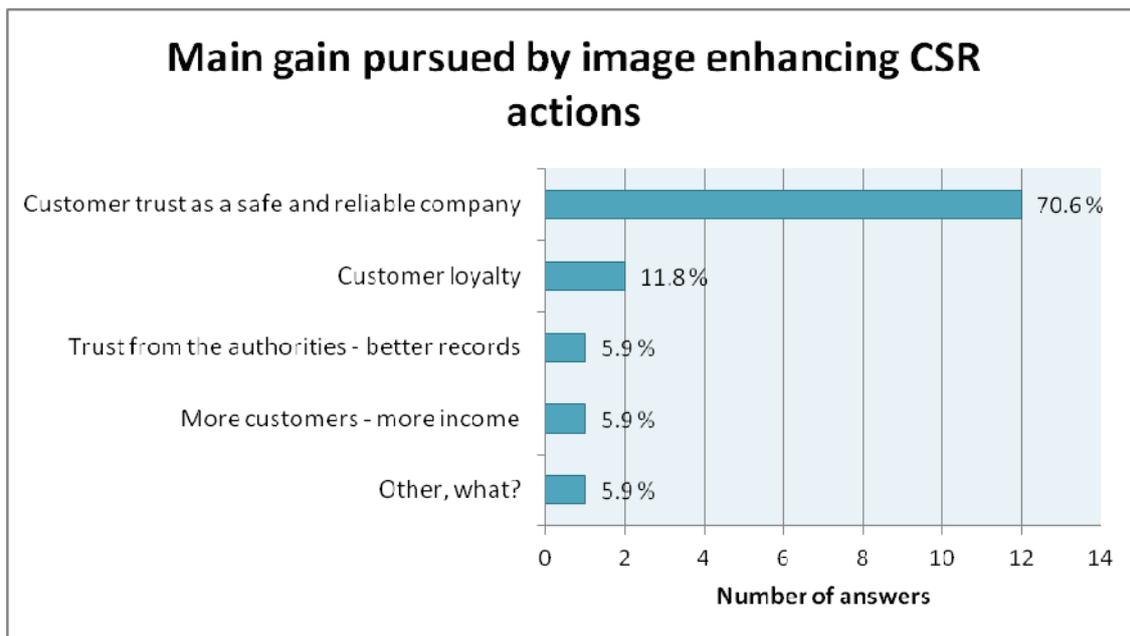
accidents as one of the most important safety benefits of CSR. The second most important safety motive was improved work safety (31.3 %). It should be noted that the improvement of employee motivation and skills were also considered to be safety benefits and thus the nexus between safe operations and social responsibility and the conditions of the employees is well recognized in the shipping industry. Progoulaki & Roe (2011) also state that 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.

#### **4.3.7 Competitive advantage as a motive to engage in CSR**

According to Progoulaki and Theotokas (2009), shipping companies should constantly develop new ways to broaden and strengthen their existing competitive advantages in order to gain a long term competitive advantage. Sometimes the values that the companies endorse are the only thing that separates them from their competitors. Therefore “green marketing” is somewhat common within the shipping sector and is also a factor in procurement decisions since a “green” or ethical company is associated with good quality and innovativeness and builds a reputation of integrity and best practice (Paluszek, 2005; Holmgren, 2010; Acciaro, 2012). It is also possible that the governments give preference and help the socially responsible shipping companies to create commercial advantage by reducing their inspections and posing them with smaller port fees (Vilsted, 2004).

CSR actions are important for competition, since the competitive pressure of the shipping industry can come with disadvantages. For example, in order to achieve cost savings crew sizes might be cut down, which can result in overly long working hours and lead to fatigue and casualties, thus compromising the safety of maritime traffic. Competitive pressure has also driven the shipping companies to use cheaper fuels, with higher sulphur and other emission levels, causing atmospheric pollution (Goss, 2008).

In the questionnaire, all of the participating companies were asked the following question: if your company takes or would take CSR actions in order to improve the image of the company, what is the main gain that is or would be pursued? According to the answers, the main gains pursued would be the customers’ trust as a safe and reliable company (70.6 % of the answers) and customer loyalty (11.8 %) (figure 4.12). There was also one open answer and according to that company, the main gain would be to be perceived as a sustainable company.

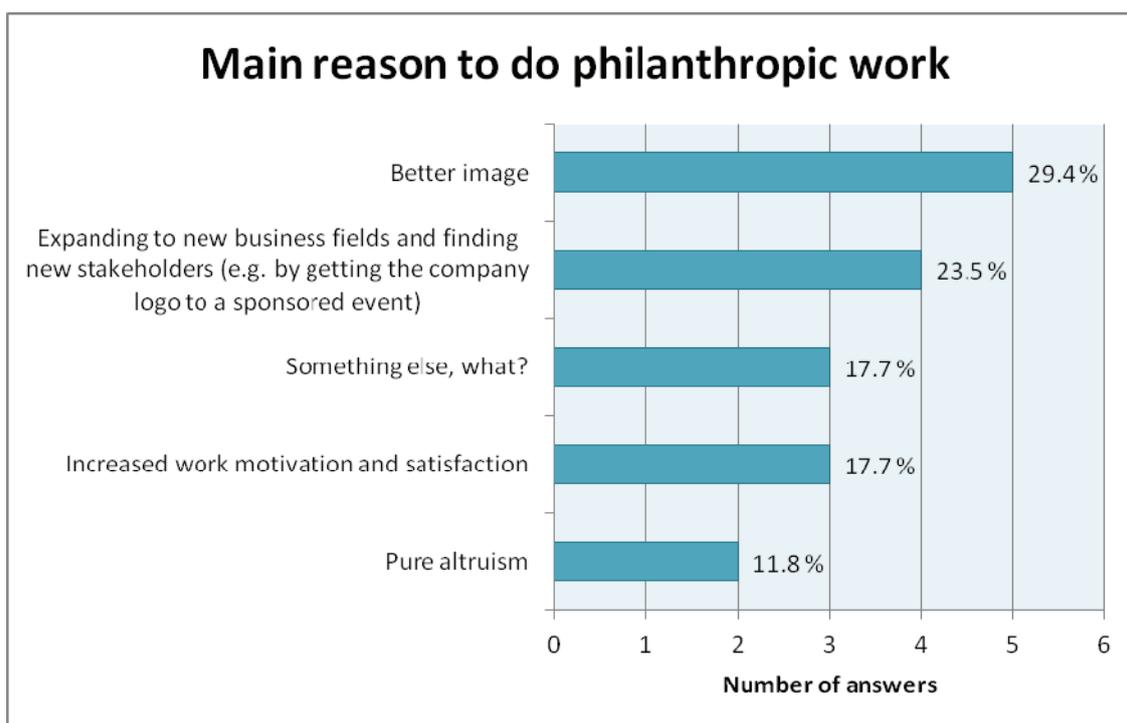


4.12 The main gain that is or would be pursued if the companies would take CSR actions in order to improve the image of the company. Only one answer was allowed.

Gaining more new customers due to a better company image was not a common answer (5.6 %) and most of the given answers concerned maintaining the trust and loyalty of the customers that already exist. It should be noted that customer trust as a safe and reliable company was by far the most important motive to the companies, even though in the preliminary question about the concept of CSR (figure 4.2) the reputational issues were not considered an aspect of CSR that often.

According to Lovio (2000), the charitable work approach is one way to execute responsible operations in a company. It means that a company voluntarily takes part in charitable work to solve problems in the society. CSR in shipping has been actualized by engaging in charitable donations in reality as well (Lloyd's List, 2010).

In the questionnaire, the respondents were asked what the most important reason for companies to do philanthropic work is or would be (figure 4.13). The companies were able to choose only one alternative. Some examples, such as sponsoring and charity work as donations or work hours for employees, about the different types of philanthropic work was also provided. According to the respondents the most important reason for their company to do philanthropic work is gaining a better image (29.4 % of the answers). Three answers outside the provided alternatives were given. One company said that the main reason is to secure their social license to operate. One company stated that doing philanthropic work is a tradition of the company. One respondent pointed out that in their opinion philanthropic work is not a part of CSR.



4.13 The most important reason to do philanthropic work in shipping companies. Only one answer was allowed.

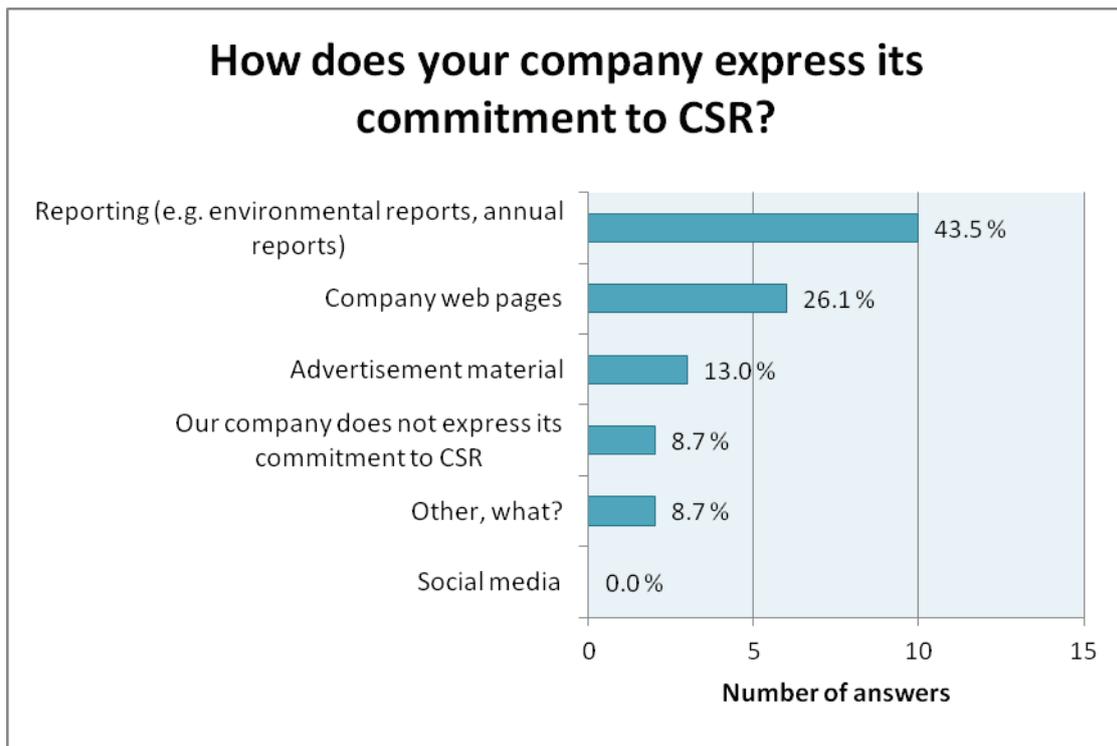
A shipping company engaged CSR should be directly connected with the stakeholders and communicate and report openly about their CSR actions to the public and to their stakeholders (Vilsted, 2004). Nevertheless, open reporting and information disclosure can impose risks and they can be one of the key concerns when engaging in CSR. A company has to decide how to balance between the multiple social values and how to avoid focusing on the negative impacts without risking the honesty and transparency of reporting and turning the company's CSR activity into mere greenwashing (Grewal & Darlow, 2007).

In reporting and information sharing, the main goal might be to be communicative and transparent, to verify their compliance with regulation and to establish the company's values. Additionally it should be noted that the CSR related reporting and information sharing can also work as a tool to be used to advertise the company and to gain competitive advantage. As stated before, sometimes the values that the companies endorse are the only thing that separates them from their competitors. Yet if those values are not expressed properly in public and to the stakeholders, their potential to bring benefits to the companies is diminished.

According to Poulouvasilis and Meidanis (2013), the shipping companies need to be increasingly able to communicate with their stakeholders using CSR terminology and to demonstrate supply chain responsibility. The stakeholders also expect to be able to trust the information presented. Therefore the companies need to enhance the credibility and quality of their published information and reports (Poulouvasilis & Meidanis, 2013). In the dissemination of the information, the companies should invest in the reliability,

verifiability and transparency of the shared information. For example reports and statistics that demonstrate the actual performance and results of the company can have more value in advertising the company's values and responsible actions than slogans and public statements.

In the questionnaire, the companies that are already engaged in CSR were asked about the ways they express their commitment to CSR (figure 4.14). More than one answer was allowed. According to the answers, reporting in the form of e.g. environmental reports or annual reports is the most common way to express CSR commitment in shipping companies (43.5 % of the answers). Approximately 77 % of the responding companies said that reporting is one of the ways they express their commitment to CSR. For Approximately 38 % of the companies, reporting was the only way to express CSR commitment. Two answers outside the provided alternatives were given. According to those answers, one company expresses its CSR commitment by a special Communication on Progress publication - an annual report based on the UNGC. The other company expresses its commitment by being a member of a regional CSR partnership and cooperation organization.



4.14 *The means of expressing commitment to CSR in CSR-committed companies. More than one answer was allowed.*

It should be noted that even though social media marketing is a growing trend and virtual social worlds offer a multitude of opportunities for companies in marketing (Kaplan & Haenlein, 2010), none of the responding shipping companies use it as a way to express their commitment to CSR.

## **5 SUMMARY AND CONCLUSION**

### **5.1 Summary of the results**

In the corporate social responsibility concept, the companies voluntarily take part in actions that contribute to a cleaner environment and better society through interaction with their stakeholders and by integrating these concerns to their business operations, which potentially also results in economic benefits (Commission of the European Communities, 2001; Kujala, 2009). This means that corporate social responsibility takes into account environmental, social as well as economic aspects in the operations of a company. Currently the United Nations Global Compact (UNGC) with its 10 principles is the universally accepted framework for companies committed to CSR (UNGC, 2013). CSR goes beyond following the mandatory rules and regulations by adopting voluntary actions and practicing self-regulation. CSR can be seen as a form of corporate self-regulation is integrated into a business model (Hart, 2010). There are two different conceptions of responsibility. Firstly, responsibility can be seen as an internal tool of the company's management. Secondly, the demand for responsibility can arise from outside the company, thus making responsibility more than just an internal issue (Sorsa, 2010).

According to Lovio (2000), there are three ways of executing responsible operations in a company. These are the charitable work approach, the procedure approach and the core business approach. The charitable work approach means that a company voluntarily takes part in charitable work to solve important problems in the society. The second way to execute responsible operations is the procedure approach. That means that it is not important how the profits of the company are used, but that they are obtained responsibly. The third responsibility approach concentrates on the core business i.e. the product of the company. The company is considered responsible when its product or the service it provides is seen as beneficial for the customer and for the society (Lovio, 2000). There are also other ways to distinguish different types of voluntary initiatives. The three major categories are: codes of conduct, social labelling and investment initiatives (Urminsky, 2001). CSR is strongly linked to the values of a company. The involvement of the top management is crucial in CSR, since the managers show example and lead the way (Carroll, 1999; Kujala, 2009).

According to Puolovassilis and Meidanis (2013), stakeholder involvement is a central part of the companies' CSR activity. A shipping company engaged CSR should be directly connected with the stakeholders and communicate and report openly about their CSR actions to the public and to their stakeholders (Vilsted, 2004). CSR activities are usually not taken into serious consideration by companies whose activities take place at a business-to-business level, such as shipping companies for which the basic goal has always been the ability to produce low-cost services (Progoulaki & Roe, 2011). However, the pressure from the stakeholders has increased in the shipping sector during the past decade. Nowadays many users of the shipping services want to ensure that their goods are being shipped in a socially responsible manner. That is why shipping companies increasingly need to show that they are operating responsibly (Pawlik et al. 2012).

According to the literature review, CSR is increasingly recognised as having real business benefits in terms of attracting customers and high-quality employees, including seafarers. In shipping, CSR has tended to focus on environmental issues (Lloyd's List, 2010). Corporate social responsibility is increasing in the shipping sector also due to the fact that the shipping companies try to be more transparent, try to comply with the rules and regulations and try to avoid fines and detention. The shipping companies are starting to realise that they might be favoured as shippers if they engage in sustainable operations (Etsy & Winston, 2006).

Corporate social responsibility should take into consideration and find a balance between the financial, social and environmental factors (Vilsted, 2004). The link between CSR and financial performance is complicated. Roughly put, it can be stated that responsible actions can produce costs, but due to those actions cost savings in the form of learning, increased efficiency and concrete improvements can be achieved (Sorsa, 2010). 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 (Elkington, 1994). Social responsibility can be perceived as long-run profit maximization (Carroll, 1999). The shipping companies should focus on obtaining long term profits rather than quick short term profits. These long term profits should not only be monetary profits, but also social benefits and environmental benefits (Grewal & Darlow, 2007).

According to the literature review, a company that acts socially responsibly takes into account the well-being of the labour force, the corporation and other stakeholders of the company (Elkington, 1994; Carroll, 1999). 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 (Progoulaki & Roe, 2011). A committed workforce is also 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 with difficulties with labour shortage (Pawlik et al. 2012). Companies which place an emphasis on CSR also tend to have more loyal and committed employees (Lloyd's List, 2010).

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 (The Maritime Executive, 2011). 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 far as possible (Elkington, 1994). 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 through establishing a "green" profile (Acciaro, 2012).

Companies engaged in CSR and socially responsible investing have demonstrated that ethical codes, humane social policies, corporate citizenship and proactive environmental procedures reduce the 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 (Fafaliou et al. 2006).

The benefits of engaging in CSR can be both monetary and non-monetary and the incentives to engage in CSR can be both positive, e.g. as gaining a competitive advantage, or negative, such as stakeholder pressure (Sorsa, 2010; Poulouvasilis & Meidanis, 2013). The benefits generated by CSR 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 (Commission of the European Communities, 2008). The key concerns when engaging in CSR are connected with financial and time costs. The process is considered to be both time consuming and costly due to the channeling of resources from the core commercial activities (Grewal & Darlow, 2007). Yet companies that ignore social priorities and responsibilities are at risk of losing competitive advantage in terms of gaining market share, attracting talented employees and preserving employee retention. Neglecting environmental issues can have a harmful effect on the company's long-term growth rates and business (Maritime CSR, 2012).

Sometimes the values that the companies endorse are the only thing that separates them from their competitors. Therefore "green marketing" is fairly common within the shipping sector (Holmgren, 2010). Good reputation is an asset. A good reputation can take some setbacks, whereas a bad reputation is more vulnerable and can ruin the business of a company if they make a mistake. A shipping company should constantly develop new ways to broaden and strengthen their existing competitive advantages, in order to gain a long term competitive position in the market (Progoulaki & Theotokas, 2009).

According to Hänninen (2007), there are major defects in the safety culture of the maritime industry, one of which is the fact that shipping companies are more profit-oriented and neglect safety issues (European Commission, 2012). Yet due to proper safety management, the business of a shipping company can be more competent (Anderson, 2003). For example safety performance and its strengths are often viewed when a ship is chartered (Hetherington et al. 2006). There are some factors of social responsibility that are specific to the shipping industry and which can have an effect on maritime safety. For example, apart from the ethical aspects, mistreatment of the crew affects the safe operation of a ship (Progoulaki & Roe, 2011).

The questionnaire was sent to 524 recipients from shipping companies that operate or are located in the Baltic Sea area. The questions were mostly multiple choice questions and yes/no questions, but the questionnaire also included a few open-ended questions. Approximately 68 % of the participating companies had implemented CSR measures in their operations. From the remaining companies that had not yet implemented CSR, 33 % were not interested in implementing CSR into their operations even in the future.

According to the question concerning the concept of CSR, it would seem that in many ways CSR is considered to be a company's internal matter. When the companies were asked what issues they consider a part of CSR, the most common answers were maritime safety and quality management. Also employee and work safety related issues were often mentioned and these can all be considered internal matters of the company. Reputational issues were not very often considered to be a part of CSR. Of all the different reputational aspects, customer relations seemed to be considered the most important. Stakeholder communications received fewer answers, even though in the question concerning stakeholder pressure the majority of the responding shipping companies (94 %) said that CSR related pressure has increased during the recent years.

According to the respondents, the special characteristics of the maritime sector that should be taken into consideration when implementing CSR in shipping are globalism, cultural differences and unequal national and regional regulatory obligations. However, according to the answers CSR can be applied in all industry sectors including maritime sector.

Almost 70 % of the companies that practice CSR had first engaged in CSR after the year 2000. The reason for that might be the increasing stakeholder pressure. The respondents were also asked how their company's CSR activities had changed during the years and according to the answers the majority of the companies (84.6 %) had become more involved in CSR. When asked about the companies' plans concerning CSR in the future, the majority of the companies that were already engaged in CSR answered that they will increase their involvement in CSR.

According to the responding companies, the most common CSR measures in shipping are environmental measures and safety measures. The companies already engaged in CSR were also asked to reveal the reasons for choosing the particular measures. The answers varied, but considered mostly economical and moral priorities. Safety and environmental protection were considered important, but the CSR initiatives also have to suit the business strategies of the company. Almost 80 % of the responding CSR companies said that they also measure the impact of their CSR activities. The most common way of measurement was Key Performance Indicators or KPI's. According to the questionnaire, the most effective measures have turned out to be for example energy efficiency measures, sharing best practices, creating KPI's and charity and educational programmes.

The companies that were engaged in CSR were asked whether the implementation of CSR measures has brought any benefits to their company. Approximately 85 % of the respondents felt that their company has gained benefits. Those benefits were mostly customer satisfaction and good reputation. In the questionnaire, the CSR companies were also asked what kind of obstacles they have faced when engaging in CSR. The same question was asked from the companies that had not yet implemented CSR. The main obstacle for engaging in CSR was considered to be the lack of resources. Engaging in CSR is considered to be costly and time consuming. In some cases the obstacle for engaging in CSR might be that there is not enough knowledge of CSR. In the questionnaire, the non-CSR companies were asked what kind of support concerning

CSR their company requires. All of the respondents said that they need education and consultation. The second most common answer was current research data.

In the questionnaire, the participating companies were asked about their motivations to engage in CSR. According to the answers, the most predominant reasons for engaging in CSR were environmental concerns, safety gains and economic benefits. Over 82 % of the respondents chose environmental concerns as an important motive. Most of the motives chosen were either internal or reputational. The internal motives were business driven, such as economic benefits, or value driven, such as environmental concerns and safety gains. Pressure from outside the company was seldom mentioned as a motive for engaging in CSR.

Concerning the economic side of engaging in CSR, the participating shipping companies were asked what they consider to be the most important economic benefits that motivate them to engage in CSR. The most common answer was the increase of customers resulting from a positive company reputation. Over 70 % of the responding shipping companies had chosen that alternative. However, the benefits of CSR were not only seen to be reputational benefits. Engaging in CSR is seen to have other economic benefits as well, such as pure economic savings and saved resources.

In the questionnaire, the respondents were asked about what the main reasons for their company to be environmentally responsible are. According to the questionnaire, the main reason for a shipping company to be environmentally responsible was concern over the state of the environment. It should be noted that concern over the state of the environment is a motive that seems not to include any potential for economical or reputational benefits. Therefore it can be seen as a purely moral motive. The second most common answers were creating a business opportunity in the industry where being “green” is rather new and increased efficiency obtained with some of the new environmentally friendly technologies. These motives are more business driven, since they combine environmental concerns with reputational issues and economic benefits.

The most important safety benefit that motivates companies to engage in CSR was accident prevention. All but one shipping company (94.1 %) had chosen less accidents as one of the most important safety benefits of CSR. The second most important safety motive was improved work safety. It should be noted that the improvement of employee motivation and skills were also considered to be safety benefits, thus the nexus between safe operations and social responsibility and the conditions of the employees is well recognized in the shipping industry.

According to the questionnaire, if the companies took CSR actions in order to improve the image of the company, the main gains pursued would be the customers’ trust and loyalty. Gaining new customers due to a better company image was not a common answer and most of the given answers concerned maintaining the trust and loyalty of the already existing customers. The most important reason for the shipping companies to do philanthropic work was also gaining a better image.

In the questionnaire, the companies engaged in CSR were asked about the ways they express their commitment to CSR. According to the answers, reporting in the form of e.g. environmental reports of annual reports is the most common way. Approximately 77 % of the responding companies said that reporting is one of the ways they express their commitment to CSR and for approximately 38 % of the companies, reporting was the only way to express CSR commitment.

CSR related reporting can also work as a tool to be used to advertise the company and to gain competitive advantage. If the company's values are not expressed properly in public and to the stakeholders, their potential to bring benefits to the companies is diminished. In the disseminating the information, the companies should invest in the reliability, verifiability and transparency of the shared information. For example, reports and statistics that demonstrate the actual performance and results of the company can have more value in advertising the company's values and responsible actions than slogans and public statements. It should be noted that even though social media marketing is a growing trend and Virtual social worlds offer a multitude of opportunities for companies in marketing (Kaplan & Haenlein, 2010), none of the responding shipping companies use it as a way to express their commitment to CSR.

## **5.2 Conclusion**

Nowadays company stakeholders are demanding higher quality services, which entail operational improvements and better image as well as increased awareness of the social, environmental and economic effects of shipping operations. Corporate social responsibility has the tendency to improve all these three factors and through them enhance the overall quality of shipping. Through enhancing the quality of their services and operations, a shipping company can improve its image and reputation to gain competitive advantage, whereas earlier the emphasis was on low cost services rather than image improvement.

During the study, CSR in shipping was examined through a literature review and a questionnaire study. The aim of the literature review was to form a theory of corporate social responsibility and its application in shipping with the emphasis on maritime safety and competitiveness. The questionnaire study was carried out in shipping companies operating in the Baltic Sea area and the aim was to examine whether shipping companies operating in the Baltic Sea region have implemented CSR to their operations, how the CSR issues are managed in the companies and what motivates the companies to engage in CSR in the first place.

In shipping, CSR has tended to focus on environmental issues. This is also evident in the results of the questionnaire. The questionnaire study revealed that the most common CSR measures in shipping companies are environmental measures and environmental concerns are considered to be the most important reason to engage in CSR. From the preliminary question about the concept of CSR, it can also be seen that safety issues are commonly considered to be a part of CSR. From the questionnaire it can also be extrapolated that gaining a better reputation is one of the most important reasons to

engage in CSR in the first place. Based on the study, it would seem that companies are starting to realise that they might gain competitive advantage if they engage in sustainable operations. It might also be that from the companies' point of view, a reputation as a safe shipping company does not provide as good a competitive advantage as a reputation as a "green" shipping company. Therefore environmental issues might be somewhat emphasized in shipping.

The questionnaire study yielded 19 answers from 6 countries. Resulting from the small number of answers, the generalisation potential of the study is limited. Other researchers have faced similar problems with questionnaires directed at shipping companies. For example, Fafaliou et al. (2006) stated in their study that based on the findings of several earlier studies, the majority of shipping entrepreneurs have some restrictions concerning the disclosure of their entrepreneurial attitudes. They aimed to take that issue into consideration in their own study carried out amongst Greek shipping entrepreneurs and therefore performed the questionnaire in the form of formal and informal interviews during coffee and meeting breaks.

Despite of the small number of responds, the results provide an indication of the attitudes towards CSR in shipping companies. Furthermore, it should be noted that the answers of the different types of shipping companies and the different answer groups are quite similar and coherent and the results of the questionnaire study correspond to the results of the literature review. Therefore it can be said that the answers to the questionnaire represent the general attitudes towards CSR in the maritime sector quite well.

The safety of shipping in the Baltic Sea is extensively studied. However, the possibility of tackling maritime safety issues by means of self-regulatory and voluntary measures, such as corporate social responsibility, has not been widely studied. Based on this study, it would seem that safety issues are considered an integral part of the CSR activities of shipping companies and these voluntary safety related CSR measures can, in fact, have an effect on maritime safety. The incentive to implement voluntary measures comes from the fact that acting responsibly can enhance the company's reputation and brand and thus give the company competitive advantage.

Further research on self-regulation and voluntary measures in shipping and its effects on maritime safety is needed. In the future an interesting research topic would also be how self-regulation and voluntary measures affect the other instruments of maritime governance.

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## APPENDIX 1

### QUESTIONNAIRE

#### Background information

- 1) What is your company's country of origin?
  - Denmark
  - Estonia
  - Finland
  - Germany
  - Latvia
  - Lithuania
  - Poland
  - Russia
  - Sweden
  - Other, what?
  
- 2) What is your position in your company?
  - Employee
  - Specialist
  - Foreman
  - Official
  - Middle management
  - Management
  
- 3) What is the size of your company?
  - Small (1-5 vessels)
  - Medium (6-20 vessels)
  - Large (>20 vessels)
  
- 4) What is the type of your company?
  - Private
  - Public/government owned company
  - We a part of a larger group of companies or a conglomerate
  
- 5) What is your company's type of operation? (More than one answer is allowed)
  - Liquid bulk traffic
  - Dry bulk traffic
  - Container, ro-ro or other unit
  - goods traffic
  - Passenger traffic
  - Supply vessel operation
  - Short sea shipping
  - Other, what?

6) In what area does your company mainly operate? (More than one answer is allowed)

- Baltic Sea
- North Sea
- Europe
- Atlantic Sea
- Worldwide
- Other, what?

### **The concept of CSR**

7) What issues you consider a part of CSR? (More than one answer is allowed)

- Environmental protection
- Public relations
- Sustainable development
- Codes of Conduct
- Health and social issues
- Socially responsible investment
- Responsible partners and subcontractors
- Charity
- Better customer relations
- Employee satisfaction
- Creating a reputation of a good and interesting employer
- Maritime safety
- Work safety
- Quality management
- Better reputation
- Better stakeholder communication
- All above mentioned issues
- Other, what?

8) Can responsible actions or companies' self-regulation impact on policy-making?

- Yes, positive or negative actions can act as a precedent for policymakers
- Yes, if shipping companies act responsibly there is no strong pressure for authorities to implement stricter regulations
- In a sense, implementing of stricter policies may be decelerated but probably the regulations are going to come into force regardless of the behaviour of companies
- No

9) Maritime sector differs from other industry sectors in many ways. What special characteristics of maritime sector should be taken into consideration when implementing CSR in shipping? Do some characteristics make the implementing of CSR in shipping more challenging?

- 10) Has your company implemented CSR measures in its operations?
- Yes
  - No
- 11) Is your company interested in implementing CSR to its operations?
- Yes
  - No
  - Maybe in the future
  - Not sure or we don't have enough information about CSR yet

### **Questions for CSR companies**

- 12) When did your company first engage in CSR?
- Before 1990
  - During years 1990-2000
  - During years 2000-2010
  - After 2010
  - Other, what?
- 13) How have the company's CSR activities changed since then?
- Our CSR activities haven't changed
  - We have become more involved in CSR
  - We have become less involved in CSR
  - Other, what?
- 14) What kind of CSR measures is your company involved in? (More than one answer is allowed)
- Environmental measures
  - Social measures
  - Economic measures
  - Safety measures
  - Administrative measures (e.g. developing Codes of Conduct)
  - Other, what?
- 15) Why has your company chosen the particular CSR measures?
- 16) What are the main levels that your company engages its CSR actions to?
- Local level – Acting responsibly towards the local community (e.g. sponsoring, regional development)
  - National level – Supporting the national maritime industry and environment (e.g. employment and shipbuilding issues)
  - Regional level – E.g. environmental and safety issues
  - International level – Maritime industry is a global by nature so responsibility must reach all ports and to every operational environment
  - Activities in all mentioned levels
  - Other, what?

17) Does your company measure the impact of the CSR measures?

- Yes, how?
- No

18) What have been the most effective CSR measures/activities in your company?

19) Have you changed your company's CSR policy or the CSR activities e.g. because measures have not turned out to be effective enough?

- Yes, please explain
- No

20) Has the implementation of CSR measures brought any benefits to your company?

- Yes, what have the benefits been?
- No

21) What are the main obstacles for engaging in CSR? (You can choose 1-3 most important alternatives)

- Lack of resources
- Lack of time
- Lack of support from maritime authorities etc.
- Lack of support from stakeholders
- Lack of knowledge
- Lack of information about the benefits of CSR
- Other, what?

22) Who manages the CSR issues in your company?

- Managing director/CEO
- Development director
- CSR director
- Quality and environmental manager
- Our company does not have a designated CSR manager
- Someone else, who?

23) How does your company express its commitment to CSR? (More than one answer is allowed)

- Company web pages
- Advertisement materials
- Reporting (e.g. environmental reports, annual reports )
- Social media
- Other, what?
- Our company does not express our commitment to CSR measures

24) What are your company's plans concerning CSR in the future?

- We will increase our involvement in CSR
- We will proceed the same as before
- We will decrease our involvement in CSR
- Other, what?

25) Has the CSR related pressure from stakeholders and interest groups increased during the recent years?

- Yes, strongly
- Yes, slightly
- No

### **Questions for non-CSR companies**

26) What kind of CSR measures would your company be involved in? (More than one answer is allowed)

- Environmental measures
- Social measures
- Economic measures
- Safety measures
- Administrative measures (e.g. developing Codes of Conduct)
- The measures are still undecided
- Other, what?

27) What are your company's plans concerning CSR in the future?

- We will engage in CSR
- We might engage in CSR later
- We probably won't engage in CSR
- Other, what?

28) What are the main obstacles for engaging in CSR? (You can choose 1-3 most important alternatives)

- Lack of resources
- Lack of time
- Lack of support from maritime authorities etc.
- Lack of support from stakeholders
- Lack of knowledge
- Lack of information about the benefits of CSR
- Other, what?

29) Has the CSR related pressure from stakeholders and interest groups increased during the recent years?

- Yes, strongly
- Yes, slightly
- No

30) What kind of support concerning CSR does your company require? (You can choose 1-3 most important alternatives)

- News and information about CSR
- Current research data
- Information about changes in legislation
- Precise instructions and guidelines
- Education, consultation
- Out company does not need outside support
- Other, what?

### **Motives for engaging in CSR**

31) What are or would be the main reasons why your company engages or would engage in corporate social responsibility? (You can choose maximum of 5 most important alternatives)

- Economic benefits
- Environmental concerns
- Obtaining increased efficiency with new technologies
- Being a good and interesting employer
- Safety gains
- Gaining better reputation
- Avoiding negative publicity
- Pressure from the customers
- Pressure from society (public opinion, NGO's, other stakeholders)
- Competitive advantage
- Finding new business models/being a forerunner in the industry
- Tackling the tough competition in the industry (e.g. by indicating safety and green values before saved operation time)
- Insufficient regulation (e.g. related to safety)
- Delaying the need for new stricter regulations to come into force (e.g. by being ahead in technology, being green)
- Philanthropy, altruism
- No clearly defined aims – doing CSR because that is what companies should do
- Something else, what?

32) What kind of economic benefits motivate your company most to CSR activities? (You can choose 1-3 most important alternatives)

- Saved resources
- Gained monetary resources
- Compensations (e.g. on dues and insurance premiums)
- Saved time (e.g. less frequent ship inspections)
- Economic savings (e.g. if machinery is implemented before it becomes compulsory)
- More customers and orders as a result of positive reputation

- Increased income due to increased productivity of equipment and employees
- Other, what?

33) What are the main reasons for your company to be environmentally responsible? (You can choose 1-3 most important alternatives)

- Concern over the state of the environment
- Increased efficiency can be obtained with some of the new environmentally friendly technologies
- A business opportunity in the industry where 'being green' is rather new
- Stakeholder pressure
- Forthcoming regulations and/or anticipating them
- Possibility to impact on the responsibility of the supply chain
- Pressure from other actors in the supply chain
- Something else, what?

34) What kind of safety benefits motivate your company to CSR activities? (You can choose 1-3 most important alternatives)

- Less accidents
- Improved work safety
- Improved maintenance
- Improved motivation of employees
- More skilled employees
- Improved cargo safety
- Improved security
- Other, what?

35) If your company takes or would take CSR actions in order to improve the image of the company, what is the main gain that is or would be pursued?

- Customer loyalty
- Customers trust as a safe and reliable company
- More customers – more income
- Trust from authorities – better records
- Other, what?

36) What is or would be the most important reason for your company to do philanthropic work (e.g. sponsoring, charity work as donations or work hours of employees)

- Better image
- Increased working motivation and satisfaction
- Pure altruism
- Expanding to new business fields and finding new stakeholders (e.g. by getting the company logo to a sponsored event)
- Something else, what?







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