"SUSTAINABILITY OF SHIPPING - ADDRESSING CORPORATE SOCIAL RESPONSIBILITY THROUGH MANAGEMENT SYSTEMS"

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ABSTRACT

In an economic downturn, the bottom line understandably rises to the top of management’s agenda and commitments towards sustainability – made in better times – may begin to fade. However, stakeholders continue to demand greater accountability. They are seeking independent scrutiny of social, economic and environmental credentials which could well go to the very heart of Organisations’ brand. The broad area of sustainability and Corporate Social Responsibility (CSR) has slowly crept up the corporate agenda and awareness of this topic is growing. However, in relation to other corporate governance issues which capture the interest and attention of stakeholders and board directors, these concepts are still of relatively low priority. Specifically looking at the Shipping industry, CSR should however be at the very core of those who are responsible for ship operations since it is concerned with all elements of responsibility for the effects and impacts its activities have on its staff, customers, communities in general, and on the environment. This paper explores the development of sustainability and its links with CSR within the maritime industry. In particular it will examine the benefits of, and methods for, risk identification and performance measurement using Management Systems - setting of strategic aims and their subsequent monitoring. The paper will then conclude by looking at what companies can do to demonstrate their commitment towards sustainability through Management Systems. Production of credible, open and transparent measuring and reporting mechanisms of these non-financial operations could help to protect brand reputation and hard assets.
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1. RELEVANCE OF CSR IN SHIPPING INDUSTRY

As mentioned above, CSR themes such as Safety, Health and Environment and external environment should already be high on quality shipping companies’ priorities. However, on a global basis, CSR-initiatives are currently supported and dominated by land-based industries, with limited participation of shipping companies. As touched upon several questions arise from this:

• has the globalisation process been different for shipping companies?
• does the institutional structure of the industry leave CSR superfluous?
• how much of business practices referred to as ‘quality shipping’ equal CSR in other industries?

With globalisation civil society in general and NGOs in particular have raised the question of accountability of corporations with increased frequency. Who, in a global economy, holds corporations accountable for their actions? Human and labour rights are codified in international conventions and declarations, but breaches are often penalized neither by a company’s host nor home country. By voluntarily involving stakeholders more and imposing social and environmental minimum standards on own activities, companies have sought to meet the concerns expressed over a business sector perceived to be accountable to few other stakeholder groups than their shareholders. To what extent does this description apply to the shipping industry?

To answer these questions, one only needs to look at the key pillars of shipping which traditionally, and even more so in current times, have relied on business, environment and social conditions to be in harmony. Whatever one’s role in the Shipping Chain of Responsibility (see Figure 1), the dependence on each of these three pillars is relevant as all rely on suitable management, management systems, the right attitude and corporate culture, as well as the appropriate competence, training, development and leadership models to be in place for all ships and associated companies, with sound financial performance to support all of this.
That is why, in an economic downturn, the pressure is to relax some of the standards applied towards the social and environmental pillars, but under a sound and long-term model which incorporates robust business planning these risks can be managed and standards maintained as increasingly dictated by political and public demands, looking wider at financial growth and profit in order to achieve a more socially responsible attitude towards shipping operations.

Without a doubt, the interest of many stakeholders in the social, environmental and ethical performance of the shipping industry has increased. Customers, employees, investors, media, governments, regulators and NGOs pay greater attention to sustainability issues and put greater pressure on the maritime community.

2. IS THERE A NEED FOR CSR IN SHIPPING?

CSR for land-based companies has involved defining self-imposed unilateral codes of conduct or the development of voluntary industry guidelines and standards. However, the regulatory framework of the shipping industry is different than for most of the land-based industries. Whereas companies and industry associations in land-based industries to a larger extent are lacking international organisations regulating and defining industry-specific performance levels for the industry, the shipping industry has organisations passing global rules (primarily the IMO) and thereby providing for a potential level-playing field and theoretically the most freely competitive situation possible. The shipping industry has also come further than most land-based industries in developing a system for industrial relations and wage and contract negotiations in a globalised business environment (under the auspices of the ILO).
In terms of ship owning/management companies, it is widely acknowledged that operating a ship is not only about having the right knowledge of the vessel’s equipment and systems, but also this knowledge has to be utilised properly with respect to safety and environmental protection in order to provide long-term benefits. Therefore, in order to have a safe, sustainable or responsible business, you need sound technology that is suitably managed and operated by the right people in the appropriate environment and culture. CSR provides the “gel” to ensure these key components are brought and remain together. So what are the potential CSR challenges for shipping companies?

**Environmental:**
Clearly regulatory compliance should be the minimum baseline, however beyond this we need to consider the overall impacts of Climate Change (Carbon Reduction and Energy Efficiency), Emissions to Air, Discharges to water, Waste Management, Recycling, as well as Emergency Response to pollution incidents.

**Social:**
Employee relations are key in order to deal with issues of paramount importance such as cultural diversity, job attractiveness, creation and retention, training and development, safety and security. Business ethics are also becoming more important as companies come under greater scrutiny from, for example regulatory bodies. Wider social issues also need to be taken into account such as human rights assurance, growing and aging populations, poverty, disaster recovery etc.

**Economic:**
The overall business environment and stakeholder pressures for top-line revenue and profits need to be balanced with the overall global economic outlook and the worldwide supply/demand situation as well as the cost models applicable to ship operations. The increasing globalisation trends and the energy and alternative fuel discussions provide for a much stricter competitive and globally-connected arena which demands broader and longer-term business planning.
True CSR or corporate sustainability management requires the integration of all three of the above dimensions into business management, which could even result in business model transformations in order to secure sustainable ship operations in the longer term (see Figure 2).
3. CSR BENEFITS FOR SHIPPING COMPANIES

International regulation is usually a compromise between a wide range of factors and thus often takes on a least common denominator-character. Because of this, shipping companies situated in societies with higher expectations will inevitably benefit from proactively defining higher performance levels and communicating them, thus demonstrating their competitive advantage.

From a business perspective, although research has shown that CSR can improve competitiveness of companies within their respective markets (Burke et al. 1996), however company-specific impacts or benefits of applying CSR have traditionally been very difficult to measure. Whether a company is known to be socially responsible or not, ultimately rests with how the company is perceived by its stakeholders. It is, however, possible to say that a socially responsible shipping company is a company working actively to integrate economical, social and environmental concerns in their running business operations. And a company that manages to find a sound balance between the need for operational efficiency, shareholder value and attention to the interests of non-financial stakeholders. CSR can be approached from both an upside and a downside-perspective. Companies may engage in CSR to avoid exposure of poor performance, unethical business practices or potential negative impacts on local communities etc. Companies also seek to get a competitive advantage from choosing to go beyond rules and regulations, implementing Management Systems (MS, see section 5), working proactively to strengthen a brand or increase employee pride and loyalty. There are also certain organisational processes/activities that typically are performed by a socially
responsible company. The main business benefits associated with implementation of CSR that can be identified from theoretical and empirical research (Weber 2008) can be summarised as follows:

1. Positive effects on Company image and reputation
2. Positive effects on Employee motivation, retention and recruitment
3. Cost savings
4. Revenue increases from higher sales and market share
5. Risk reduction/management

These benefits can be categorized as Monetary and Non-monetary as shown in Figure 3 and it is important that, in order to measure the impact of CSR, companies will need to introduce suitable KPIs to cover both of these main categories.

![Figure 3: CSR Impact Model (Weber 2008)](image)

It is also recommended to apply a CSR impact assessment Weber (2008) in order to evaluate both monetary and non-monetary business benefits, which should include an assessment of qualitative CSR impacts, KPI development and measurement, an assessment of monetary CSR value-added, and the evaluation of the strategic relevance of each of the assessment components.

Shipping companies increasingly need to be able to communicate with customers and other key stakeholders such as financiers and potential investors using CSR-terminology and to demonstrate supply chain responsibility. Expectations to shipping companies have changed. The shipping industry has played a central role in bringing about many of these new expectations. By enabling global transport of goods the industry has been essential give momentum to the globalisation process, a process that has altered notions of the extent of responsibility in all industries. Social and environmental dimensions of the full life-cycle of products as well as co-responsibility for business associates’ performance through ‘guilt by association’ are today business realities. Although the shipping industry is a more regulated industry than others, the IMO and ILO-regulations do not effectively cover these new notions that CSR seeks to address. Globalisation blurs the traditional divide between business and government. Public and private roles become less clear in a globalised world. Considerations that previously could be left for governmental agencies to solve, today is becoming an integral business process in companies. Oil and
gas-companies have long been challenged for negative consequences such as corruption and destabilisation of developing countries that revenue from corporate activities brings about. A related situation is criticism of revenue going from shipping companies to ship registries and strengthening the power base of oppressive regimes etc. CSR offers both an explanation for why corporations increasingly are challenged on such consequences as well as a prescription for how companies can work to forestall criticism. It has been argued in many fora that quality shipping is too often silent and not communicating positive contributions from the industry. Engaging in CSR forms a good basis for working with social and environmental performance, and also gives guidance on how to engage with stakeholders and undertake activities influencing the perception of the industry positively. Work with CSR creates ‘brand capital’ which helps the company sustain its reputation in time of crisis or accidents etc. Lastly, CSR is, per definition of the European Commission (“a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment” by integrating “social and environmental concerns in their business operations and in their interaction with their stakeholders”), a voluntary undertaking.

4. INVOLVEMENT OF STAKEHOLDERS

Stakeholder involvement is a central CSR activity. In addition to commercial stakeholders such as customers, partners, suppliers etc. within the chain of responsibility (Figure 1), companies increasingly seek to identify and consult with non-financial stakeholders such as non-governmental organisations, trade unions and local community organisations etc. Stakeholder involvement takes place because companies increasingly see that having a dialogue with stakeholders directly rather than through, for example, the media is helpful. Dialogue and direct involvement helps companies register expectations and gather alternative views on social, economical and environmental dimensions of business processes. Stakeholder dialogues are therefore frequently argued to increase a company’s ability to determine responsibility, risk management capacity and ability to innovate.

Companies use different methods for gathering stakeholder input ranging from:
• meetings with stakeholder representatives
• development and implementation of MS
• industry stakeholder dialogues (performed by industry associations, for example to gather shipping companies in similar market segments and relevant NGO-representatives etc)

5. CSR – SUSTAINABILITY, MANAGING RISKS & MANAGEMENT SYSTEMS

As with existing Quality, Environmental or Health & Safety, work with social responsibility and sustainability, can be approached within a plan-do-check-act Management System. Management Systems are becoming increasingly linked to the success and survival of organisations and CEOs worldwide are placing greater emphasis on the independent assessment that helps ensure management systems are robust and “fit for purpose”. Management Systems should allow organisations to learn from the past, manage the present and respond better in the future. Furthermore, by introducing a risk-based element, system performance evaluation should also consider the future capability
of the system to perform, once all identified risks have been assessed. The process for evaluating risks in a systematic way is particularly important in order to ensure that there is a regular review since risks change over time, as do priorities and focus based on the nature of the internal and external business environment. Risks are realised from uncertainty whereas Management systems are about increasing certainty. The key to a mature and effective system is the level of dynamic interaction and integration between three key business management areas:

- integration of identified risks into the management system
- interaction between management system and performance data
- integration of performance measuring and business risk.

It is this level of integration which provides an indication of how likely the management system is to deliver the required performance in the future. Shipping companies addressing their social responsibility that have quality, environmental Occupational Health & Safety indicators and an Integrated Management System in place should seek to broaden the existing management system rather than creating a new one for social indicators. ISO9001 (Quality Management) started the ball rolling, bolted on next to the ISM Code that became mandatory through SOLAS, with companies then typically adding on management systems, but leaving them separate with possible adverse effects such as extra bureaucracy, duplication of efforts, extra costs etc. On the other hand, full integration is not always optimum but we have definitely seen benefits (usually internal) with combining systems since the main management elements and supporting processes are integrated. To give an example, for many companies, environmental management is increasingly being considered as a key element of risk management. Their primary objective is to avoid the costs associated with a pollution accident, any claim made against the company, or an environmental lawsuit. Effective management of business risk stemming from environmental problems can itself be a source of competitive advantage. Like many other businesses, shipping is increasingly feeling the effects of climate change with wide-ranging implications around carbon reduction and energy efficiency. Companies that are able to manage and mitigate their exposure to the risks associated with climate change while seeking new opportunities for growth will generate a competitive advantage in a greener future. This can and should be embedded within a CSR approach. Companies also face judgement in the court of public opinion, if they are seen to be using products, processes, or practices that have a negative effect on the environment. In some sectors the value of a company's brand (where brand loyalty is an important attribute of corporate value) could be at risk because of negative perceptions related to climate change. As is the case with other risk areas, companies can turn reputational risk into an opportunity by leveraging practices that show them to be good citizens of the planet. Therefore utilising a Management Systems approach to CSR should help to minimise risk and continually develop the capabilities of both assets and human capital by reducing operational inefficiencies and reducing risk. Better use of resources can also benefit operations as well as the environment.

6. DEMONSTRATING COMMITMENT TO SUSTAINABILITY

The final part of managing sustainability is to demonstrate to stakeholders your performance; whether it is good or bad. This can be achieved by a combination of the following:
- production of a separate sustainability/corporate responsibility/non-financial operating report
- inclusion of text in a company’s annual accounts and report on material issues, this may be
- elements of sustainability and CSR KPIs (see section 3) analysed and reported
- submission direct to the national government’s regulating authority of legislated data e.g. for public companies in the US, the Securities and Exchange Commission (SEC).

Stakeholders also expect to be able to trust any data and information presented. Companies therefore need to take steps to enhance the credibility and quality of published data, information and/or reports.

In particular for non-financial reports this can be done by a variety of means, through MS implementation, such as:
- internal audit of data collection and reporting systems
- issue-specific audits by appropriate experts
- reviews and commentaries by independent external experts
- external independent assurance either by verification or certification, or both.

7. CONCLUSION

It is due to increasing interest from stakeholders and governments; together with the need for companies to be both transparent and accountable that performance, including that of sustainability, is becoming a regular feature on the corporate agenda. Consequently the board of directors and the CEO must have confidence in the data used to govern their company. Management systems and standards can play a vital role in helping companies govern their activities and manage sustainability. By taking a systems approach companies are able to focus on identifying their risks, legislative requirements, operational controls and ensure that material issues are not overlooked, and importantly demonstrate that they have done so. Standards and guidelines, as well as developed KPIs, meanwhile, provide a means for companies to quantify their performance, and to identify areas for improvement whilst the production of a non-financial report allows companies to communicate to all stakeholders, both internal and external, their commitment to sustainability. Consequently, shipping companies may, if desired, participate more actively in the CSR-field and highlight much of their quality efforts under a “Sustainable Development Umbrella”. Nonetheless, a key conclusion of this paper is that there is still considerable scope for shipping companies to balance their commercial considerations and relations with business associates to include broader social and environmental aspects. By creating social and environmental value, it follows that the economic value of their assets will be secured in the future.

To engage more directly with stakeholders, broaden training given to employees and to communicate and report more openly with the surroundings on social and environmental responsibility are also activities that should be embedded in a holistic approach to business in the future.
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