

Evaluating the Effect of the Corporate Social Responsibility (CSR) on Corporate Image and Reputation in the Shipping Sector

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Abstract : *This research seeks to improve the understanding of corporate social responsibility (CSR) and its advantages in the shipping sector. Recently, an improved emphasis on CSR, which incorporates environmental and social concerns into economic considerations of firms, can be found in business management and marketing literature. This is mainly because of people's increased awareness in regards to the negative consequences of corporate activities such as increased environmental pollution and gaps between the rich and the poor. According to the previous literature, it has been revealed that responsible actions by companies can generate positive outcomes in terms of financial and time aspects, but more importantly, intangible equity of the company, including improved corporate reputation, image as well as brand. As the regulation is intensifying in regards to environmental and social responsibility in the shipping sector, shipping companies are trying to engage in CSR to gain competitive advantages. While the reputation and image of shipping companies play essential roles for developing sustainable maritime transport, few studies have been conducted for how the CSR of shipping companies influence the shipping companies' reputation and image relative to other industries. In this regard, this study aims to investigate the effect of the corporate social responsibility on corporate reputation and image of shipping companies on the basis of an exploratory study in the Republic of Korea. This research would be beneficial to both academics and practitioners for developing useful CSR strategies which could promote the public's recognition of the shipping sector.*

Key words : *Corporate Social Responsibility, CSR, shipping industry, corporate reputation, corporate image*

1. Introduction

Concerns about the role of companies in society and public demand for responsible businesses across industries have increased considerably in today's world. Reflecting this trend, corporate social responsibility (CSR) has become one of the most significant concepts. CSR, which represents "a concern with the needs and goals of society which goes beyond the merely economic" (Eells and Walton, 1974, p. 247), is composed of diverse corporate behaviors that aim to have positive effects on stakeholders. Since CSR can be a good source for competitive advantages if well-managed, an increasing number of companies are investing substantially in CSR initiatives (Luo and Bhattacharya, 2006).

Despite the multitude of studies conducted relating to CSR (e.g., Pivato *et al.*, 2008; Walker and Kent, 2009), these issues have only been recently recognized to be of critical importance in the shipping industry, and accordingly, remain unclear with only limited studies. Considering the globalized nature of the shipping industry, CSR failures would cause more harmful environment effects and huge

costs to our society (Yliskylä-Peuralahti and Gritsenko, 2014). CSR initiatives of shipping companies may contribute to societies not only by enhancing the regulations on the environment, safety and their operations, but by also improving their performance by reducing adverse effects. In particular, CSR is beneficial for shipping companies by improving their corporate image and reputations worldwide. It is vital to have a positive image and reputation in the minds of the stakeholders of shipping companies. However, due to passive attitudes of quality shipping, the image and reputation of the shipping industry may become weaker than before, regardless of the growing interests of its stakeholders (Poulovassilis and Meidanis, 2013). Therefore, implementation of CSR in order to deal with social and environmental concerns can be useful for the shipping companies to develop appealing perceptions for the industry.

In light of the above, this research aims to empirically investigate the effects of CSR initiatives performed by shipping companies on their image as well as reputation by employing questionnaires. The findings of this research can provide distinctive contributions for both academics and practitioners in order to develop the proper directions by

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raising awareness and attitudes towards the shipping industry for engaging in CSR. The organization of this study is as follows: In section 2, key concepts are detailed. Based on the key concepts, conceptual framework and hypotheses are developed in section 3. In section 4, the methodology employed to analyze the data, i.e., structural equation modeling, along with its measures is exhibited. The results analyzed are demonstrated in section 5, with theoretical and practical implications being discussed in section 6.

2. The Concepts of Corporate Social Responsibility, Corporate Image and Corporate Reputation

According to the Commission of the European Communities (2001), CSR is defined as “a concept whereby companies, on a voluntary basis, integrate social and environmental concerns into their business operations and in their interactions with their stakeholders”. This definition was revealed to be employed most frequently in previous CSR related studies and composed of five dimensions: voluntariness, stakeholder, social, environmental and economic (Dahlsrud, 2008). A sound integration between the financial, social and environmental aspects is of critical importance in implementing CSR, which is also described as the triple bottom line (TBL), as suggested by Hargrett and Williams (2009). If TBL is well executed, this would lead to the sustainable success of the company in financial and non-financial terms. Specifically, companies can manage risk better, promote their image and reputations, enhance stakeholder communication, and attract capable employees (Kunnaala *et al.*, 2013).

Although all industries are increasingly challenged by globalization-related problems, the shipping sector, particularly, is faced with rising interests and expectations for their social, environmental and ethical performance from a variety of stakeholders, including shippers, employees, investors, media, governments and other non-profit organizations, which call for their proactive responses to sustainability issues. However, CSR has been relatively overlooked because of the derived demand characteristics of transportation in business-to-business levels (Willingale, 1998). In comparison with other land-based companies, the notion of CSR has not been taken into serious consideration in the shipping sector due to the industry being more highly regulated than others by organizations such as the International Maritime Organization (IMO) and International

Labour Organization (ILO). However, these regulations are not enough to include the concepts pursued by CSR initiatives. Shipping companies can choose one of three options to deal with CSR: supportive, typical and adverse (Fafaliou *et al.*, 2006). The main topics concerning CSR in the shipping sector are safety, welfare and health of seafarers, human rights, ethical considerations and the participation of stakeholders, focusing on marine environment protection; while engaging in local initiatives, such as charitable donations, is paid much attention these days as a part of CSR.

The second important concept of this research, corporate image, can indicate either the actual corporate image that focuses on the real perception of external stakeholders from the marketing viewpoint, or the desired image that concentrates on the firm's belief and wish for how external stakeholders recognize the firm (Hatch and Schultz, 1997). While there is still inconsistency in defining and operationalizing the concept of corporate image, corporate image is generally described as “the overall impression made on the minds of the public about a firm” (Nguyen and Leblanc, 2001), and “an evaluative judgment of the total perception of the corporation” (Kuo and Tang, 2013). Corporate image is said to be composed of the functional attributes related to tangible characteristics, and of the emotional attributes related to psychological characteristics (Kennedy, 1977). Feelings and attitudes toward a firm derived from emotional attributes are the results of individual experiences with a firm and the information processing of functional attributes of image. People create a corporate image through analyzing and combining firm's attributes.

A uniform image is preferable for each company, but stakeholders, including shareholders, employees and customers possess different images according to their experiences and interactions with the company even within the same market (Dowling, 1988). Therefore, various communication channels need to be provided to produce coherent and favorable images (Plummer, 1984). A positive corporate image would create a higher willingness in customers with the intent to use the products and services, and would also increase customer satisfaction and loyalty to their firm (Andreassen and Lindestad, 1998). It has a positive impact on future investment and recruitment, and can be used further to control the effects of competitors. The benefits of a corporate image are ultimately associated with higher levels of profits.

Together with the corporate image, the concept of

corporate reputation has gained more interest than in past decades as a source of competitive advantage. Corporate reputation refers to “a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading rivals” (Fombrun, 1996, p. 72). The basis for differentiating corporate reputation from image is the duration it takes to be created. That is, it takes a great deal more time to produce corporate reputation than to produce corporate image which is generated more quickly, reflecting the history of the firm (Gray and Balmer, 1998). A multitude of communication tools and channels which convey a company’s information can be used broadly in order to strengthen corporate reputation. Corporate reputation has been confirmed as a sustained competitive advantage in a wide range of studies, including Roberts and Dowling (2002), but has not yet been studied fully in shipping studies.

3. Conceptual Framework and Hypotheses

Despite the growing significance of CSR these days, it is still far from being the key corporate strategy. One of the main difficulties surrounding CSR is the limited understanding for how CSR influences on the external perceptions of firms, defined as corporate image and reputation. This is because CSR has only recently been recognized as an important tool in meeting the expectations of various stakeholders surrounding firms, and ultimately in establishing corporate image and reputation. Previous studies have been conducted to analyze the impact of CSR on competitiveness (e.g., Vilanova *et al.*, 2009), on financial performance (e.g., Chand and Fraser, 2006), and on financial-based brand equity (e.g., Wang, 2010). In addition, various industries, such as healthcare services, sports industry, food stores, and the construction sector have focused on examining CSR (e.g., Jones *et al.*, 2007; Martinuzzi *et al.*, 2011; Tuan, 2012; Walker and Kent, 2009). Nevertheless, there is a scarcity of empirical research that has investigated the effects of CSR on shipping companies’ corporate image as well as reputation. Considering the image and reputation problems that shipping companies may face, socially responsible operations will be used to create strong corporate image and reputations, and further gain a sustainable competitive advantage. In addition, corporate image and reputation are useful when the competition to attract competent employees is high. Drawing on this base, the conceptual framework depicting

the relationship between CSR and corporate image and reputation has been formed, as seen in Figure 1. Two different impacts of CSR initiatives were hypothesized for this research. If shipping companies employ CSR initiatives in order to construct and/or retain their corporate image as well as corporate reputation, CSR initiatives can either affect, first, the level of corporate image positively perceived by stakeholders (H1), and finally, the positive reputation of shipping companies (H2), or can directly influence them positively (H3). These hypotheses have been formulated on the basis of the studies conducted in other research contexts including Pomeroy and Johnson (2009) and Eberle *et al.* (2013).

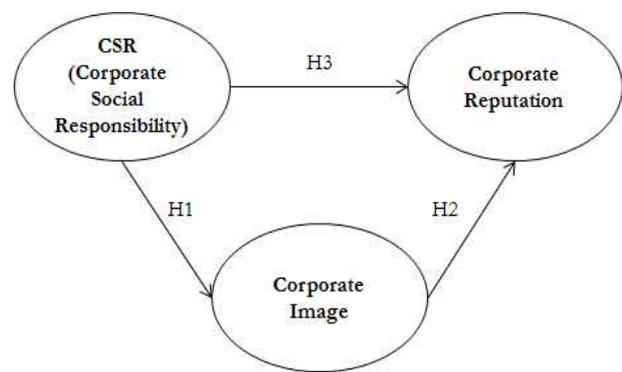


Fig. 1 Conceptual Framework of This Research

The specific hypotheses developed in this research are as follows:

H1. The perception of the shipping companies’ CSR initiatives impact the shipping companies’ corporate image positively.

H2. The perception of the shipping companies’ corporate image impact the shipping companies’ corporate reputation positively.

H3. The perception of the shipping companies’ CSR initiatives impact the shipping companies’ corporate reputation positively.

4. Methodology

In order to examine the hypotheses for empirical analysis, the container and bulk shipping sector was chosen. This is because shipping sectors have very different features, and also because the perceptions for each sector can be diverse. Restricting the analysis to a single service category helps to improve internal validity and reduces the error variance, in turn, increases the power of the hypothesis tests (Voss and Voss, 2000). Following the

practice of Patterson and Smith (2003), the questionnaire was distributed and collected with the assistance of postgraduate students at a university. The items were translated into Korean, and all measures are self-reported. Confidentiality of respondent data was guaranteed, and data are reported in the aggregate form. Using random sampling, a total of 315 returned questionnaires were obtained between August and September 2014, while 4 were discarded due to incomplete responses. Data was collected from undergraduate and postgraduate students in Busan, South Korea. Busan port, the world’s fifth busiest seaport, is located in the largest marine city in South Korea. In addition, there are relatively many universities and postgraduate schools relating to shipping industry in Busan, as compared to other cities in South Korea. For this study, students who were often overlooked for the shipping-related study were chosen as the main survey sample. Identifying students’ perceptions is critical since they are potential employees in the near future; also, the findings can be used as a basis to improve the quality of education.

In this study, the items on CSR were adapted from existing CSR studies conducted recently in the shipping context, including Fafaliou *et al.* (2006), Skoygaard (2012), Drobetz *et al.* (2014) and Kunnaala *et al.* (2013). The items for corporate image and reputation were found from Nguyen and Leblanc (2001), Pina *et al.* (2006), Wang (2006), Walsh *et al.* (2009), Lai *et al.* (2010), Wang (2010), Hsu (2012), Kuo and Tang (2013), Sarstedt *et al.* (2013), Eberle *et al.* (2013), and Foroudi *et al.* (2014). Finally, structural equation modelling (SEM) was used to analyze the data.

5. Result

5.1 Characteristics of Respondents

Table 1 illustrates the profile of the respondents who participated in this study, including their gender, educational background, major and their shipping industry experience. A total of 315 respondents participated in this survey. First, most of the respondents were men (71.7%), while women accounted for 28.3%. The majority of the respondents were undergraduates (89.2%), followed by master’s students (10.2%) and PhD students (0.6%). In particular, the second and third year undergraduate students made up over 60% of the survey. The average age of these participants were 23.02 years old, while their range was quite diverse, from a minimum of 18 years old to a maximum of 44 years old. According to the results concerning their major, most of the

students are studying shipping and international logistics/SCM as their major (83.5%), whereas 16.5% were studying different subjects, including economics, international trade, and international regional cooperation. Although their major is not directly relevant to shipping, the students majoring in other subjects are familiar with the shipping industry, as their major also covers shipping. Furthermore, respondents were asked to indicate their experience in working in the shipping industry in order to identify whether their answers were from their practical knowledge or not. Over 90% of students had no working experience in this industry. In short, the analysis demonstrates that a variety of the respondents have participated in the questionnaires, and significant variances in responses have also been noted.

Table 1 Profile of Respondents

Respondent Variable	Category	Frequency	%	Cumulative %
Gender	Man	226	71.7	71.7
	Woman	89	28.3	100.0
	Sum	315	100.0	
Educational Background	Undergraduate course	281	89.2	89.2
	Master Course	32	10.2	99.4
	PhD Course	2	0.6	100.0
	Sum	315	100.0	
Major	Shipping & International Logistics	263	83.5	83.5
	Others	52	16.5	100.0
	Sum	315	100.0	
Shipping Industry Experience	Yes	16	5.1	5.1
	No	299	94.9	100.0
	Sum	315	100.0	

5.2 Descriptive Analysis of Responses

After analysing the demographic characteristics of the survey respondents and their firms, attention had turned to how they responded to the survey questions relating to three latent constructs, CSR, corporate image and corporate reputation in the conceptual model using a five-point scale, ranging from “strongly disagree” (1) to “strongly agree” (5). Descriptive analysis is of major significance to obtain basic information on the variables based on central tendency during the initial stage of the analysis. In an attempt to understand CSR, respondents were asked to rate how well the shipping company performed those CSR activities. Table 2 illustrates the central tendency (i.e., mean), dispersion (i.e., standard deviation) and rank of CSR. An evaluation of the average of respondents’ aggregated perceptions of each of the 9 CSR attributes revealed an

average of 3.01. However, the results demonstrate that only four items for CSR were above 3.0, which are as follows: 1) Shipping companies operate their ships safely; 2) Shipping companies support deprived groups or ethnic minorities and their diversity; 3) Shipping companies support emergency relief efforts. 4) Shipping companies regard labour welfare and safety as important. The items on the issues of bribery and corruption exhibit the least satisfactory results with the mean of 2.59.

Table 2 Perceived Agreement Level of CSR Variables

Variables	Mean	SD	Rank
Shipping companies operate their ships safely.	3.40	0.92	1
Shipping companies support deprived groups or ethnic minorities and their diversity.	3.32	0.79	2
Shipping companies support emergency relief effort.	3.15	0.89	3
Shipping companies regard labour welfare and safety importantly.	3.06	0.79	4
Shipping companies try to respect for human rights.	2.98	0.82	5
Shipping companies take part in activities for protecting environment.	2.93	0.87	6
Shipping companies involve diverse activities for community development.	2.89	0.93	7
Shipping companies regard charity giving importantly.	2.78	0.79	8
Shipping companies try to prevent bribery and corruption.	2.59	0.90	9

In an attempt to understand corporate image, respondents were asked to rate how they perceived shipping company image. In Table 3, the results demonstrated that an evaluation of the respondents' average aggregated perceptions of each of the 8 image attributes revealed an average of 3.15, and that five out of eight items were above 3.0. Notably, the item on 'Shipping companies are professional' shows a distinct score compared to other items, and this is followed by the items 'Shipping companies provide a safe form of transportation' and 'Shipping companies are successful and self-confident'. On the contrary, respondents indicated the lowest score on the ethical issues with the average score of 2.84.

Table 3 Perceived Agreement Level of Corporate Image Variables

Variables	Mean	SD	Rank
Shipping companies are professional.	3.84	0.89	1
Shipping companies provide a safe form of transportation.	3.30	0.86	2
Shipping companies are successful and self-confident.	3.19	0.90	3
Shipping companies are companies with good image.	3.11	0.85	4
Shipping companies have a better image than other companies in different industries.	3.08	0.81	5

Shipping companies are innovative and pioneering.	2.98	0.91	6
Shipping companies are open and responsive to their customers.	2.85	0.87	7
Shipping companies do their business in an ethical way.	2.84	0.82	8

In an attempt to understand corporate reputation, respondents were asked to rate how they perceived shipping company reputation. In Table 4, with the exception of one item, 'Shipping companies are environmentally responsible', the results demonstrate that the mean value of all of the items were above 3.0. An evaluation of the respondents' average aggregated perceptions of each of the 7 reputation attributes revealed an average of 3.17. And the highest rankings of reputation items are follows: 1) Shipping companies are highly reputable. 2) I have a good feeling about the shipping companies. 3) Shipping companies offer high quality services.

Table 4 Perceived Agreement Level of Corporate Reputation Variables

Variables	Mean	SD	Rank
Shipping companies are highly reputable.	3.38	0.87	1
I have a good feeling about the shipping companies.	3.37	0.83	2
Shipping companies offer high quality services.	3.28	0.77	3
Shipping companies are reliable.	3.15	0.79	4
I believe that the reputation of shipping companies is better than other companies in different industries.	3.08	0.88	5
Shipping companies are socially responsible.	3.02	0.88	6
Shipping companies are environmentally responsible.	2.94	0.93	7

5.3 Analysis of Measurement Model

A measurement model was assessed with theoretical and statistical considerations to confirm the validity, unidimensionality, and reliability of three factors of CFA. First, variables showing low standardised regression weights of less than 0.50 were deleted, including 4 items (i.e., CSR01, CSR02, CSR03, CSR07), 3 items (i.e., IMAGE02, IMAGE07, IMAGE08) and 2 items (i.e., REPU01, REPU02). Therefore, there are 15 observed variables loaded on the corresponding factors, respectively.

According to Table 5, all standardised regression weights are greater than 0.60, except for only two items (i.e., CSR06, REPU05) and their t-values are significant at the 0.001 level. The adjusted χ^2 (χ^2/df) is 3.08 and other goodness-of-fit statistics (i.e., CFI, IFI, SRMR and RMSEA) suggest that the proposed model has achieved a good fit with the observed data. In terms of composite

reliability, all constructs exceed Hair *et al.*'s (2010) recommended value of 0.70, and the reliability evaluation with the average variance extracted (AVE) suggested by Fornell and Larcker (1981) has indicated that all constructs exceed 0.50. The Cronbach alpha values for all the constructs also exceed 0.70.

Table 5 Construct Measure Reliability and Validity

Construct		SRW	CR (t-value)	Composite reliability	AVE	Cronbach Alpha
CSR	CSR 09	0.68	6.34***	0.84	0.51	0.79
	CSR 08	0.72	7.26***			
	CSR 06	0.59	5.20***			
	CSR 05	0.66	10.26***			
	CSR 04	0.63	9.79***			
Corporate Image	CI 01	0.74	11.21***	0.87	0.57	0.83
	CI 03	0.74	10.46***			
	CI 04	0.66	10.80***			
	CI 05	0.65	10.34***			
	CI 06	0.72	10.17***			
	CR 03	0.71	11.00***			
CR 04	0.68	11.07***				
CR 05	0.57	10.44***				
CR 06	0.71	10.81***				
CR 07	0.70	10.72***				
Overall Goodness-of-fit Indices				$\chi^2/df=3.08$ CFI = 0.91; IFI = 0.91; SRMR = 0.04, RMSEA = 0.08		

Note: SRW = Standard Regression Weight, C.R.= Critical Ratio, AVE = Average Variance Extracted

Finally, the discriminant validity was tested for each construct in a measurement model by examining every possible pairs. According to Anderson and Gerbing (1988), a significantly lower χ^2 value for the free model compared to free model has demonstrated that all constructs possess discriminant validity, as illustrated in Table 6.

Table 6 Results of Discriminant Validity Tests

	Correlation value	χ^2 with correlation fixed	df.	χ^2 with correlation free	df.	Change in χ^2	Change in df.	Sig. level
CSR-IMAGE	0.71 ^a	20690	35	10788	34	9902	1	0.00
CSR-REPUTATION	0.80 ^a	23820	35	7369	34	12451	1	0.00
IMAGE-REPUTATION	0.91 ^a	26342	35	14058	34	11684	1	0.00

^a Significant at 0.05 significance level.

5.4 Analysis of Structural Model

According to Hair *et al.* (2010), in the structural model stage, two main issues should be considered in order to test

structural relationships: (1) Overall model fit as a measure of acceptance of the proposed model. (2) Structural parameter estimates. The hypotheses were proposed to test the causal relationships between three latent variables. H1 predicts the causal relationship between CSR and Corporate Image, and H2 signifies the causal relationship between Corporate Image and Corporate Reputation. Finally, H3 was proposed to examine the direct impact of CSR on Corporate Reputation. Figure 2 indicates the results of the full hypothesised structural model without error terms for clarity. The minimum requirements for model identification were satisfied and the bootstrapping has been successful. The fit indices ($\chi^2/df = 3.09$; CFI = 0.91; IFI = 0.91; SRMR = 0.04; RMSEA = 0.08) are acceptable, implying that the estimated model has achieved a good fit.

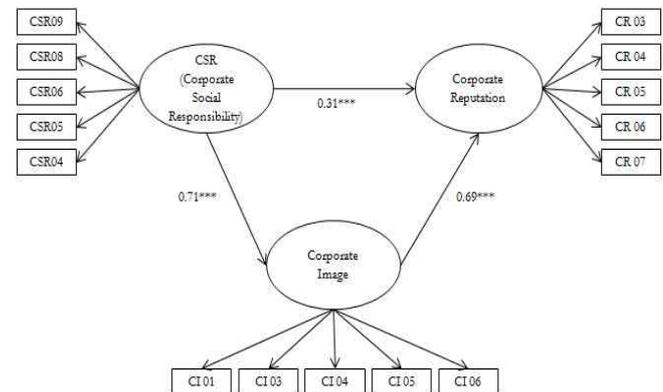


Fig. 2 Results of Structural Model Analysis

According to Figure 2, all paths specified in the hypothesised model have been revealed to be statistically significant at 0.001 significance levels. First, path CSR–Corporate Image is statistically significant at the 0.001 significance level, with a critical ratio of 8.79 and standardised regression weight (SRW) is 0.71, demonstrating that the impact of CSR on corporate image is positive and very strong. Path Corporate Image–Corporate Reputation (SRW=0.69 and critical ratio of 6.9***) and CSR–Corporate Reputation (SRW=0.31 and critical ratio of 3.77***) are statistically significant, although the later path is relatively weak. Furthermore, the factor loadings only show small differences from those in the measurement models, suggesting the measurement model's validity and stability (Hair *et al.*, 2010). In conclusion, all three hypotheses have been supported by the significant paths identified in the structural model. The result of this research is in line with previous studies including Arendt and Brettel (2010) focusing on the German and Austrian Chamber for Industry and Commerce and Hsu (2012) based on the life insurance industry in Taiwan.

6. Conclusion

The concept of CSR, corporate image and reputation has become increasingly significant in almost every industry. However, it can be said that shipping companies are still relatively passive in engaging the management of these issues compared to other industries. Considering the low image and reputation of the shipping industry, it is important to identify the useful tool, CSR, which can contribute to high corporate image and reputation. The positive impact of CSR on corporate image and reputation has been verified in this study using structural equation modelling. This research contributes to the body of shipping-related studies in that it is the first attempt to investigate these constructs empirically. In addition, the sample of students used in this study is also significant, as they have long been ignored, despite their importance as future employees for the shipping companies. The findings of this study can be utilized for further research, such as the comparative analysis between different samples, countries and industries.

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