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## Barriers to the Implementation of Strategic Corporate Social Responsibility in Shipping

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### ABSTRACT

Strategic corporate social responsibility (CSR) involves the voluntary practice of social and environment activities to satisfy firms' stakeholders, with the intention of generating profits. Companies, especially those within the shipping industry, often face challenges when implementing strategic CSR. The paper therefore, seeks to identify, rank, and discuss the barriers to the implementation of strategic CSR in shipping. A list of barriers was first identified from reviewing the literature. Subsequently, a survey was administered to 600 shipping companies in Singapore and the collected data were analysed using structural equation modelling. The results showed that factors relating to lack of resources, lack of strategic vision, lack of measurement system, high regulatory standards, and low willingness to pay for CSR are significant barriers to implementing strategic CSR in shipping. The findings imply that the practice of strategic CSR is contingent on both the firm's macro-environment and micro-environment, albeit to a lesser extent. Understanding these potential barriers can help companies avoid or overcome these barriers and improve their chances of successfully implementing strategic CSR.

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### 1. Introduction

Corporate Social Responsibility (CSR) is an integral component of managing businesses and has received much attention in the recent literature on shipping (Shin and Thai, 2014; Skovgaard, 2014). In this study, CSR has been defined as a concept whereby firms integrate social and environmental concerns in their business operations, and in their interaction with stakeholders on a voluntary basis (Commission of the

European Communities, 2014). Similar to the concept of sustainability, CSR considers both social and environmental issues while accounting for the long-term financial success of a firm.

In the past, CSR was regarded as a trade-off to a firm's financial performance since it involves a private provision of a public good that serves solely to minimise negative externalities (Bagnoli and Watts, 2003).

It was also perceived by firms as an opportunity cost as investments on CSR could have been used to strengthen firms' existing competitive advantage (Friedman, 2007). However, in recent times, there is growing empirical evidence indicating that firms which partake in CSR activities can also be financially successful in their businesses (Margolis, Elfenbein and Walsh, 2009). Recent literature suggests that CSR contributes to a firm's financial performance indirectly. The relationship between CSR and financial performance has been suggested to be mediated by leading performance indicators such as customer satisfaction, job satisfaction, and corporate image (Galbreath and Shum, 2012).

In the context of shipping, CSR has been reported to provide added advantage for firms to differentiate their services, ward off or pre-empt port state interventions, offer license to operate in environmental sensitive areas, and improve the retention of crew and shore-based talents (Progoulaki and Roe, 2011). In some cases, CSR may also contribute indirectly to a firm's cost advantage due to improved environmental performances (Lun et al., 2015). For example, investing in energy-efficient ships reduces fuel consumption and therefore, their operating cost.

While there are extant literature focusing on CSR, these literature focuses mainly on discussing the benefits of CSR. There is very limited literature that focuses on identifying and examining the barriers that impede the implementation of CSR. The following gaps in the literature are noted. Firstly, a comprehensive study on the barriers to CSR implementation is presently lacking; relevant studies are noted to be fragmented. For instance, Du, Bhattacharya and Sen (2011) have limited their analysis on barriers relating to trust. In another study, DeTienne and Lewis (2005) have narrowly discussed issues on pragmatic and ethical barriers to CSR disclosure. Secondly, there is an absence of such study on shipping companies. Each industry presents a unique set of social and technical challenges to implementing CSR and thus, requires individualised attention from researchers. This probably explains why despite availability of information on implementation of CSR, many shipping companies still experience difficulties doing so (Coady et al., 2013).

In fact, a survey by Fafaliou, Lekakou, and Theotokas (2006) revealed that only six out of ten shipping companies have implemented CSR initiatives. Similarly, from reviewing the annual reports of container shipping companies, Pawlik et al. (2012) found that CSR is only practised by several leading companies. In addition, an archival analysis of shipping companies in the Scandinavian region reveals that only 53 per cent have published CSR materials on their internet pages (Arat, 2011). These findings provide further justification for conducting an empirical analysis on the barriers to successful CSR implementation in shipping.

Based on the above discussion, this paper aims to analyse the barriers to the implementation of CSR in shipping companies. In the sections that follow, literature concerning definition of CSR and barriers to its successful implementation is reviewed. Next, the methodology and findings will be presented. The last section draws the conclusions.

## 2. Literature Review

### 2.1 A Definition for CSR

Since CSR is a subjective construct and its interpretation varies with individuals and organisations, it is important to provide an operational definition for CSR. Numerous models such as 'spheres' or 'layers' of

responsibility were proposed to define the scope of CSR (Wood, 2010). In spite of the numerous definitions found in literature, CSR has consistently been referred to five dimensions, namely environment, social, economic, stakeholder, and voluntariness (Dahlsrud, 2008). With reference to the dimension of voluntariness, CSR connotes greater participation than mere compliance with rules and regulations (Turker, 2009). In other words, compliance with environmental or social regulations does not qualify as the practicing of CSR.

It has been observed that the CSR dimensions practised by shipping companies do not differ considerably from the five generic dimensions (Lu, Lin and Tu, 2009). It was also noted that shipping companies place greater emphasis on issues pertaining to the environment over social concerns (Lun et al., 2014). For example, ISO 14000 which relates to the voluntary practice of environment management has received more attention by shipping companies as compared to ISO 26000 which deals with social responsibility (Matthews, 2010). Nevertheless, this study adopts the five CSR dimensions to define the premises of CSR.

Another key issue that requires clarification relates to the objective of CSR, which can be altruistic or strategic (McWilliams and Siegel, 2011). The implementation of CSR is altruistic, or socially-motivated, when the objective of a firm is to serve the society with the intention of minimising negative externalities, and at the cost of profits. In contrast, the implementation of CSR is strategic, or privately-motivated, when the objective of practising CSR is to serve a firm's bottom line. In this case, CSR can be used as a marketing tool to promote firms' services and image. This study limits its discussion to strategic CSR as it most logically relates to the concept of business continuity (i.e. going-concern). Furthermore, in most cases, shipping companies expect financial returns from their expenditures for exceeding regulatory requirements on environmental and social performances (Kunnaala, Rasi and Storgård, 2013).

### 2.2 Barriers to CSR Implementation

Five main barriers to the implementation of CSR in shipping were identified from reviewing and synthesising the existing literature on barriers to CSR implementation as well as CSR in shipping. These barriers may be further divided into firm-specific and industry-specific barriers.

Firm-specific barriers are micro factors that are heterogeneous and their impact on CSR implementation could vary among individual firms. To some extent, these barriers can be influenced, controlled, and managed by a firm through change management and transformation of organisational culture and leadership. On the other hand, industry-specific barriers are macro and homogeneous factors that are experienced invariantly by all firms in the same industry, which in this case, refers to the shipping industry. These barriers are largely shaped by external forces such as the competitive and political landscape.

#### 2.2.1 Firm-specific Barriers

##### 2.2.1.1 Lack of Resources

The lack of resources, including finances, human capital, knowledge, and expertise, has been reported to be a common barrier to CSR implementation. In fact, Lam and Lim (2016) found that for effective implementation of CSR in shipping, large amount of resources is required. However, budgets for implementing CSR are often inadequate and outcompeted by other projects which guarantee higher return on investments (Faisal, 2010). In addition, most shipping companies do not

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