

The Role of Political Institutions in Corporate Social Responsibility
The case of the Norwegian Government and the Shipping Industry

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Thesis presented in partial fulfillment of the requirements for the degree of Master of Arts (International Studies) in the Faculty of Arts and Social Sciences at Stellenbosch University



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December 2014

Declaration

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Date: September 1st 2014

Abstract

Since the rise of the modern corporation in the late 19th century, the debate on the relationship between business and society has flourished, and the negative impact of businesses became evident as the number and scale of large corporations increased. As a result of the globalization of trade and economic activity, regulating and auditing multinational companies have become both more important and more problematic. Along with the new challenges to be met by companies operating in foreign countries, these factors have resulted in a greater demand for corporate social responsibility (CSR). Originating as an Anglo-American management idea, CSR has spread and become a well-established tool for businesses worldwide.

In today's global capitalist system, characterized by open markets, it is widely acknowledged that it is the role of the state to establish the preconditions for the proper functioning of markets by defining legal rules, establishing enforcement bodies, and providing public goods. However, many corporations choose to go beyond the required regulatory levels and voluntarily engage in CSR.

Studies of CSR have long been dominated by business and economic scholars, usually with the aim to confirming or denying CSR as a tool for profit-maximization, and until the last decade, social and political scientists have shown little interest in CSR. From a political science view, the relation between the state, markets and corporations is of interest, but few studies have investigated how political institutions influence corporate behavior. This study has therefore researched the institutional determinants of CSR by analyzing the efforts and the role of the Norwegian government in promoting CSR in the shipping industry. The White Paper on CSR was used as guide to the government's approach to CSR, and was analyzed in light of the specific CSR challenges faced in the shipping industry. For this purpose, a qualitative methodology and case study research design was adopted to provide in-depth information. New institutional theory and comparative political economy provided the theoretical framework for the study, and helped in answering the main research question: *What is the role of the Norwegian government, as a political institution, in promoting CSR in the Norwegian shipping industry?* as well as the sub-questions.

The study identified both strengths and weaknesses in the government's role as CSR promoter, and argued that the predominantly international focus of the White Paper is suitable for globally oriented industries, like shipping, while reducing its relevance for nationally oriented firms. The study further found that the government as institution provides the industry with CSR incentives, other than financial ones, as it sets the standards for what is perceived as modern and just corporate behavior. In addition, CSR in the shipping industry was found to take an explicit form, and to reflect the national institutional environment. The findings stand in contrast to the way in which the above-mentioned theories expect CSR to take shape in coordinated market economies. In broader sense, the findings affect the perception of the relationship between CSR as a management tool and strategy, and CSR as a political and regulatory tool that may be used actively by authorities.

Opsomming

Sedert die opkoms van die moderne korporasie in die laat 19de eeu, het die debat oor die verhouding tussen besigheid en samelewing floreer terwyl die negatiewe impak van besighede sigbaar geword het soos die aantal en omvang van groot korporasies toegeneem het. As gevolg van die globalisering van handel en ekonomiese aktiwiteit, het die regulerende en multinasionale ouditeringsmaatskappye beide belangrik en meer problematies geword. Tesame met die nuwe uitdagings wat maatskappye in vreemde lande moet ontmoet, het hierdie faktore aanleiding gegee tot 'n groter vraag na korporatiewe sosiale verantwoordelikheid (KSV). KSV het sy oorsprong as 'n Anglo-Amerikaanse bestuursidee gehad en het 'n goed gevestigde hulpmiddel vir besighede wêreldwyd geword terwyl dit ook versprei het.

In vandag se globale kapitalistiese sisteem wat deur oop markte gekenmerk word, word dit wydverspreid erken dat dit die rol van die staat is om voorwaardes vir die behoorlike funksionering van markte te vestig deur regsreëls te definieer, handhawingsliggame te vestig en publieke goedere te verskaf. Baie korporasies verkies egter om verder as die vereiste regulerende vlakke en vrywillige deelname in KSV te gaan.

Studies van die KSV is vir lank oorheers deur besigheid- en ekonomiese geleerdes wat gewoonlik die doel gehad het om die KSV te bevestig of te ontken as 'n hulpmiddel vir winsmaksimalisering, en tot en met die laaste dekade het sosiale en politieke wetenskaplikes min belangstelling in die KSV getoon. Uit die Politieke Wetenskaplike oogpunt is die verhouding tussen die staat, markte en korporasies van belang terwyl min studies al ondersoek het hoe politieke instellings korporatiewe gedrag beïnvloed. Hierdie studie het dus die bepalende faktore van die KSV nagevors deur die pogings en die rol van die Noorweegse regering in die bevordering van KSV in die skeepsvaart te analiseer. Die Witskrif op KSV is gebruik as 'n gids vir die regering se benadering tot die KSV, en is ontleed in die lig van die spesifieke KSV uitdagings wat in die seevaart industrie in die gesig gestaar word. Vir hierdie doeleinde is 'n kwalitatiewe metodologie en gevallestudie navorsingsontwerp aangeneem om in-diepte inligting te verskaf. Nuwe institusionele teorie en vergelykende politieke ekonomie het die teoretiese raamwerk vir die studie verskaf en het gehelp in die beantwoording van die hoof

navorsingsvraag: *Wat is die rol van die Noorweegse regering, as 'n politieke instelling, in die bevordering van KSV in die Noorweegse seevaart industrie?* Sowel as die sub-vrae.

Hierdie studie het beide sterkpunte en swakpunte in die regering se role as KSV promotor identifiseer en het geargumenteer dat die oorwegende internasionale fokus van die Wit Skrif geskik is vir globaal georiënteerde industrieë soos seevaart, terwyl die toepaslikheid van nasionaal oriënteerde firmas verminder is. Die studie het verder bevind dat die regering as instelling KSV insentiewe aan die industrie anders as finansiële verskaf het, deur dat dit die standarde stel vir wat gesien word as moderne en regverdige korporatiewe gedrag. Daar is verder bevind dat die KSV 'n eksplisiete vorm aangeneem het in die seevaart industrie om die nasionale institusionele omgewing te vertoon. Die bevindings staan egter in teenstelling tot die manier waarop die bogenoemde teorieë van die KSV verwag om vorm aan te neem in gekoördineerde mark ekonomieë. In die breër sin beïnvloed die bevindings die siening van die verhouding tussen KSV as 'n bestuur hulpmiddel en strategie en KSV as 'n politieke en regulerende hulpmiddel wat aktief deur owerhede gebruik kan word.

Acknowledgments

First, I would like to thank my supervisor, Ms Derica Lambrecht, for her guidance, good advice and problem-solving mindset throughout this study, as well as Scarlett Cornelissen. I would also like to thank Karoline Böhler, CSR Manager in the Norwegian Shipowners' Association, Marit Trodal, Corporate Responsibility Manager in Grieg Star Bjørn Ydse, Corporate QHSE manager in Odfjell Management AS, as well as other contributors for important directions and insight in the shipping industry.

This study has benefitted from proofreading by David Daniel Hendricks and my dad on the first drafts, as well as Robin Gaylard's excellent work in editing the final draft. I would also like to thank Carien Steel for translating the abstract into Afrikaans, and the Norwegian State Educational Loan Fund for financing my five years at university.

A big thank you to the PRIO-girls, Anna, Live and Sirwa, for countless hours spent on discussions, motivational chats and procrastination in the library. I also thank my good friends and family back home for your moral support and motivation throughout the completion of this study. A special thanks to my best friend, Tone, for numerous encouraging pep-talks, and for visiting all the way from Norway.

Last but not least, thank you dad, for all your help and support, especially throughout this study. For all the hours you have spent on proofreading, answering my questions and giving uplifting feedback. But most of all, for always believing in me, encouraging me and motivating me to do my best. Your declarations of support mean the world to me. This one is for you.

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List of Acronyms

CME	Coordinated Market Economy
CPE	Comparative Political Economy
CSR	Corporate Social Responsibility
DNV	Det Norske Veritas
EU	European Union
FDI	Foreign Direct Investment
GIEK	Norwegian Guarantee Institute for Export Credits
GRI	Global Reporting Initiative
ICONS	International Commission on Shipping
ILO	International Labor Organization
ILO	International Labor Organization
IMO	International Maritime Organization
IPE	International Political Economy
ISO	International Organization for Standardization
ISPS	Code International Ship and Port Facility Security Code
ITF	International Transport Workers' Federation
LME	Liberal Market Economy
LO	Norwegian Confederation of Trade Unions
MEPC	Marine Environment Protection Committee
NGOs	Non- Governmental Organizations
NHO	Norwegian Confederation of Business and Industry
NIS	Norwegian International Ship Register
NOR	The Norwegian Ordinary Ship Register
NSA	Norwegian Shipowners Association
NSOF	Norwegian Maritime Officers Association
NSU	Norwegian Seafarers' Union
OECD	Organization for Economic Co-operation and Development
TNC	Transnational Corporations
UN	United Nations
UNCAC	United Nations Convention Against Corruption
UNCTAD	United Nations Conference on Trade and Development
US	United States

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Chapter One: Introduction to the Research Study

1.1 Introduction

Corporate Social Responsibility (CSR) can be seen to be a result of changes due to industrialization and globalization (May *et al.* 2007). As large companies emerged in the 1870s it became clear that these corporations have a huge impact on the society in which they operate. Towards the end of the century, globalization and colonialism led companies to expand beyond their home countries, and debates about social and environmental responsibilities emerged. Ever since the rise of the modern corporation in the late 19th century, the debate on the relationship between business and society has flourished. The growing number and scale of large corporations and industries at the time led to an increased focus on business responsibility, and in the United States (US) citizens demanded that corporate power be restricted, resulting in companies engaging in CSR activities. In the West, several countries implemented legislation and regulations, but the critique of and focus on the negative impacts of businesses continued. Following the Second World War, the idea that would later be known as CSR arose (May *et al.* 2007:4-5). Originating as an Anglo-American management idea (Matten & Moon, 2008), CSR has now spread far beyond Anglo-American societies (Gjølberg, 2012:30) and is a concept that can be found worldwide.

To understand how CSR has developed as a concept, it is important to see corporations, especially transnational corporations (TNCs) and CSR, in light of the broader context they operate in, namely a globalized world. Globalization refers to the increased interconnectedness of the world (McGrew, 2000:347) and is defined by Scherer and Palazzo (2008:415) as "...the process of intensification of cross-area and cross-border social relations between actors from very distant locations, and of growing transnational independence of economic and social activities...". As a result of the increased globalization of trade and economic activity, such as outsourcing, the use of foreign labor, subcontractors, and the establishment of subsidiary companies abroad, the regulating and auditing multinational companies has become both more important and more problematic, thus resulting in a greater demand for CSR.

In today's global capitalist system, it is widely acknowledged that it is the role of the state to establish preconditions for the proper working of markets by defining legal rules, establishing enforcement bodies, providing public goods and reducing the consequences of externalities

(Scherer and Palazzo, 2008:414). However, many corporations choose to go beyond these establishments, and voluntarily engage in CSR. The study of the phenomenon of CSR has been dominated by business- and economic-related research focusing on CSR as a profitable tool for corporations. Up until the last decade, social and political science has shown little interest in CSR (Gjølberg, 2012). Theory development and strategies have therefore suffered from the lack of cross-disciplinary approach to CSR. From a political science view, the role of the state, markets and corporations is of interest, but in CSR studies, providing a general analysis is difficult because of national variations in the institutions that regulate the market and economic activity. This study will therefore focus on the role of the Norwegian government, as a national, political institution, in the development of CSR. As there is a lack of focus on institutional and political determinants in CSR, this study will aim to contribute to the existing research. Due to the time and space restrictions, this study is limited to one political institution, namely the Norwegian government, and CSR will be examined by looking at the shipping industry particularly.

Norway is amongst the leading maritime nations, hosting the world's second largest, and most modern, offshore fleet. The shipping sector is important for the country's economy, and employs 90 000 Norwegians and accounts for almost 7% of value creation in Norway. Unlike many other countries, the Norwegian shipping industry is very complex and covers a large area of services and expertise (Norwegian Shipowners' Association, 2013). For more than 150 years, Norway has been a key player in the world's shipping industry, and today it controls one of the largest merchant fleets in the world, with a leading position in the international market. The Norwegian government aims for the country to be a leading maritime nation, supplying the most innovative and environmentally friendly solutions (Ministry of Trade, Industry and Fisheries, 2014). This study will therefore research the Norwegian government's role in promoting CSR in the shipping industry.

1.2 Preliminary literature review and theoretical framework

A useful introductory book on CSR is the *The Oxford Handbook of Corporate Social Responsibility* by Andrew Crane et al (2008), consisting of essays on CSR written by some of the most prominent CSR scholars. This study will provide a background of the historical development of CSR, as presented by Carroll's article 'Corporate Social Responsibility: Evolution of a Definitional Construct' (1999).

Vogel's (2006) book *The Market for Virtue - The Potential and Limits of Corporate Social Responsibility* provides a traditional, economic view of CSR, while Gjørlberg's article 'Varieties of corporate social responsibility: CSR meets the Nordic Model' (2010) will be helpful in understanding CSR in a Nordic context.

To provide a theoretical framework for the role of the Norwegian government, as a political institution, on corporate responsibility, this study will look to new institutional theory and literature from the field of comparative political economy (CPE). The idea to use this theoretical framework came from Gjørlberg's (2012) PhD dissertation, 'The political economy of corporate social responsibility', which is an essential source for this research study.

New institutional theory will shape this study's view on how organizations adapt to expectations in their environments (Gjørlberg, 2012:26). From the view of new institutional theory, CSR is considered a trend similar to other organizational trends, and in contrast to most CSR views, the focus is not mainly on cost benefits and production capacity. Rather, the legitimacy CSR brings to the corporations is regarded as the factor which makes the trend popular. This study will also look to Brunsson and Olsen (1990), DiMaggio and Powell (1983) and Matten and Moon (2008) to explain the ideas in new institutional theory.

Comparative political economy is the study of how political context influences economic policy choice and economic performance, and consists of various theories and views regarding this relationship. However, what unites political economists is the assumption that institutions are fundamental to the functioning of the economy. The scope of this study is limited to the government as a political institution, and does not address economical institutions in particular. For the purpose of this study, relevant arguments from firm-centered theories within CPE will be explored, mainly the "Varieties of Capitalism" approach by Hall and Soskice (2001) and the "National Business Systems" approach as presented by Matten and Moon (2008)¹. For the remainder of this study CPE will be used as a collective term referring to the firm-centered part of CPE literature which, along with new institutional theory, makes up the theoretical framework of this study. The two approaches will inform the

¹The study acknowledges that several of the scholars refer to "political-economic institutions", but will refer only to political institutions, as the Norwegian government is the case in this study

later analysis and evaluation of the Norwegian government's efforts to promote CSR in the shipping industry.

CPE emphasizes the way organizations adapt to structural-regulatory institutions, which in this study is limited to the Norwegian government. Political economists in general assume the importance of such institutions for the functioning of the economy, and being anchored in the nation state, this gives CPE a national character (Gjølberg, 2012:30). Such a national, institutional approach to organizational behavior is appropriate for this study. To assess the role of the Norwegian government in CSR, this study will draw on the CPE writings of Hall and Soskice (2001), 'An Introduction to Varieties of Capitalism'. Hall and Soskice (2001) argue for a causal link between political institutions and CSR, claiming what they call a "comparative institutional advantage" where institutions influence business strategies. In brief, this comparative institutional advantage is used to link corporate behavior to political institutions.

In general, new institutional theory expects to find convergence in CSR, while CPE expects divergence. Social Scientists disagree on the causal link between CSR and political economy, a debate that is relevant for this study, which uses Norway, a well-established and internationally acknowledged welfare state, as its case study. Matten and Moon (2008) has used the national business systems approach to research why national variations of CSR occurs. Their study found that national variations result from corporations being contextualized by different national institutional frameworks. The question of CSR's institutional link has been of increased interest to Social Scientists, but there is no consensus on the relationship between political economy and CSR (Gjølberg, 2012). To further assess the role of the Norwegian government, as a political institution, on CSR, this study will explore the ideas of scholars who see CSR as a "mirror" of political and economic institutions, and on the other side, arguments for CSR as a "substitution effect" of institutions. The characteristics of these two types of CSR will be further explained in chapter 2. To map this debate the study will draw on arguments for the substitution effect presented by Matten and Moon (2008), 'Implicit and Explicit CSR: A conceptual framework for a comparative understanding of corporate social responsibility', and Jackson and Apostolakou (2010), 'Corporate Social Responsibility in Western Europe: CSR as an Institutional Mirror or a Substitute?', while arguments for CSR as a mirror effect of institutions will be presented

by Campbell (2007), ‘Why Would Corporations Behave in Socially Responsible Ways? An Institutional Theory of Corporate Social Responsibility’, and Gjølborg (2012) ‘The political economy of corporate social responsibility’.

To operationalize the Norwegian government’s CSR, the study will draw on the White Paper², ‘Corporate social responsibility in a global economy’, to account for the government’s CSR aims and ambitions for the private and public sectors. The paper was a recommendation from the Ministry of Foreign Affairs of January 23, 2009 and was approved by the Council of State the same day (Ministry of Foreign Affairs, 2014). To explain the Norwegian context for CSR, the study will look to writings on the Norwegian understanding of the concept. This will mainly be Gjølborg’s (2010) ‘Varieties of corporate social responsibility (CSR): CSR meets the Nordic Model’, Willums (2005) and Welle-Strand and Vlaicu (2013) as well as the Norwegian Ministry of Foreign Affairs.

Further, Vilstedt (2004), Fafaliou *et al.* (2006) and the Norwegian Shipowners Association (NSA) will inform this study’s understanding of the shipping industry and the CSR challenges faced by the industry. The NSA has about 160 members and its objectives are “to protect its members’ interest with regard to industrial and employment issues, and to play an active role in respect of shared concerns in the industry” (NSA, 2014). Amongst the main remits and strategic goals is to help members be at the forefront, both technologically and environmentally.

To evaluate the role of the government towards the shipping industry it is expedient for this study to be guided by the same understanding of CSR as the government itself. The thesis will therefore describe CSR in line with the White Paper, explaining that:

CSR involves companies integrating social and environmental concerns into their day-to-day operations, as well as in their dealings with stakeholders. CSR means what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating (Ministry of Foreign Affairs, 2009:8).

² The original name is “Stortingsmelding nr. 10 (2008-2009)” but throughout this study it will be referred to as the White Paper

1.3 Research questions

As has been mentioned, the aim of this study is to research the institutional role of the government on CSR, as few studies have investigated the institutional determinants of CSR. The study will therefore be guided by the following focal research question: *What is the role of the Norwegian government, as a political institution, in promoting CSR in the Norwegian shipping industry?* Furthermore, a series of sub-questions will assist in answering the main research question. The sub-questions ask: (1) *How does the Norwegian Government endorse and promote CSR in Norwegian shipping?* And (2) *What are the government's incentives to promote CSR?* To look at CSR from the shipping industry's perspective, the other sub-questions are (3) *What are the incentives for Norwegian shipping companies to engage in CSR?* and (4) *What are the industry-specific CSR challenges faced in the shipping industry?*

1.4 Objectives and relevance of the research

The field of CSR research is mainly dominated by economic-, business- and management-oriented scholars, and by studies aiming to prove or invalidate the business case for CSR. As Gjøølberg (2012:7) puts it:

From a social science perspective, CSR inspires far more fundamental questions than those concerning its prospects for economic value creation: CSR implies a quite specific model for how to organize the relationship between state, market, and civil society, which is a fundamental political question in any society.

Accordingly, Gjøølberg (2012) argues that business and economic dominated approaches are problematic because it provides researchers with insufficient theoretical starting points for CSR analysis. Similarly, Blowfield (2005) described CSR as a failing discipline, too occupied with the business case, thereby ignoring how CSR relates to global governance, power and economic globalization. He points to a striking lack of contextually informed analyses of the social, political and economic background, and of the wider governance implications of CSR. Brammer, Jackson, and Matten (2012) also argue that the scholarly agenda must go beyond the link between CSR and economic performance, and that CSR must be studied as part of a wider field of institutions for governing the corporation and the economy. Hall and Soskice (2001) similarly point to a lack of research on how political and economic institutions influence corporate behavior. Gjøølberg (2012:7) explains that academic interest and theory in CSR has been centered on what CSR causes, and not what causes CSR.

The objective of this study is therefore to focus on the government's role in promoting CSR. By looking at the theory mentioned above, this study will explore the link between the role of

the government as a political institution and CSR in the shipping industry particularly, to discover the institutional determinants of CSR. In broader terms, it will explore the link between corporate behavior and the state. Focusing on a Nordic empirical case will balance and distinguish this study from today's predominantly Anglo-American CSR research.

1.5 Research design and methodology

For the purpose of studying the role of the Norwegian government with respect to CSR, a qualitative methodology and case study research design has been adopted to provide in-depth information. The study will use exploratory research to answer the research questions. That is "research in which the primary purpose is to examine a little understood issue or phenomenon to develop preliminary ideas and move toward research questions by focusing on the 'what' question" (Neumann 2006:33). Further on, explanatory research will be conducted; this means "examining the reasons for, or associations between, what exist" (Ritchie and Lewis, 2003:27). The explanatory research will build on the theory presented regarding the relationship between institutions and CSR, and this approach will enable the study to answer the main research question by exploring and explaining the role of the Norwegian government, as an institution, in promoting CSR in the shipping industry.

A case study design can generate both qualitative and quantitative data, but it generally has a more qualitative feel to it, as it generates a wealth of data relating to one specific case (Burnham *et al.* 2008:64). Choosing a case study research design will enable the in-depth study of the government's role in relation to CSR in the shipping industry. Looking specifically at one industry, namely shipping, was necessary in order to avoid too broad focus, and helps narrow the study and reveal in-depth information. The shipping industry makes a good example for this CSR study because of its international characteristics. As an industry with ocean-going activities, the actions of shipping companies are characterized by cross-border activities, it is perhaps the most internationally oriented industry of all (Vilsted, 2004). The shipping industry is crucially important for world trade, and it would not be possible to import and export the amount of goods necessary in the modern world without it, as shipping carries 90% of the world's trade (Marisek, 2014). In other words, societies are highly dependent on the shipping industry. Norway is chosen as a case for this study because of its position as a leading maritime nation. Choosing a country with a well-established welfare state, coordinated market economy and strong labor unions, as a case study, will provide an offset to the Anglo-American approach which dominates CSR studies. In addition,

political institutions in Norway operate with a high degree of transparency, and information is readily available in the public domain. Norway is one of the first governments in the world to establish a comprehensive CSR document, which enables and facilitates this study.

The general rule of thumb when studying a single case is that data from a case study cannot be used to make broader generalizations. The attractiveness of case study design is that a broad range of variables can be collected on the chosen case. The relationship between the variables and causal explanations can therefore be convincingly argued (Burnham *et al.* 2008:66). Despite certain limitations, research by case study design has had a considerable influence on social science (Burnham *et al.* 2008:64). To enable the data to have a wider reaching impact than just the specific case, a strong theoretical dimension will be emphasized, as this can enable wider generalizations to be made.

The study will mainly rely on secondary data, which will be supplemented by two key-informant interviews. The interviews will be useful in gathering information from relevant people in the field of CSR and Norwegian shipping. By interviewing the CSR representatives of a Norwegian shipping company, and the CSR contact person in the Norwegian Shipowners' Association, the study will benefit from sector-specific insight to the topic.

To conceptualize and operationalize the research question, the study will look at the government's policy on CSR found in the White Paper, "Corporate social responsibility in a global economy". In the White Paper, Norway has drawn up a comprehensive policy document on CSR, to raise awareness and promote CSR in both the private and public sectors (Ministry of Foreign Affairs, 2014).

1.6 Limitations and delimitations

Studying the field of CSR is in general hampered by a lack of consensus, even on the very definition of the term. In addition, several new concepts such as *corporate accountability*, *stakeholder theory*, *corporate ethics*, *corporate citizenship*, *responsible entrepreneurship*, *good corporate governance*, and *triple bottom line* have been introduced. This is problematic as they are sometimes used as alternatives to, and sometimes as synonyms for CSR (Gjølberg, 2012). This continuous introduction of new concepts complicates theoretical development and the comparison and evaluation of findings (Williams & Aguilera, 2008). The lack of a sound conceptualization and an analytical framework led Van Oosterhout (2010

in Gjørlberg, 2012:16) to claim that CSR researchers have merely collected a “pool of data in search of a theory”. The lack of consensus on theory and definitions will also affect this study, but this can be limited by the reader’s and author’s awareness of the problem.

As previously mentioned, choosing a case study design has certain weaknesses. The data collected on a specific case is not suited for arriving at more general conclusions as each case is unique. Some researchers therefore argue that a case study is only useful to generate hypotheses to be tested by data collection through other research designs (Burnham et al, 2008:64). To focus on Norway, a well-established welfare state with strong institutions for social embedding of the economy, limits the possibility of arriving at broader generalizations as the findings would differ greatly if a non-Nordic country or a country with different political institutions and characteristics had been chosen. On the other hand, choosing a country for a case study will enable the findings of this study to be useful for further research, and they can be used in comparative research.

Similarly, findings from the shipping industry cannot be used to draw conclusions with regard to other industries. Thus, based on a strong theoretical framework, the findings might be useful in reflecting the role of the Norwegian government in regard to CSR in Norwegian businesses in general. Also, findings on one specific case may debunk or confirm the prospect of the findings being relevant in other cases. Hence, findings from one industry can be used to generate hypotheses regarding other industries that can be tested.

Institutions do more than impose formal constraints, such as the division of power and legal rules (Hillman and Keim,1995:212), there are also the informal constraints of society and organizational culture and norms (North, 1990). This study will not focus on informal institutions such as civil society organizations and Non- Governmental Organizations (NGOs). Instead, the scope of the study is limited to the Norwegian government, as a formal, political institution.

The study will include some key informant interviews to enhance the secondary data collected. When using interviews to gather primary data, the information and answers provided are colored by the informant’s agenda and position. The informant’s answers must be seen in light of his or her position and need to be critically reviewed. The lack of physical

proximity between interviewer and informant is not desirable, however, because of geographical constraints, the communication will be conducted via email.

1.7 Outline of the research study

Chapter 2 will deliver the theoretical foundation for CSR by providing an overview of CSR theories. Further, literature from CPE and new institutional theory will be presented, providing the theoretical framework for the analysis of the relationship between the Norwegian government, as a political institution, and CSR.

Chapter 3 will contextualize the study. Firstly, by looking at the historical development of global CSR, and the role of globalization in making CSR a business concept. Secondly, the Norwegian social and political context will be mapped, in order to understand the country-specific context for CSR. The Norwegian government's policy on CSR will thereafter be presented, as put forward in the White Paper on CSR, which display the government's CSR aims and ambitions. Thirdly, an overview of the Norwegian shipping industry and the evolution of CSR in the industry will be given. Lastly, the chapter will assess CSR challenges faced by the shipping industry in order to answer the sub-question *What are the industry-specific CSR challenges faced in the shipping industry?* Chapter 4 will then evaluate these challenges, in light of the governments CSR. Altogether, this will help this study answer the sub-question *How does the Norwegian Government endorse and promote CSR in Norwegian shipping?*

Chapter 4 will conduct a critical evaluation and analysis of the role of the Norwegian government in promoting CSR in the shipping industry. This will be done in two steps. Firstly, by evaluating the government's CSR, as presented in the White Paper, with regard to each of the CSR challenges faced by the shipping industry, as presented in Chapter 3. Secondly, by analyzing the government's interpretation of CSR, and its efforts and role in promoting CSR, in light of the theoretical framework put forward in Chapter 2. The conclusion will sum up the findings of the study.

The last chapter will provide an evaluation of the study, and explain its progress. The chapter will also include recommendations for further research, before reaching a final conclusion.

1.8 Conclusion

This first chapter has served as an introduction to the study by mapping the background and relevance of the research and by presenting the methodology and research design to be used. It has also accounted for the limitations of the research, and described the structure of the thesis. Throughout the first chapter, the foundation has been laid for the research on the role of the Norwegian government in promoting and endorsing CSR in the shipping industry.

Chapter two: Theoretical Background on Corporate Social Responsibility and Political Institutions

To study the relationship between the Norwegian government and CSR in the shipping industry, the theoretical landscape of CSR must be explored. There are many ways to divide and categorize the different CSR views and discourses. As previously mentioned, there is a lack of consensus even on how to define CSR. In section 2.1 – 2.1.6, this chapter aims to introduce the theoretical CSR foundation guiding this study. It will do this, first by mapping the most common discourses on CSR, in order to create an overview of the main theories in the otherwise relatively disorganized territory of CSR. In CSR literature, there are different versions of these theories, as they are renamed and regrouped by various scholars. However, the fundamental thoughts stay the same and will be presented in the following section of this chapter.

The second part of this chapter, section 2.2 – 2.2.3, will provide the theoretical background on the institutional determinants for CSR. The chapter will present relevant literature from CPE and new institutional theory, which will form the theoretical framework for this study's analysis in Chapter 4.

2.1 Mapping the CSR territory

The next sections will map the CSR territory in order to show the variety of arguments for and against CSR, and the different views on the importance and evolution of CSR.

2.1.1 The conservative discourse: shareholder theory

In the conservative discourse, the very idea of CSR itself is fundamentally rejected; not even a minimalist definition is accepted, as conservatives oppose the slightest claim that companies have responsibilities beyond their economic obligations (Brejning, 2012). The growing popularity of CSR is therefore seen as undesirable. The fundamental idea of the conservative discourse can be summed up by the title of Milton Friedman's essay in the New York Times, "The Social Responsibility of Business is to Increase its Profits" (Friedman, 1970). Possibly more neoliberal than conservative in party-political sense, this discourse advocates that in the mixed economy of welfare states, such as Norway, the institutional boundaries between the commercial sector and the governmental sector must be sustained (Brejning, 2012).

This ideological position is known as *shareholder theory* or *stockholder theory*. The views of CSR conservatives are typically to be found in the right-leaning press, such as the *Financial Times* and *The Economist*. The last few years have seen changes to the conservative discourse as it is developing towards accepting a minimum of CSR, but only in situations where the business is at risk if it does not engage in CSR. This reflects a context where CSR is gaining ground, and becoming a standard in the mainstream of business, rather than being seen as exceptional behavior by a minority (Brejning, 2012).

2.1.2 The liberal CSR discourse: stakeholder theory

The attitude of the liberal discourse is that CSR is welcome, as long as there exists a clear advantage for businesses in implementing CSR (Brejning, 2012:32). The emphasis is put on the rational, strategic interests of business actors. This view is also known as *the business case for CSR*. In this view, there are many benefits, including financial, to be gained through CSR involvement. These include strengthening a company's brand, attracting the best staff, improving employee relations, building trust between business and consumers, spurring innovation, and cost saving (Brejning, 2012:32).

Whether or not there exists a business case for CSR is highly debated amongst scholars, and several studies have been conducted to research the link between CSR and profit. Some studies have found that there is a positive relationship between CSR and company reputation (Brammer and Millington, 2005), and between CSR and financial performance (Margolish and Walsh, 2000 and Garriga and Mele, 2004:53). The business case theory argues that it is beneficial for companies to conduct their business in a way that takes into account a wider range of people and communities with a "stake" in the company, not only stockholders.

A stakeholder is defined by Freeman (1984:46) as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Although there are different views on who should be defined as stakeholder, the point of stakeholder theory is that it makes long-term business sense for companies to consider not only stockholders, but also the broader range of stakeholders, when planning business strategy. Hence, spending money and time on issues beyond the company's core business does not have to be against the company's own interest. On the contrary, the liberal discourse argues that it can be harmful for a company not to be stakeholder-oriented. This way of viewing CSR continues to gain ground in business studies (Brejning, 2012).

Stakeholder theory is labeled as “liberal” because it is open to the idea of some degree of institutional change; to renegotiate the relationship between business and society. Unlike the conservative discourse, this school of thought welcomes the idea that business is becoming more involved in social matters. The utilitarian aspect, that a company’s CSR efforts have to be compatible with its own self-interest, is also a liberal characteristic. So is the opposition to governmental involvement in CSR, as companies tend to oppose government regulation, legislation and other efforts, on the grounds that CSR should be a purely voluntary undertaking (Brejning, 2012). The liberal discourse does not include moral and ethical reasoning in support of CSR.

Garriga and Mele (2004) categorize the shareholder and stakeholder view under *instrumental theories*, as these views have in common an understanding of CSR as a mere means to an end, namely profit. Garriga and Mele (2004) identify three main groups within the instrumental theories. The first group is those theories which focus on maximizing shareholder value, measured in share price, as the conservative discourse. The next group is those theories which emphasize strategic goals and aim to achieve competitive advantages and long-term profit, as the liberal discourse. The third group is linked to cause-related marketing (Garriga and Mele 2004:53).

2.1.3 The social democratic CSR discourse: the social contract

This position, like the previous one, is favorable for CSR. Unlike the liberal discourse, it focuses on CSR benefitting the society, not business. The social democratic discourse welcomes CSR as an opportunity to renegotiate the relationship between business and society. The term “social contract” implies that there exists a social contract between business and society. Just like individuals, NGOs and governments, businesses have a social responsibility, and this reciprocal-contract view of CSR is politically associated with social democratic parties. This contract supports the right to form companies, own land, use resources, and hire members of society (Smith and Hasnas, 1999:7). With these rights come responsibilities. Not only must businesses adhere to legislation, but they must also conduct business activities in a way that contributes to the overall welfare of the society (Cannon, 1992). Garriga and Mele (2004) categorize all views that emphasize the extent to which businesses depend on society for their existence as *integrative theories*.

Where stakeholder theory identifies and takes into consideration the stakeholders, the social contract view is about companies operating on the basis of the fundamental understanding that business and society have a mutual interest in each other. Partnership is a key focus in the social democratic discourse, and is encouraged between businesses, the public sector and the non-profit sector. Partnership is promoted in order to allocate and balance the responsibility of solving social problems between different sectors. The idea is that input and competence from diverse actors will lead to new problem solving approaches and will benefit society (Brejning, 2012:34).

Unlike the two other discourses mentioned so far, the social democratic discourse is not opposed to government involvement. On the contrary, the government's role is considered important, as it can influence companies to commit to CSR guidelines. The role of government corresponds to the New Public Management idea, where the government does the steering, and not the rowing (Osborn and Gebler, 1992, cited in Brejning, 2012:35). Legislation is not the favored approach. On a national and international level, the role of government is to facilitate and encourage CSR, and maintain an institutional environment where businesses develop best practices in different sectors which set standards for others to follow. In short, the social democratic discourse sees CSR as a solution to a welfare state crisis of public-sector overload, as businesses can assist governments in providing welfare and helping solve social problems. Because social problems are also the problems of business, they have an interest in solving and preventing them (Brejning, 2012).

2.1.4 International political economy: the logic of CSR

International political economy (IPE) explains why companies and governments engaged in CSR in the 1990s. IPE authors aim to describe the shifting power relations between business, government and society, and argue that the rise of CSR is not a result of a newfound corporate interest in ethics, but is rather related to fundamental global political-economic changes (Gjølberg, 2012:17-18). The role of the firm and its effect on international politics is of interest to IPE scholars, as well as to private-actor governance of voluntary initiatives for regulation. The emergence of CSR is seen in relation to economic globalization and liberalization, and the governance gap following this development. Globalization has facilitated increased transnationalization of companies, and the deregulation of the finance system created an opening for increased foreign direct investment and the movement of capital across borders (Castells, 2000 and Grossman, 1998, cited in May *et al.* 2007:7). The

political consequence was reduced ability on the part of governments to control and regulate companies, especially transnational ones (Gjølborg, 2012). The neoliberal agenda, which was gaining hold at the time, also reduced the political willingness to control companies. IPE scholars therefore argue that the rolling back of the state led to the rolling in of CSR (Sadler and Lloyd, 2009).

A series of anti-globalization protests took place in the 1990s as a result of serious scandals affecting well-known brands such as Nike, Shell and McDonalds. The protests were directed at working conditions, environmental hazards and social responsibility (May *et al.* 2007, Gjølborg, 2012, Vogel, 2006). Until this point, corporate legitimacy was obtained by adherence to legislation. The protests demonstrated how negative attention could affect brands and reputations, and made it impossible to ignore new demands for the exercise of responsibility. IPE scholars therefore see CSR as a response to external pressures caused by economic globalization, and link CSR to competitiveness (Gjølborg, 2012). Thus, economic interest is at the core of CSR logic.

In opposition to the liberal CSR discourse, IPE scholars argue that the business case mainly applies to brand-dependent industries, or in high-risk markets. Hence, the business case is not necessarily a reality for all companies (Vogel, 2006 and Gjølborg, 2012). IPE authors therefore argue that a “political case” for CSR must also be made. In other words, CSR is also seen as a political project for corporations to influence public policy in favor of self-regulation, rather than relying on mandatory regulations and laws; thus the political motivation for CSR must not be overlooked (Levy and Kaplan, 2008 and Gjølborg, 2012).

2.1.5 The radical CSR discourse

The supporters of this position use CSR to advocate far-reaching social change. The advocates of radical CSR believe in social benefits that occur when CSR is employed as a vehicle to bring about fundamental social change. From this point of view, CSR is an opportunity to renegotiate the global social contract as a whole. This discourse in particular relates CSR to global issues such as poverty, human rights, social justice and sustainability (Coleman, 2000). The current capitalist paradigm has legitimized social inequalities and greed, hence, it must be renegotiated and the values of neoliberalism must be challenged and replaced (Brejning, 2012:37). The radical discourse is embedded within the wider anti-

globalization and anti-neoliberalism movement, and is informed by a socialist perspective, typically advocated by grassroots activists and NGO workers.

From this point of view, governments and supranational institutions should participate, but it is recognized that there are limited possibilities for implementation of legislations. Codes of conduct are promoted as important guidelines for business activities by the radical discourse campaigners. This group of CSR advocates stresses the importance of reporting as a means to achieve long-term CSR goals. This is important as it forces businesses to reflect on their impact on stakeholders, and evaluate their own performance (Brejning, 2012:38). The ultimate aim is to change the paradigm that has made virtuous activities contradictory to business success.

2.1.6 The skeptical CSR discourse

The last CSR view presented in this study is a view that rejects the very idea of CSR, as it aims for the most far-reaching social change, and tends to sympathize with socialist ideologies. This view is skeptical in that it sees CSR as a vehicle for sustaining the current neoliberal global social contract, which allows economic self-interest to trump social concerns, and it is alert to the growing influence of corporations on governments. In other words, CSR is regarded as a means of preserving the status quo and serving the interests of business (Brejning, 2012). Advocates engage in CSR to reveal this point, not to promote CSR. The skeptical discourse would prefer to see governments imposing more legislation to restrict the power of corporations. In rejecting CSR, this represents a minority view in a larger context where other discourses have come to accept CSR, albeit in different ways (Brejning, 2012).

All these interpretations of CSR co-exist side by side, and represent different ways of viewing the world economy and the business-society and business-government relationship. The dynamic of the interplay between these views influences the national CSR agenda, for example the Norwegian government's CSR agenda. This study will, at a later stage, analyze the Norwegian Government's interpretation of CSR³. Mapping the CSR terrain is vital for this study because it contributes to understanding the concept CSR. The remainder of this chapter will investigate the relationship between national institutions and CSR by presenting the theoretical framework for the later analysis of the government's role in promoting CSR.

³ The Norwegian government's approach to CSR will be explored in section 4.3

2.2 CSR and national institutions

For the purpose of this study, it is necessary to look in detail at the role of the government, as an institution, on CSR. The following sections will therefore look at the views of scholars who suggest various ways in which institutions effect CSR. With regard to CSR, the motives of managers, shareholders, institutions and other key stakeholders shape the way corporations are governed. Institutional theory allows this to be explored and compared within their different national, cultural and institutional contexts (Matten and Moon, 2008). Because different societies have developed different systems of markets, reflecting both in their institutions, customary ethics and in social relations, it follows that we might expect some differences in the ways in which corporations express and pursue their social responsibilities in different societies (Matten and Moon, 2008:407). This thesis is limited to researching the Norwegian government, while acknowledging that it is only one of many relevant institutions to have an effect on corporate responsibility.

For the purpose of researching the Norwegian government, Gjøølberg's (2010) model of possible governmental interpretations of CSR will be examined. Gjøølberg (2010) argues that governments can interpret and justify CSR in an instrumental language of utility maximization in line with the business case idea, or they can focus on moral obligations in line with the normative case for CSR. A second dimension is the geographical focus. Governments can interpret and focus their CSR on the national or international arena. Gjøølberg (2010) argues that the national\international and normative\instrumental dimensions create four interpretations of CSR available to Governments.

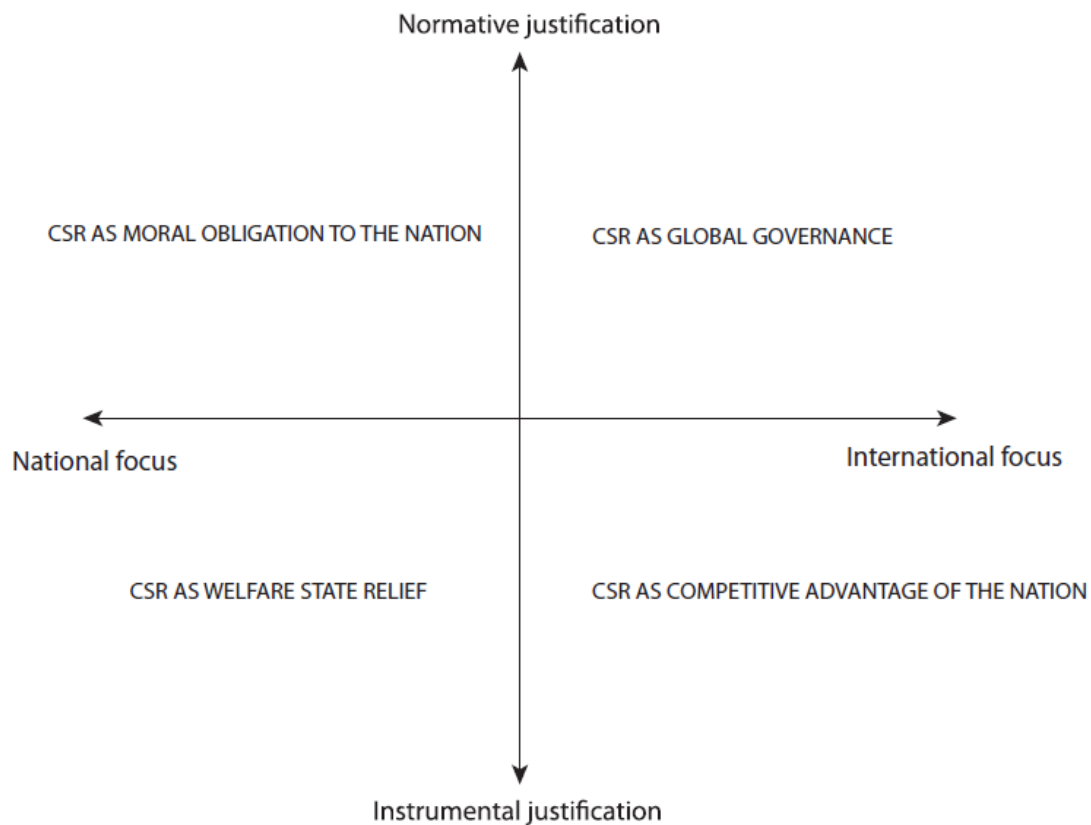


Figure 1: *Typology of possible governmental interpretations of CSR (Gjøølberg, 2010:207)*

The first option is the instrumental justification with a national focus, as illustrated in the lower left part of Figure 1. CSR is then seen as a form of a welfare state relief and corporate contributions are focused on local communities to lessen state expenditure on welfare. One example is when governments promote public-private partnerships as win-win opportunities for companies to engage in. The second option is to combine a normative justification with a national focus, where the Government promotes CSR as a moral obligation to the nation, and highlights the duty of businesses to give back to society (Gjøølberg, 2010:208). This way of interpreting CSR focuses on the normative with no regard for self-interest, and is reflected in terms such as “corporate citizenship”. The third option is to combine an international focus with an instrumental justification of CSR, thereby seeing CSR as producing a competitive advantage for the nation because it gives an innovative edge to national companies operating abroad. CSR will make companies more successful on the global market and thereby increase exports, employment and growth. The term “responsible competitiveness” is linked to this interpretation of CSR. The fourth option is a combination of a normative and an international focus, and interprets CSR as a moral obligation to contribute to global governance by filling the regulatory gap in the system and contributing to developing international norms and

standards (Gjølberg, 2010: 27). The Norwegian government's understanding of CSR will be discussed in light of these four approaches in Chapter 4, section 4.3.

The following sections will provide this study's analytical framework. As Gjølberg (2012:17) argues "the analytical purposes of normative and instrumental theories are not directed towards understanding CSR as a political phenomenon". In line with Gjølberg's (2012) research, this study follows van Oosterhout and Heugens' advice (2008) by applying theories from political science to the analysis of CSR. These are distinct theories, but also interrelated, theoretical traditions that are specifically developed to understand political economic and institutional phenomena (Gjølberg, 2012:17). New institutional theory and comparative political economy will be reviewed for the later purpose of analyzing the role of the Norwegian government, as a political institution, in promoting CSR in the shipping industry.

2.2.1 New institutional theory: CSR as an organizational trend

To provide a theoretical framework for the role of the Norwegian government, as a political institution, in influencing corporate behavior, this study will focus on theories of new institutional theory and CPE.

New institutional theory offers a cultural and socialization perspective on CSR because it focuses on how organizations adapt to expectations in their environments (Gjølberg, 2012:26). In new institutional theory, the CSR trend is considered as equal to other organizational trends whose popularity can be explained partly by the legitimacy that they bring to the organization, rather than to the traditional view of CSR's ability to increase production and profits. New institutional theory emphasizes that organizations cannot only comply with expectations regarding efficient production, as they are also evaluated on their use or adoption of structures, processes and ideology and whether they correspond to what important actors find to be rational, just, and modern (Brunsson and Olsen, 1990:10, and Gjølberg, 2012). As a result, businesses must comply with the institutional environment in regards to how production is conducted. To meet such requirements, the organizational structures and management practices expected in the institutional environment are adopted by companies (Meyer & Rowan, 1977). Hence, new institutionalism describes the decision-making process as not only based on a logic of consequences, meaning behavior in accordance with cost-benefit calculations, but as also based on a logic of appropriateness, meaning behavior in accordance with what is legitimate in the institutional environment (March and Olsen, 2004). The key argument in new institutionalism is that organizational

practices change and become institutionalized because they are considered legitimate (Matten and Moon, 2008, 411). Relevant certificates, CSR reports, codes of conduct and participation in CSR initiatives have become necessary for companies that want to be perceived as legitimate and modern, and which aim at being an attractive employer and brand, and a favored business partner (Sahlin-Andersson, 2006).

Matten and Moon (2008) argue that institutional frameworks change and present new incentives and opportunities for corporations to position themselves in respect of wider systems of responsibility. New institutionalism provides a helpful theoretical perspective for understanding these processes (Matten and Moon, 2008:411). Matten and Moon further explain that “new institutional theory has been informed by the homogenization of institutional environments across nations and has indicated how regulative, normative, and cognitive processes lead to increasingly standardized and rationalized practices in organizations across industries and national boundaries” (Matten and Moon, 2008:411). DiMaggio and Powell (1983) argue that although organizations are becoming more homogeneous, structural change seems to be less driven by competition or the need for efficiency. Instead, they see organizational change as a result of processes that make organizations more similar but not necessarily more efficient. Such isomorphic changes in organizational practices result from three key processes to be explored in the following section: coercive isomorphism, mimetic processes, and normative pressures (DiMaggio and Powell, 1983).

Coercive isomorphism results from formal and informal pressures exerted on organizations by other organizations, and by the cultural expectations prevalent in the society (DiMaggio and Powell, 1983). New organizational concepts thus arise as organizations adopt new trends as a result of this pressure. Pressure can also come from customers, business partners and NGOs (Gjølberg, 2012) or as a direct response to a government mandate (DiMaggio and Powell, 1983). New institutionalism assumes that externally codified norms, rules and laws assign legitimacy to new management practices, and in the case of CSR, European governments increasingly foster the spread of CSR. Self-regulation in the form of codes of conduct issued by the United Nations (UN), the Organization for Economic Co-operation and Development (OECD), International Labor Organization (ILO) and the Global Reporting Initiative (GRI) are also seen as isomorphism. Compliance with such codes and standards requires the adoption of CSR. Investment indexes and criteria for responsible investment also

represent incentives for corporations to engage in CSR to access capital (Matten and Moon, 2008).

Organizational concepts may also be spread through mimetic processes, where companies look to other companies to copy their structures (Gjølberg, 2012). A large and successful company can be used as a model for other companies to copy in order to gain legitimacy. Such mimetic processes result from a business climate of increased uncertainty and increasingly complex technologies, where managers consider practices legitimate if they are regarded as “best practice” in their field (Matten and Moon, 2008:412). Normative pressures can also cause convergence of organizational practices through educational and professional authorities setting the standard for legitimate practices, thereby representing a third source of isomorphic pressure in new institutionalism (Matten and Moon, 2008). CSR is increasingly on the agendas of business schools, industry organizations, NGOs and governments, and in this way spreads as a normative blueprint for how modern companies should be managed (Gjølberg, 2012: 27). An epistemic CSR community is evolving as major international organizations introduce CSR initiatives. Organizations such as the EU, the UN, the World Bank, the OECD, as well as the International Organization for Standardization (ISO) and the Global Reporting Initiative (GRI) all help to establish global CSR guidelines and standards (Gjølberg, 2012). Along with the structural conditions related to globalization, new institutional theory provides a complementary explanation for the rapid world-wide growth of CSR. Gjølberg (2012) argues that this growth, now involving societies world-wide and not only Anglo-American societies, is not a trouble-free process. It is reasonable to expect some institutional conflict when CSR is adopted in societies not predicated on a neoliberal model, because of the intertwined role of business and political-economic institutions (Gjølberg, 2012).

Brunsson (1989) claims that businesses intend to portray themselves as conforming to expectations in their institutional environment by adopting popular concepts based on what he calls a “logic of fashion”. Organizational trends, such as CSR, can thus be adopted because of the legitimacy this brings, regardless of whether it makes sense in terms of production. Such logic can lead to the adoption of concepts that are incompatible with internal processes in the organization. New institutionalisms therefore expect that some actors may resort to ceremonial adoption of CSR; they adopt the trend outwardly to satisfy the institutional environment, but continue with their internal practices as before to ensure

continued efficiency (Gjølberg, 2012:28 Brunsson, 1989, Meyer and Rowan, 1977). Brunsson argues that organizations tend to “talk in a way that satisfies one demand, to decide in a way that satisfies another, and to supply products in a way that satisfies a third” (1989:27). He terms this behavior organizational hypocrisy, a behavior that he claims must be perfected in order to survive in the modern world.

Gjølberg (2012) argues that such a decoupling between the projected image and the actual behavior is especially prevalent where the adopted concept is incompatible with existing norms and traditions in the organization. She further suggests that this is a likely scenario in Nordic cases because of the Nordic tradition of a strong institutional embedding of economy, which differs fundamentally from the Anglo-American neoliberal model that underlies CSR (Gjølberg, 2012:28). Gjølberg writes “while a “logic of fashion” might compel Nordic companies and governments to adopt CSR, an institutional “logic of appropriateness” can lead to decoupling, ceremonial adoption and resistance in implementation because CSR in many respects is incompatible or inappropriate in a context of Nordic institutional norms” (2012:28-29). New institutional theory provides an approach to analyze what happens when a new organizational concept collides with local logics of appropriateness, processes that are important to explain the mechanisms and dynamics linking political-economic institutions to CSR practices (Gjølberg, 2012).

2.2.2 Comparative political economy (CPE)

Comparative political economy comprises a wide variety of theories, and traces its root back to Karl Polanyi and Max Weber. Despite many varieties, what unites political economists is the assumption that institutions are fundamental to the functioning of the economy. “A common contention of CPE theories is the claim that political-economic institutions divide capitalist countries into fundamentally different country clusters” (Gjølberg, 2012:22). Classic CPE writers like Weber, Gramsci and Fukuyama see varieties of capitalism changing and replacing each other over time, and view globalization as transforming all economies into homogenous, relatively successful neoliberal economies. However, more recent CPE writing refuses this idea of evolutionary development where one dominant system outperforms all others. Rather, modern CPE literature view different systems as responses to different sets of political, social and economic challenges. Thus, political-economic institutions are reflecting unique political and economic logics, and are unlikely to converge around a single model in the future (Gjølberg, 2012:22). As a result, such institutions are seen by CPE scholars as self-

reinforcing and self-perpetuating because they shape how actors respond to new challenges (Esping-Andersen, 1996:6 in Gjøølberg, 2012:22), for example the demand for responsible businesses.

CPE has a long tradition of exploring national variations of political and economic institutions and how it affects corporate behavior. CPE literature analyses how political and economic institutions, such as the welfare state and labor unions, impact on economic and political outcomes (Gjøølberg, 2012:12). This study, like Gjøølberg's (2012) study, builds its analysis on the firm-centered theories within CPE, mainly the "Varieties of Capitalism" approach by Hall and Soskice (2001) and the "National Business Systems" approach by Matten and Moon (2008). This literature explores how political and economic institutions influence corporate strategy, and is therefore highly relevant for this study. The underlying theoretical argument shared is that the degree of institutional embedding of the economy influences CSR practices.

Hall and Soskice (2001) see a lack of CPE research on the influence of political and economic institutions on corporate behavior, and offer a firm-centered analysis of this influence. While classic theories on comparative advantage focus on a nation's relative access to land, labor and capital, Hall and Soskice (2001) argue for the inclusion of institutions as a source of comparative advantage. As a result of the suggestion that institutional frameworks may condition what firms can do, Hall and Soskice (2011:v) see the possibility that nations may derive comparative advantages from their institutional infrastructures, although few theories have been developed to explain how. They aim to fill this gap with the book *Varieties of Capitalism*, which calls for a re-examination of social policy and the welfare state, and suggests that social policies, while often interpreted as having been forced upon businesses and impeding the operation of markets, actually improve the operation of markets and enhance the capacities of firms to pursue distinctive strategies, thereby gaining active support in the business community (2001:vi). In short, Hall and Soskice (2001) argue that firms develop corporate strategies to take advantage of the institutional support available. This way of coupling political-economic institutions with corporate behavior is helpful for this study as it can be adapted to answer the main research question.

The firm-centered approach taken by Hall and Soskice (2001:8) distinguishes between liberal market economies (LMEs) and coordinated market economies (CMEs) in the analysis of institutions. In liberal market economies, firms coordinate their activities primarily through hierarchies and competitive market agreements, and market relationships are characterized by the exchange of goods and services in a context of competition and formal contracting (Hall and Soskice, 2001:8). In coordinated economies firms are more dependent on non-market relationships to coordinate their endeavors with other actors and to construct their core competencies. There is also a higher reliance on collaborative rather than competitive relationships to build competence in the firm (Hall and Soskice, 2001:8). In CMEs, firms coordinate more as a result of strategic interaction among firms and other actors, as opposed to LMEs, where the equilibrium outcomes of firm behavior are usually a result of demand and supply conditions in competitive markets.

The significance of institutions as precursors of CSR is debated amongst social science scholars (Gjøølberg, 2012). In their national business systems approach, Matten and Moon (2008:407) argue that differences in CSR can be explained by historically grown institutional frameworks which shape national business systems. This view shares key features with Hall and Soskice's (2001) varieties of capitalism approach. They suggest this approach because it "points to durable and embedded aspects of business systems" (Matten and Moon, 2008:407). Further Matten and Moon (2008) argue that CSR is more widespread in LMEs than in CMEs because a weaker institutional embedding of the economy leads to a greater need for voluntary CSR. In CMEs on the other hand, responsibility is assured by state and institutions. In short, Hall and Soskice (2001) and Matten and Moon (2008) see the institutional context as varying between coordinated and liberal market economies (see Figure 2).

In their study, Jackson and Apostolakou (2010) document the important role of institutions, and argue, like Matten and Moon (2008), that CSR is less likely to be adopted in a context where the economy is strongly embedded in institutions. Their study finds that contemporary CSR is largely a substitute, rather than a mirror of existing institutions (Jackson and Apostolakou, 2010:387). They further suggest that CSR may develop strategic responses to institutions, sometimes pro-actively attempting to fill institutional gaps. It is therefore expected that a weak embedding of the economy will result in stronger interest in CSR.

There is no consensus on the relationship between weak institutional embedding of the economy and CSR. Campbell (2007) sees a different possible scenario, one where institutions provide companies with sticks and carrots that constrain some forms of corporate behavior while enabling others. He further argues that there are several factors that promote responsible firms. These are public and private regulation, watchdogs such as NGOs and media, and dialogue with stakeholders, investors and communities. In contrast to the scholars previously mentioned, Campbell sees the strong institutional embedding of the economy as fostering more corporate responsibility. Campbell's arguments resemble the views of Hall and Soskice (2001), who expect comparative institutional advantages to accrue. Gjølborg (2012:23) also follows the logic of Campbell (2007), as she expects companies from strongly embedded economies to "have higher standards and experience in social and environmental issues when CSR hits the agenda, merely as a function of their having adapted to an institutional environment with bigger sticks and carrots". In other words, there is a lack of consensus on the link between strong institutional embedding of the economy and CSR. This link will be explored from a Norwegian context in Chapter 4.

2.2.3 Implicit and Explicit CSR

Matten and Moon (2008) developed a conceptual framework for a comparative understanding of CSR by distinguishing CSR as a dual construct which may be either "implicit" or "explicit". Their study is based on the observation that US companies have been more ready to claim social responsibilities than European companies, but also that corporations on all other continents have more recently begun to adopt practices of CSR (Matten and Moon, 2008:404). The theoretical argument presented is that corporations' CSR policies reflect the historical institutions of their national business systems. They develop this theory with reference to new institutional theories about corporations' responses to changes in their environment. They understand the recent worldwide spread of CSR as part of the global spread of management concepts, ideologies, and technologies (Guler, Guillen and MacPherson, 2002) resulting in an "americanization" of management practices. The assumption of social responsibility by corporations remains contextualized within national institutional frameworks and therefore differs from nation to nation.

In their theoretical framework, Matten and Moon (2008) refer to explicit CSR (see Table 1 below) as corporate policies that assume and articulate responsibility for some societal interests. This normally consists of voluntary programs and strategies by corporations that

combine social and business value and address issues perceived as being part of the company’s social responsibility. Explicit CSR can also be a response to consumer or stakeholder pressure, as seen in the case of activism aimed at Nike’s supply chain in the 1990s, or it may involve partnerships with governmental or non-governmental organizations, or alliances with other corporations (Matten and Moon, 2008).

Table 1: Explicit and Implicit CSR Compared

Explicit CSR	Implicit CSR
Describes corporate activities that assume responsibility for the interest of society	Describes corporations’ role within the wider formal and informal institutions for society’s interest and concerns
Consists of voluntary corporate policies, programs, and strategies	Consists of values, norms, and rules that result in (often codified and mandatory) requirements for corporations
Incentives and opportunities are motivated by the perceived expectations of different stakeholders of the corporation	Motivated by the societal consensus on the legitimate expectations of the roles and contributions of all major groups in society, including corporations

(Matten and Moon, 2008:410)

Further, implicit CSR is described as a corporation’s role within the wider formal and informal institutions for social interest and concerns. It normally consists of values, norms, and rules that result in both mandatory and customary requirements for corporations to address stakeholder issues and that define the proper obligations of corporate actors (Matten and Moon, 2008). Representative business associations are often directly involved in defining and legitimizing such requirements and individual corporations would normally not articulate their own versions.

Matten and Moon’s (2008) differentiation between explicit and implicit CSR focuses on the language and intent of the two types. The companies practicing explicit CSR use the language of CSR to communicate their practices with their stakeholders, while companies engaging in implicit CSR seldom do so. Even though the practices of both might be similar, companies practicing implicit CSR often do not describe their practices in these terms. Implicit CSR, however, is not conceived of as voluntary and deliberate corporate decisions; rather, it is a reaction to or a reflection of a corporation’s environment. Explicit CSR, on the other hand, is a result of deliberate, voluntary and often strategic decisions. Many of the

elements of implicit CSR occur in the form of codified norms, rules and laws, but these are not usually described explicitly as CSR. It is the societal norms, networks, organizations, and rules that are explicit, rather than their implications for the social responsibilities of business. This is why Matten and Moon (2008:410) term this type of CSR *explicit*.

Matten and Moon (2008) suggest that the nature of CSR is strongly linked to the nature of the institutional framework. Hence, institutions that encourage individualism and provide discretion to private economic actors in liberal markets would be considered systems in which one would expect to find strong elements of explicit CSR. The institutional differences can be understood from their distinct characteristics of liberal and coordinated market economies, as seen in Figure 2.

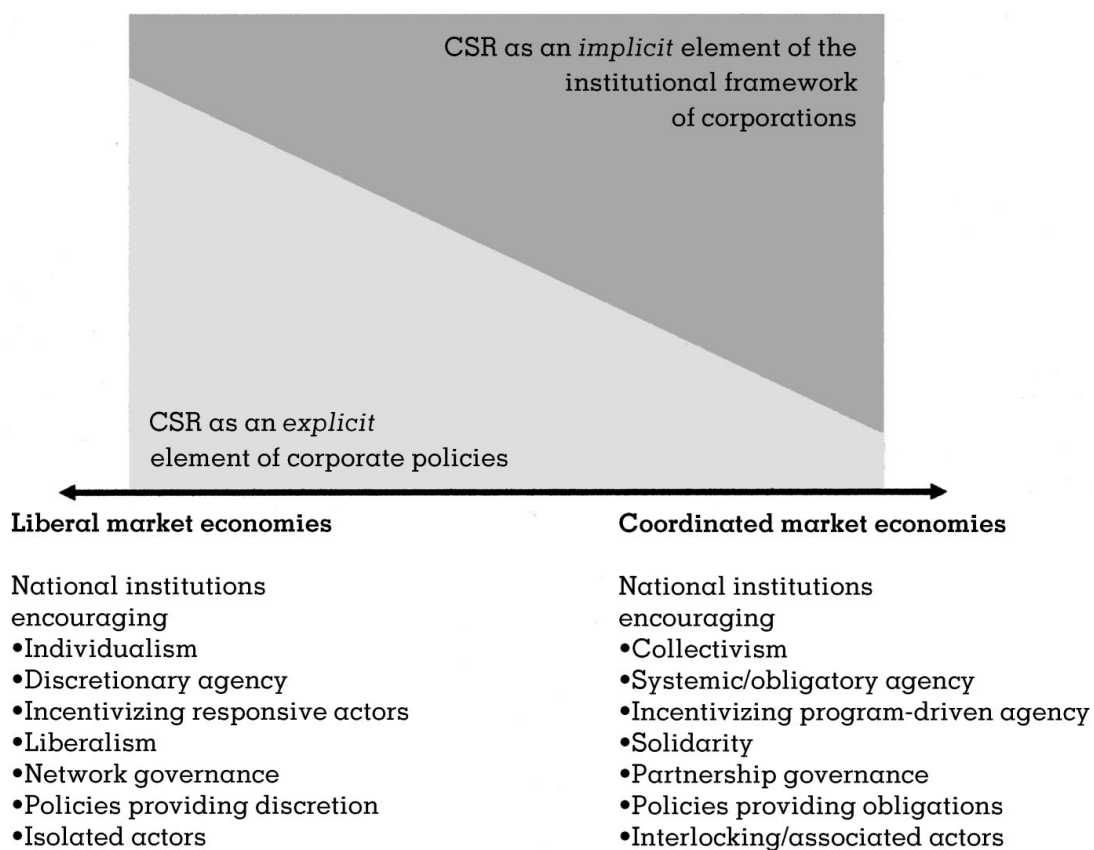


Figure 2: Implicit and Explicit CSR (Matten and Moon, 2008:411)

The US fits the characteristics of liberal market economies as presented in Figure 2. The European institutional framework on the other hand, favors more coordinated approaches to economic and social governance through partnerships with representative social and economic actors, led by government. Hence, Matten and Moon (2008) argue that US-style

CSR has been embedded in a system that allows more incentives and opportunities for corporations to take explicit responsibility, compared to European CSR, which has been implemented in systems which rely on wider organizational responsibility. This has yielded comparatively limited incentives and opportunities for corporations to take explicit responsibility through CSR (Matten and Moon, 2008:410). In Matten and Moon's view, institutional frameworks shape national business systems. This explain why in the European model of financial system, stakeholders other than shareholders play an important role, sometimes equivalent to, or greater, than that of shareholders (Matten and Moon, 2008:408, Fiss and Zajac, 2004). In addition, the European type of trade and labor unions has led labor-related issues to be negotiated at a sectoral and national level, instead of at a corporate level. The confidence in the moral value of capitalism is stronger in the US, as opposed to Europe, where confidence is directed more to political parties, unions, the state, and representative organizations. Such cultural differences have led to different business systems in terms of the nature and organization of firms (Matten and Moon, 2008:408). The link between a nation's institutional framework and the implicit or explicit nature of a nation's CSR is helpful for this study, which aims to analyze the role of the Norwegian government in promoting CSR in the Norwegian shipping industry.

2.3 Conclusion

This chapter has provided an overview of some of the many views on CSR, acknowledging that this is only one of many ways to group and categorize views on CSR. The distinction was made between conservative, liberal, social democratic, radical and skeptical CSR discourses, as well as the view of IPE. CSR is a contested topic suffering from a general lack of consensus which can come across as confusing. The first section of this chapter therefore aimed to map the leading views on CSR in order to create a solid platform of understanding for this study. In addition, it is important to be aware of the various ways of interpreting and viewing CSR, as this study will later analyze the government's interpretation of CSR.

To sum up, this chapter has shown that the conservative discourse largely rejects the concept of CSR, while the liberal view is more positive, given that there exists financial advantage for voluntarism, also known as "the business case for CSR". These two schools can be categorized as instrumental theories. The social democratic discourse is favorable to CSR, but here the focus is on societal benefits rather than business benefits, and there is recognition of the important role of government. The IPE view explains CSR as a result of power relations,

stemming from the globalization of economy, and argues for a business case which is limited to some larger companies, and also suggesting that there is a political case for companies to engage in CSR. The radical view supports CSR as a vehicle for fundamental social change, and is part of a larger anti-globalization and anti-neoliberalism movement. Lastly, an overview of the skeptical discourse has been provided. This view rejects the very idea of CSR as it is understood to sustain the existing global system of inequality and injustice.

Because of the topic of this study, the Norwegian government's role in promoting CSR in the shipping industry, the chapter also narrowed this study's CSR focus by presenting theories on national institutions' effects on CSR. In short, different institutional contexts give rise to expectations of different corporate behavior in different societies. This chapter has built on Gjølborg's (2010) suggestion that there are two fundamental dimensions by which governments seek to develop their interpretation on CSR. These are the national\international dimension, and a normative\instrumental dimension, which creates four possible interpretations for governments, as shown in Figure 1. New institutional theory was explored, along with CPE, to provide a theoretical foundation for the later analysis of the Norwegian government's institutional role with regards to CSR. In contrast to the business case view of CSR, new institutional theory explains CSR by stressing the legitimacy it brings to the company, and compares it to other organizational trends. Compliance with legitimate practices and the institutional environment is necessary for businesses, and one means to this end is to implement CSR. As argued previously, these new organizational practices might not always match existing practices in the company, and this may lead to organizational hypocrisy. The role of political-economic institutions was further explored through the arguments found in comparative political economy. In this view, institutions are a reflection of unique political and economic circumstances. A firm-centered analysis of the role of institutions with regard to corporate behavior was presented, arguing for an institutional comparative advantage. The distinction between liberal market economies and coordinated market economies was explored. This showed arguments both for and against the claim that CSR is more prevalent in economies with strong institutional embedding of the economy. A conceptual framework for CSR was also presented. It was distinguished between explicit and implicit CSR, and argued that the type of CSR found in a country depends on the existing national institutions in that country. Finally, it was suggested that CSR can either represent a mirror, which reflects the institutional environment in the country, or represent a substitute,

that compliments the national institutional environment. This framework enables the study to analyze CSR in the shipping industry in light of the institutional characteristics in Norway.

Chapter Three: Contextualization of the Research Study

Corporations, and especially TNCs are among the driving forces behind globalization, as more and more companies move or outsource parts of their business abroad. Within this complex and interconnected globalized world, CSR can be seen as a means to meet some of the challenges caused by globalization. Recently, social policy analyses have considered the effects of globalization on the power balance between businesses and governments, and concerns have been expressed about the growing ability of transnational corporations to influence national socio-political agendas, mainly in the direction of dismantling social policy measures and minimizing state responsibilities (Macleod and Lewis, 2004 and Bridgen and Meyer 2005). In this chapter the context of this study will be mapped by, first, exploring the global development of CSR as a concept of interest to corporations. As previously mentioned, the rise of corporate responsibility should be seen in light of its historical context, where globalization has played an important role. Secondly, the chapter will provide historical background on the development of CSR from its origin in the 1950s until today.

As the purpose of this study is to explore the role of the Norwegian government in promoting CSR in the shipping industry, this chapter will also contextualize the Norwegian government's CSR strategy by looking specifically at the Norwegian context. This is important in order to establish an understanding of the Norwegian social and political context, as it provides a background to understanding the extent to which the Norwegian society and political institutions generate incentives for CSR engagement. The government's CSR will be operationalized by examining the White Paper on CSR from 2009. The White Paper is a comprehensive document presenting the government's aims and ambitions for CSR performance in the public and private sectors. Finally, this chapter will introduce the Norwegian shipping industry, and the industry-specific CSR challenges regarding shipping. The government's effort to address these specific challenges will be assessed in Chapter 4.

3.1 The evolution of CSR

The following section will focus on how CSR has evolved as a concept. For this purpose the study will present a chronological outline of the evolution of CSR from the 1950s onward. As mentioned previously, CSR is closely linked to the globalization process. McGrew (2000:347) explains globalization as a concept referring to a more interconnected world characterized by four types of major change. Firstly, social, political and economic activities

are crossing political borders. Secondly, the world is closely connected through the increased flow of goods, investments, migration and culture. Thirdly, the increase of advanced infrastructure is driving these changes as it facilitates the rapid spread of people, information, and goods. Fourthly, all these changes tie the world closer together and result in increased inter-connectedness, where events taking place on one side of the globe can have severe effects on the other side of the globe. In other words, there is no longer a sharp distinction between what are local and global interests and issues (McGrew, 2000).

3.1.1 Historical development of global CSR

The end of the 19th century saw large-scale corporate expansion which led to increased focus on environmental and social responsibility both domestically and internationally. In the US and Western Europe, legislation on child labor and working conditions was passed, yet the critique of companies and the negative impacts of industry increased. As a response to popular demands in the US, several companies established welfare programs to legitimize their businesses, and this led major companies to introduce CSR as part of their business strategy. After the Second World War, the focus on the role of corporations increased, and the idea of what would later be known as CSR arose (May *et al.* 2007:4-5).

The contemporary understanding of CSR originates from the 1950s and Howard R. Bowen's landmark book *Social Responsibilities of the Businessman* from 1953, is widely considered to be the start of modern literature on the subject (Carroll, 1999:269). Bowen defined CSR as referring to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953:6, cited in Carroll, 1999:270).

The 1960s marked the growth of attempts to clarify what CSR means. One of the most prominent writers on CSR at this time was Keith Davis, who in 1960 defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest" (Davis, 1960:70 cited in Carroll, 1999:271). Davis also argued that some CSR decisions could be justified as having a good chance of bringing long-term economic gain to the company, thereby paying it back for being responsible (Davis, 1960:70, cited in Carroll, 1999:271). Today, the idea that CSR is profitable for businesses, also known as the business case for CSR, is one of the strongest incentives for companies to engage in CSR.

The mid-1960s was also a period of increased regulation of corporations, often focused on consumer and environmental protection. For the first time, corporate regulation became an international issue, and attempts were made by the UN to establish codes of conduct to support developing countries in their efforts to regulate TNCs. The growing number of TNCs was seen as a threat to the sovereignty of small and poor states. However, corporations and governments in developed countries resisted attempts at global regulation and suggested self-regulation as an alternative (Jenkins, 2005:524-525).

During the 1970s, CSR became a well-known term, and companies increasingly adopted CSR strategies. However, not everyone agreed that businesses should bear this kind of responsibility. Milton Friedman advocated that only individuals can have responsibility, not companies. He was therefore very skeptical of the concept of CSR. In an essay published in the *New York Times*, Friedman argued that the only social responsibility of business is to maximize profit and to do this within existing laws (Friedman, 1970). Friedman's statements were made at a time when the neoliberal agenda prevailed, and when less government interference was required in the market. From a neoliberal economic perspective, CSR can be considered to conflict with the principles of a free market because it confuses the roles of the private and public sectors (May *et al.* 2007). It was also during this period that some early examples of CSR research were published.

The number of research publications continued to rise in the 1980s. This decade was also characterized by major changes taking place as a consequence of the introduction of neoliberalism. Unemployment rates rose and so did the gap between rich and poor, as well as environmental problems caused by companies which operated abroad. As a result of deregulation in the financial system, capital became more mobile, and this facilitated global investment. A result of these developments was increased power for corporations, and complaints from the civil society were overheard (Castells, 2000 and Grossman, 1998, cited in May *et al.* 2007:7).

The 1980s saw a shift away from the demand for state intervention as capital mobility had led TNCs to take advantage of states with weak regulations. This led developing countries to lower their standards in order to attract foreign direct investment (FDI) (Jenkins, 2005). In

addition, increased criticism of “command and control” regulation in the 1980s and 1990s led to a growing interest in alternatives to state regulation. This interest can also be seen as a response to decreasing state resources and an increase in the number of units to be regulated and controlled. These changes made it possible to exploit private-sector resources to regulate businesses (McInerney, 2007:182).

By the 1990s the glory days of neo-liberal policies were over in the developed world, and there was a growing awareness that the market alone would not be sufficient to bring about development, largely because of market failures in the Global South. CSR initiatives mostly came from the North, and were often put forward by NGOs, trade unions, environmental groups and the like. This led to a trend where Northern voices were setting the CSR agenda. From the 1990s onward, several major companies experienced scandals and criticism related to their activities abroad, often directed at labor or environmental practices (Jenkins, 2005 and May *et al.* 2007). These incidents revealed that companies were vulnerable to bad publicity, and it often led to improvements and implementation of CSR. In addition, there were massive anti-globalization campaigns and protests taking place all over the world. The increasing use of outsourcing and subcontractors created massive webs of suppliers across the globe. Simultaneously, the call for responsibility grew (Jenkins, 2005).

As a result of all these factors, CSR became more relevant, and new focus areas emerged in the heat of the debates, such as concern for green marketing and responsible investment (May *et al.* 2007:7). Coady and Strandberg (2012) point out that the concept of CSR was not new, but was being applied in new ways as major new leverage points for CSR were emerging in global supply chains. Investors were also seeking to limit risks, and consumer awareness was rising. CSR had developed from being a concept of doing good in order to obtain a social license to operate, to becoming a business strategy (see Table 2 below). A reflection of this transition was the proliferation of terms used in the CSR domain, such as corporate sustainability, corporate citizenship, triple bottom line, people planet and profit, and non-financial performance (Coady and Strandberg, 2012:6).

Table 2: CSR Evolution

Evolving from	Evolving to
A unilateral and ad hoc focus on protecting or improving a firm's social license to operate through good behavior, corporate giving and other voluntary contributions to employee, worker and community well-being	A multilateral and systems-based focus on the introduction of social and environmental goals and practices designed to improve impacts and corporate accountability while also supporting improved efficiency, innovation, competitive advantage and social license to grow

(Coady and Strandberg, 2012:6)

The historical development of CSR is important for this study as it demonstrates how social and political factors have caused the concept to change and develop over time. Thus, as Chapter 2 illustrated, this does not mean that a common understanding or consensus on CSR has been reached, as there are many ways to categorize and organize the many discourses and definitions. The historical development of global CSR is important in order to understand the broader global context for CSR. For the purpose of this study, using Norway as its case, it is also necessary to research the Norwegian context for CSR and the social and political characteristics of the country.

3.2 Norway and CSR

The CSR tradition in Norway has evolved out of a combination of advanced welfare state traditions and innovative practices in response to new challenges faced by industry, government and society due to increased globalization (Albareda *et al.* 2008:354). Corporate responsibility is considered part of the political and social tradition, and trade unions have held a strong position ever since the industrial revolution (Willums, 2005). Negotiations, transparent communication and long periods of labor government rule explain the public consensus on the responsibility of business. According to the Norwegian-based international certification entity, Det Norske Veritas (DNV), CSR is understood in Norway to include a company's total responsibility to ensure financially, socially and environmentally sound operations (Willums, 2005:37).

The Ministry of Foreign Affairs is the most visible focal point in the Norwegian Government's CSR policy (Albareda *et al.* 2008:354). The authorities have a long history of trying to establish the country as a peace negotiator and human rights advocate, and CSR is seen as directly related to this foreign policy agenda (Albareda *et al.* 2008:354 and Gjølborg,

2010:212). Therefore, Gjørberg (2010:212) argues that “CSR appears to be integrated into the marketing project seeking to brand Norway as a humanitarian superpower”. As State Secretary Graham explained in 2005, “Norway’s reputation and Norwegian companies’ reputation often coincide. Actions, attitudes and values have a reciprocal impact on the joint Norwegian profile” (quoted in Gjørberg, 2010:213). In other words, both the Norwegian business society and the state authorities benefit from each other’s positive efforts, and it should be in both parties’ interest to participate to create an overall positive image.

3.2.1 The Norwegian context

Norwegian businesses and their CSR efforts are part of a context that includes a strong state with ownership and investment responsibilities, and a strong civil society. In addition, a high standard of living and strong civil rights have been established over time. There are relatively few, but large, TNCs, concentrated in key industries such as energy and telecommunications. The industry-specific tendencies as well as public ownership, are factors that have fostered an environment where businesses are subject to thorough inspection, both by the state and civil society. Economic affluence and international aspirations have embedded in the Norwegian mind-set a sense of responsibility to do good. Due to the extensive mandate of the Norwegian welfare state, CSR has mainly been related to activities abroad (Gjørberg, 2010).

The media, NGOs and labor organizations are very vocal, and play an important role in promoting values, and keeping an eye on corporate activity at home and abroad. The high degree of surveillance has placed pressure on Norwegian companies to act responsibly (Welle-Strand and Vlaicu, 2013, and Alm, 2007). Media critique is most often based on environmental and human rights concerns, insisting that companies too should take responsibility for maintaining Norwegian standards and values in their activities, both at home and abroad. Norway was ranked as number three in the world, behind Switzerland and Latvia, on the 2012 Environmental Performance Index and Pilot Trend Environmental Performance Index (Emerson et al. 2012:27), and also ranks high on several lists of best CSR in small and medium-sized enterprises in Europe (Willums, 2005).

Both the government and Norwegian industry agree that legislation and regulation alone is not sufficient to promote continuing improvement (Willums, 2005:38). Willums argues that the strong position of trade unions has led to dialogue between employers, employed and government on CSR, making it part of the political and social tradition in the country. This

has led to a context of transparent communication, and consensus on the broader responsibilities of business. Another characteristic of the Norwegian context is the country's tradition of global commitments. This applies to the level of development aid, to the facilitating of peace processes, and the promotion of sustainable development. The cultural drivers for CSR today can be traced back to the part-privatization of the social democratic welfare state, and to an old tradition of responsible business persons, especially seen in family-owned companies (Willums, 2005:40). In remote places where industries have settled, due to the available minerals or hydropower, communities might be highly dependent on only a few industries, and in times of cost-cutting or downsizing, the local community and employees play important roles in exploring alternatives and solutions.

In Norway, CSR originates from the beginning of the century. Enterprises like Norsk Hydro were responsible for entire local communities in remote areas where the necessary resources could be found. In many instances, companies took responsibility for all aspects of life, and were given assignments making them cornerstones in the societies they operated in (Willums, 2005:40).

Welle-Strand and Vlaicu (2013:106) argue that in CSR debates, involving civil society actors in Norway, there is an unclear line distinguishing private and public identities and the profit and non-profit activities of organizations (see Figure 3 below). The independence of organizations is strictly scrutinized as funding can often be traced back to the government. The space between profit and non-profit activities has been bridged by hybrid organizations of various kind, such as investment funds, venture philanthropists, and individuals. Companies, civil society actors, and hybrid organizations are therefore competing with each other in debates on the topics of development, ethics and responsibility (2013:106).

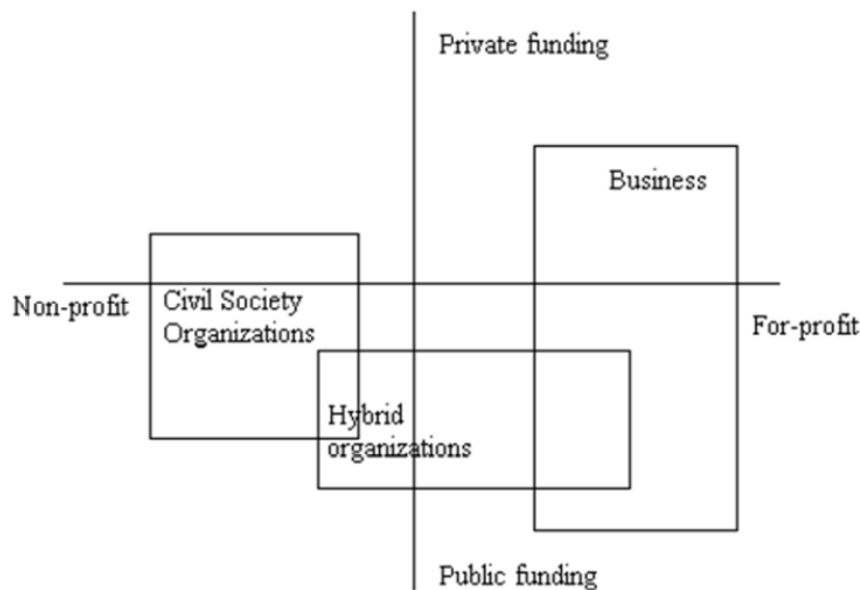


Figure 3: *Actors in Norwegian CSR and development cooperation (Welle-Strand & Vlaicu, 2013:106).*

The Norwegian labor unions have contributed heavily to public policy in the country, thereby restraining the influence of companies over societal issues (Welle-Strand & Vlaicu, 2013). However that does not mean that companies are passive bystanders. One organization with great influence is The Norwegian Confederation of Business and Industry (NHO), representing more than twenty thousand companies. Since 1992 the NHO has had an advisory committee on ethics, and in 1997 the NHO together with Amnesty International, launched a human rights checklist for Norwegian corporations operating abroad (Willums, 2005:40).

The Government incorporated CSR in its formal apparatus in 1998, introducing the “Consultative Body for Human Rights and Norwegian Economic Involvement Abroad”, called KOMpakt. KOMpakt is the government’s consultative body on CSR-related matters. It is made up of 33 representatives from the private sector, the authorities, trade unions, civil society and academia (Ministry of Foreign Affairs, 2012). The body was a reaction to public concerns about Norwegian companies’ activities abroad, and works as a forum for dialogue (Gjølberg, 2010). The objective is “to strengthen the government’s basis for developing policy and for decision-making in the area of CSR, with particular emphasis on international issues” and “to enhance dialogue between the Government, the private sector, interest groups and academia on key questions relating to CSR” (Ministry of Foreign Affairs, 2012). KOMpakt is led by the Ministry of Foreign Affairs, which also provides the secretariat for the body. The body reflects the focus areas of Norwegian CSR, and used to exclude domestic CSR by focusing solely on companies operating abroad, and particularly on international

issues. Later on, the focus was broadened and the name was changed to “The Consultative Body for Corporate Social Responsibility” (Ministry of Foreign Affairs, 2012).

3.2.2 The Norwegian government as business owner and investor

Another feature of public CSR policy is the Norwegian Parliament’s establishment of an Ethics Council in 2004. This was a reaction to disclosures in the media, which revealed that the Norwegian Pension Fund, which consists of the revenues from the Norwegian oil and gas sectors, had invested in companies involved in landmine production, tobacco, alcohol and gambling. The Parliamentary Committee reacted by recommending the creation of clear guidelines for the Pension Fund and implemented the ethical guidelines (Willums, 2005). The guidelines say that assets shall not be invested in companies related to the production of tobacco, illegal weapons, severe environmental damage, gross corruption, violation of ethical norms, and the like (Council on Ethics, 2010). Another important function is that the Ministry of Finance can exclude companies from the investment universe of the Fund when advised by the Council of Ethics. Both the principles and the list of banned firms are made public (Council on Ethics, 2010) and this can therefore also affect the investment of other banks and individuals concerned about ethical investment. It can also effect brand reputation, as in the case of Wal-Mart, which was excluded from the Norwegian Pension Fund’s investments in 2006 because of its systematic violation of human rights and labor rights. In addition to managing the world’s largest national investment fund, the Norwegian state has significant ownership in many Norwegian companies and TNCs. This has led to a situation of intense scrutiny by civil society actors, particularly the media, and this puts huge pressure on Norwegian companies, especially TNCs, to behave responsibly (Alm, 2007).

The stock-listed companies in which the state has shares partly correlates with the list of the five largest Norwegian companies. Statoil ASA is the largest company in the country, employing more than twenty thousand people and operating in close to 40 countries. The company is 67 per cent state owned. The state owns 54 per cent of the second biggest company, the telecommunication firm Telenor ASA, while it owns 34 per cent and 36 per cent of the third and fourth largest companies, the aluminum producer Norsk Hydro ASA and the fertilizer company Yara International ASA (Norwegian Government, 2012). The great extent of state ownership, especially in the largest Norwegian companies, presents an additional incentive for the authorities to ensure that firms behave responsible, and to promote CSR.

3.3 The Norwegian government's White Paper on CSR

There is growing consensus that goods and services imported into, and manufactured in Norway or by Norwegian companies, should be produced under satisfactory working conditions, and that factors such as human rights and environmental considerations should be taken into account. Norway was one of the first governments in the world to create a comprehensive document on CSR. The purpose of the White Paper No.10 "Corporate Social Responsibility in a Global Economy" is to raise awareness and promote CSR in the public and private sectors, and strengthen the overall commitment to CSR. The following sections will present the White Paper document in order to operationalize Norwegian CSR for this study's later evaluation of the government's role in promoting CSR in the shipping industry.

The White Paper acknowledges that the number one task for companies is to create value and economic results in the society in which they operate. Companies do not just impact the market, they also impact the culture, communities and the political system they operate in. CSR is therefore explained in the White Paper as the role companies play in a broader societal context, a responsibility that goes beyond value creation (Norwegian Ministry of Foreign Affairs, 2009). The government express that the reason behind the White Paper is to strengthen Norwegian company's commitment to CSR, and boost companies' motivation and ability to exercise responsibility by guiding and advising companies. In addition it aims to increase openness, dialogue and exchange of experience between the authorities and the private sector (Norwegian Ministry of Foreign Affairs, 2009:7). This helps to answer one of the study's sub-questions: *What are the government's incentives to promote CSR?*

The White Paper is relevant because Norwegian companies are increasingly involved in countries where challenges and ethical issues have to be dealt with. These can be issues related to human rights violations, poor labor conditions, the use of child labor, severe pollution, corruption and the like. Companies are faced with ethical dilemmas, civil society pressures, and questions of whether adherence to existing rules and regulations is enough. Systematic CSR work has primarily been a focus for large companies faced with the risk of damage to their brand or reputation. The majority of Norwegian companies, on the other hand, are small and medium-sized. The White Paper thus emphasizes that size does not relieve companies of responsibilities that go beyond financial profit, and reaffirms that for many Norwegian companies, CSR is high on their list of priorities. The White Paper argues

the need for stronger awareness on the part of companies, and for knowledge of and engagement in CSR (Norwegian Ministry of Foreign Affairs, 2009).

The Norwegian government's position is that "CSR involves companies integrating social and environmental concerns into their day-to-day operations, as well as in their dealings with stakeholders. CSR means what companies do on a voluntary basis beyond complying with existing legislation and rules in the country in which they are operating" (Norwegian Ministry of Foreign Affairs, 2009:8).

3.3.1 CSR Aims and ambitions

The Norwegian government set forward high ambitions and expectations of both the public and private sectors in the White Paper. The White Paper suggests three ways in which the government can influence corporate responsibility. First, it can influence its own companies through state ownership. Secondly, it can express the society's expectations of Norwegian businesses. Finally, it can establish national and international CSR frameworks. The government aims to be a leader on CSR, both as owner and investor, and in purchasing goods and services. It aims to do this through actively exercising ownership rights, and developing requirements for their suppliers (Norwegian Ministry of Foreign Affairs, 2009).

The government aims for Norway to play a proactive role in the strengthening of CSR guidelines, and hopes to establish more binding frameworks (Norwegian Ministry of Foreign Affairs, 2009:12). In order to strengthen existing CSR initiatives, the government wants to increase funding for initiatives such as the UN Global Compact, the Global Reporting Initiative and the International Labor Organization. In addition the White Paper states the government's support of the UN's efforts to develop a framework setting out the minimum requirements for CSR in respect to human rights. Other important focus areas in the White Paper are labor rights, tax havens, illicit financial flows, and the adoption of CSR in international agreements and dialogues (Norwegian Ministry of Foreign Affairs, 2009:12). Nationally, the government wishes to strengthen the National Contact Point for the OECD Guidelines, to and consider measures to prevent Norwegian companies from committing environmental crimes abroad. It also wants to consider a model to help give an overview of how CSR is followed up in the private sector. Lastly, the government aims to strengthen the advisory and guidance services that are available to Norwegian companies through new

initiatives, and the remediation of existing services (Norwegian Ministry of Foreign Affairs, 2009).

3.3.2 Expectations and recommendations to the private sector

In this section, the main CSR expectations of the Norwegian government will be presented as they are put forward in the White Paper. First of all, the government expects all companies to exercise social responsibility, irrespective of whether they are privately or publicly owned (Norwegian Ministry of Foreign Affairs, 2009:27). Secondly, the White Paper specifies that Norwegian companies are expected to take the lead when it comes to CSR. This includes ensuring best practice in CSR by supporting human rights, including the rights to labor unions, safety and health, a clean environment, sustainable development, transparency and the absence of corruption (Norwegian Ministry of Foreign Affairs, 2009:12). In these efforts, companies are expected to create awareness at all levels of the company, develop the necessary expertise, familiarize themselves with the OECD guidelines, consider membership of the UN Global Compact, and ensure supply-chain control.

The government expects all companies to develop and comply with CSR guidelines, and both employees and supply-chain partners should be familiar with these (Norwegian Ministry of Foreign Affairs, 2009:27). Adherence to The OECD Guidelines for Multinational Companies and membership in the UN Global Compact is also suggested in the White Paper. It further stresses that CSR efforts must be fully integrated and followed up on a regular basis; the implementation must be systematic and have the full support of the corporation's board. In other words, the government argues that CSR efforts cannot be half-hearted.

The White Paper further encourages increased investment in developing countries, and the recruitment of local staff and local suppliers when possible. When operating abroad, it is also expected of companies to place CSR demands on partners and suppliers, and to provide CSR capacity in the supply chain. In addition, companies are encouraged to inform the Norwegian authorities of any human rights violations they learn of (Norwegian Ministry of Foreign Affairs, 2009:13). Companies are expected to assess the risks related to forced labor, child labor and workplace discrimination, and to take the necessary steps to minimize such risks (Norwegian Ministry of Foreign Affairs, 2009:37). The government further suggests that companies must be aware of cultural and value differences when companies adopt Norwegian

practices in other countries. Local challenges should also be taken into account, and companies are encouraged to actively seek information on local conditions.

Both at home and abroad, the White Paper recommends that companies establish systems for whistleblowing as a risk-management tool. Furthermore, the White Paper emphasizes the importance of transparency, and highlight transparency as a tool to build trust and good relations with societies and other stakeholders, as well as to demonstrate openness. Transparency includes reporting on CSR performance, which can be done through the GRI, an internationally recognized standard for reporting (Norwegian Ministry of Foreign Affairs, 2009:28-29).

3.3.3 The responsibilities of business

The first key area of responsibility listed in the White Paper is that of human rights. This is a set of obligations not directed towards the private sector, it rather has to do with the obligations of states towards its citizens, whose rights shall be safeguarded by the authorities. On the other hand, human rights and moral obligations apply to all members of society, including businesses. The best way for companies to respect human rights is therefore to act in a responsible manner towards all stakeholders and the community (Norwegian Ministry of Foreign Affairs, 2009:32).

The next responsibility listed in the White Paper is to provide decent working conditions, even though the regulation of the working environment is mainly a responsibility for the local authorities. As a minimum, the International Labor Organization's standards should be followed, and living wages should be paid. When operating abroad, companies must familiarize themselves with relevant legislation and consider whether these laws are sufficient. The White Paper stipulates that many companies still need to establish good guidelines for themselves, not least when it comes to involving their subcontractors in labor rights. This can be done by including these requirements in contracts (Norwegian Ministry of Foreign Affairs, 2009:34).

Another area of responsibility is the environment, where the government considers business sector participation to be crucial. The companies that manage to stay at the forefront of environmentally friendly innovation and resource use can, according to the White Paper, gain comparative advantages both financially and in terms of markets (Norwegian Ministry of

Foreign Affairs, 2009:34). The focus on environmental concern has changed, from a main focus on avoiding damage, to a need to integrate environmental awareness into products, finances and reputation. In addition, the White Paper suggests that companies should be proactive and exceed legislative requirements as this can lower costs, give a better starting point for long-term operations, and open up new market opportunities. In this way the government argues for companies' self-interest, and suggests the possible existence of a business case for being environmental friendly. Environmental cautiousness can lead to the creation of innovative solutions and technology, the "greening" of production and to ensure compliance with environmental standards in the supply chains. In the White Paper the government argues that authorities and the private sector have a shared responsibility for addressing the new challenges faced as a result of environmental and climate changes (Norwegian Ministry of Foreign Affairs, 2009:34). In spite of the government's ambitions for environmental enhancement, and its power to influence through ownership, Norwegian companies are far from perfect. One example of this being the 67 per cent state-owned oil company Statoil ASA, which has spent US\$60 million on 15 fines between 2004 and 2013. These included fines related to oil spills and gas emissions (Staveli and Lund, 2013).

Norway is actively supporting and participating in various agreements that oblige the combatting of corruption, such as United Nations Convention Against Corruption (UNCAC), the Stolen Asset Recovery Initiative, and the anti-corruption work of the World Bank and The OECD (Ministry of Foreign Affairs, 2010). According to the White Paper, Norwegian companies, as well as the authorities, are responsible for contributing to this work. This is because corruption leads to a loss of resources, and to weakened public governance. In addition corruption is closely linked to international crime, and illicit financial flows. Norwegian companies also have a responsibility for promoting transparency with regards to capital flows. All forms of corruption are prohibited by Norwegian law, and the legislation also applies to Norwegians involved in activities outside the country. Violation of anti-corruption laws can result in a penalty of up to ten years imprisonment (Norwegian Ministry of Foreign Affairs, 2009:37).

Corruption is nevertheless an issue for Norwegian companies. In 2006, Statoil ASA paid a US\$25 million fine to Norwegian and US authorities for corruption in Iran in 2003. The Norwegian Broadcasting Corporation asked 70 companies with operations abroad, all of

whom acknowledged that they knew of, had experience of, or had been involved in corruption (Veum and Auestad, 2013). Their stories are not unique, and demonstrate that despite government ownership and the high CSR ambitions expressed by the authorities, Norwegian companies do not always comply with the standards set by laws and voluntary guidelines.

3.3.4 The scope of business responsibility

Resulting from increased outsourcing and changes in the international division of labor, an increasing number of products are fully or partly produced in countries where working and environmental standards are inadequate. All companies active in, or dealing with suppliers active in, countries where legislation does not meet the requirements of international standards, or where these are not enforced, have to take the whole supply chain into consideration. Hence, the White Paper argues that a responsible company will accept responsibility for ensuring, as far as possible, that all stages of the supply chain meet their standards (Norwegian Ministry of Foreign Affairs, 2009:39).

The government acknowledges that it is not realistic to expect all imported goods to have been produced in a risk-free manner and in line with all relevant norms and rules. It is also unrealistic to expect companies to spend unlimited financial resources on CSR far down the value chain, and it can be difficult to know where responsibility starts and stops. Therefore, the government considers it reasonable to set the following as a minimum standard: “(...) a company’s responsibility covers the sphere it can influence directly as a purchaser and seller, through contracts or in other ways” (Norwegian Ministry of Foreign Affairs, 2009:39). When assessing the scope of these responsibilities, a natural starting point is to identify the matters that companies are able to influence. Responsibility does not just apply to situations where companies have decisive influence or control, but also to cases where activities are outsourced. This can be done by including CSR in contracts, and by following up compliance in the value chain, or by encouraging suppliers to obtain certification. The further away a matter is from the company’s core activities, the harder it becomes to argue for the company’s responsibility. The Slåtland-group, a large Norwegian supplier to the offshore and shipping industry, has been open about their experience with corruption after moving part of their operation to Vietnam. The managing director in Såtland explained that they had strict ethical guidelines in place and were well prepared to avoid corruption. The company managed to do so in the establishment phase, despite local traditions of paying for licenses.

Later on, however, the management in Norway revealed corruption by local middle managers (Veum and Auestad, 2013). This example shows that even a company with strict guidelines and good intentions can face corruption scandals, and illustrates the importance of compliance in all parts of a company, both at home and abroad.

The issue of complicity also illustrates a grey area in relation to the scope of business responsibility and the problem of how companies can exercise responsibility outside of their main activities. The UN Secretary-General's Special Representative on business and human rights considered the issue of complicity in relation to human rights. He concluded that it refers to "indirect involvement by companies in human rights abuses – where the actual harm is committed by another party, including governments and non-state actors" (Norwegian Ministry of Foreign Affairs, 2009:38). Through risk assessments of their own and business partners' operations, companies can make sure they are not complicit in, for example, human rights violations.

So far this chapter has provided contextualization for this study by looking at the historical developments and changes leading CSR to gain ground worldwide. Further, this chapter has mapped the country-specific context for adherence to CSR principles in Norway, and presented the CSR aims and expectations of the government, as stated in the White Paper. In the next section of this chapter, the sector-specific CSR challenges in the shipping industry will be accounted for.

3.4 CSR and the shipping industry

Shipping is the transport of goods and people on water (Fet, 2009), and shipping companies' business environment is typically of a cross-border character (Vilstedt, 2004). Shipping is the most internationally oriented and globalized industry, carrying 90 per cent of the world's trade goods (Vilstedt, 2004 and IMO, 2006). The world's trade fleet consists of approximately 50 000 ships manned by more or less one million people. Due to the rapid development of ship-building technology (Reenskaug, 2005), the size of ships has increased dramatically in the last few decades (Fet, 2009). The economic lifespan of a ship is normally 30 years, though ships are often kept in operation for much longer. Aside from the fact that ships nearly always change hands several times during their operational life, many actors are involved. Among these are flag states, financial institutions, underwriters, numerous charterers, shipyards, port authorities and classification societies.

The remainder of this chapter will first provide an overview of the historical development of Norway as a shipping nation, and of how CSR came to play a role in the shipping industry. Thereafter, the chapter will look at CSR issues in the shipping industry specifically, and suggest CSR implementation to better deal with these issues.

3.4.1 Norway and the shipping industry

The shipping and maritime industry's great importance to Norway is widely accepted, and during critical periods the merchant fleet has been the nation's main asset, benefitting the entire society (NSA, 2011). The Norwegian shipping industry is undoubtedly a significant part of Norwegian history and culture, and has a cultural-historic status throughout the country (Fougner, 2006:184). As stated in the White Paper, "people have always lived by the sea, off the sea and on the sea" (Norwegian Ministry of Foreign Affairs, 1996:50).

Norwegian shipping emerged from the mid-1800s, when liberalization and economic development made it possible for the country to take part in global shipping. This laid the foundation for extensive shipbuilding, based on local resources and workers. By 1875, Norway was the world's third largest shipping nation, with a fleet of 7800 ships manned by sixty thousand sailors. Local interest organizations related to the shipping industry emerged, and in 1864 they joined forces and formed The Norwegian Veritas (DNV), a joint claims assessment and classification organ. Cities along the coast developed shipowners' associations and labor organizations in the late 1800s and early 1900s, and the need for a nationwide shipowners' association resulted in the establishment of the NSA in 1909 (NSA, 2011).

The main interest of shipowners in 1909 was to conduct their own business, to the greatest extent possible, in a setting providing open competition on equal terms, without any special intervention by the Norwegian government. Subsequently, difference of opinions arose between the NSA and the government on issues such as management regulations and in regards to the high level of national regulations (NSA, 2011). During World War 2, income from the shipping industry was crucial to the Norwegian administration in exile and financing the Norwegian armed forces. It also made a significant contribution to the reconstruction work following the war. Up until the Norwegian oil age, the merchant fleet covered the foreign affairs-related deficit. In the period 1945-65 shipping accounted for two out of three

new jobs created in the country, and the industry accounted for 22-26 per cent of the total Norwegian investments, representing Norway's most profitable industry at the time. When oil was found on the Norwegian continental shelf in the late 1960s, the shipping and fishing industries quickly took advantage of the business opportunities presented and started specializing in offshore activities, and building ships on demand for the oil companies (NSA, 2011).

The ship owners' principal wish was to distribute tonnage and income freely, on equal terms with their foreign competitors. Ship owners generally received political support and policies have usually been industry-friendly. However, the shipping industry had to accept its share of the nation's burdens. In hard times the industry was treated as a cash cow and heavier burdens and obligations than applied to other industries were imposed, such as tonnage tax and travel duty. This led to contradictions between the interests of the NSA and authorities, and the contradictions peaked after the war when the labor government introduced a planned economy. The 1970s and 1980s saw depression in the industry, which led to a reorientation in relation to workers and shipping-related industries, and the need for new radical political solutions. The shipping policy was radically changed in 1987, 1996 and 2007, giving the industry a regulatory framework in line with its European competitors (NSA, 2011). An important change was the 1987 introduction of a Norwegian International Shipping Registry (NIS). The Registry aimed to improve the competitive terms for Norwegian ships, and ensure the employment of Norwegian crew (Norwegian Maritime Authorities, 2014).

The Norwegian shipping industry has traditionally maintained a high level of quality and security, and through the Norwegian delegation to IMO, the NSA has been an advocate for improved and stricter international rules concerning shipping and the environment. The NSA has also engaged in research and development of greener technologies for the shipping industry, and established an international award for environmentally friendly shipping (NSA, 2011). As previously mentioned, globalization has led companies to outsource and move their operations abroad. At times of political instability and unpredictability, Norwegian shipping companies have moved parts of their operations abroad, and foreign companies have invested in Norwegian shipping companies. Sea transport remains the most cost-effective way to move goods and raw materials, and shipping companies are key players in the global economy and production systems (Vilsted, 2004). Hence, both the Norwegian government

and the NSA agree that it is crucial to facilitate competitive conditions to keep the industry in the country. The goal is therefore to keep as much as possible of the commercial and operational activities in Norway, in order to maintain and strengthen value-creation in the maritime industries for the benefit of the society.

3.4.2 Evolution of CSR in the Shipping Industry

Due to the cross-border environment of the shipping industry, where ships operate in both national and international waters, and under both national and international maritime law, CSR does not have as long and well-monitored a history as land-based industries (Arat, 2011). The main part of the industry is to transport cargo, meaning that it operates on a business-to-business basis. Traditionally, international and national regulatory bodies focused their attention on the ship owners' role, enforcing regulation and conventions that imposed minimum standards for the operation of shipping companies. However, due to the ineffectiveness and inefficiency of various control mechanisms, these efforts were not successful (Fafaliou *et al.* 2006:414). Quality comes at a price determined by demand and supply mechanisms, but neither shipowners nor regulation alone can impose this price if quality is not demanded by the clients of shipping services, traders, manufacturers or consumers (Fafaliou *et al.* 2006:414). On the contrary, market actors were often interested in lowering the minimum standards when it could increase profit, rather than imposing additional and stricter standards. In other words, there was little incentive for companies to invest in measures to improve their reputation and image, and providing low-cost services were the main business goal (Fafaliou *et al.* 2006).

Globalization altered land-based industry in the 1980s, and these were highly dependent on transport and communication infrastructure. The shipping industry, on the other hand, was affected by the changes a decade earlier, making it a frontrunner when it came to globalization (Vilsted, 2004). A report by the International Commission on Shipping (ICONS) explains that before the 1970s, ships were normally registered in the country of the ship-owner and a local crew was often hired. In addition, the crew was usually assured fair treatment and wages, reasonable tenure of employment, regular paid leave and reasonable career prospects (ICONS, 2000:38). The 1970s oil crisis and the reduction in world trade, along with the very competitive business environment in the industry, made cost reduction crucial for survival. This led to corporate functions in shipping being outsourced, and to supply chains that extended across the globe (Arat, 2011). Other cost-reducing measures were

to re-flag and hire cheaper crew from abroad (Vilsted, 2004). These processes had several negative effects, such as increased risk of injury, loss of life and damage to the marine environment, altogether, giving the industry a bad reputation and a negative image. Fafaliou (*et al.* 2006) argue that the biggest problem is that shipping is a responsive industry and not a proactive one, and these negative effects show that market forces alone should not be trusted to promote globally responsible and ethical behavior. A good public image will require the industry to minimize negative externalities and to improve the safety and quality of the industry (Fafaliou *et al.* 2006). That being said, major structural transformations have emerged during the last decade, and these have changed the business environment for shipping companies.

As shipping companies operate in so many different nations with different laws regarding safety and labor, monitoring the shipping industry is challenging, and not many powerful NGOs engage in such supervision (Vilsted, 2004). The shipping industry is regulated by international institutions and governed by international agreements addressing social and environmental standards. Amongst the most important of these regulatory bodies are two UN organs regulating the shipping industry: the International Maritime Organization (IMO), focusing on safety, environment and maritime law, and the International Labor Organization (ILO), focusing on the work environment. The 1990s saw regulatory reforms in the industry, and mandatory regulations were introduced. These included the Oil Pollution Act, the International Safety Management Code and Standards on Training Certification and Watch keeping (Fafaliou *et al.* 2006).

Coady and Strandberg (2012:3) argue that the shipping sector does not have the same incentives as other sectors to engage in voluntary activities that go beyond regulatory requirements. Their study nevertheless found that CSR activities in the shipping industry are increasing. They see this trend as linked to new requirements from participants in the global supply chains that drive the shipping business, and to disclosure requirements from investors concerned with liability and risk. Coady and Strandberg (2012:3) also point out that because CSR evolves as the limitations of regulatory systems to address complex, cross-jurisdictional problems becomes more apparent, the business case for CSR in the shipping industry grows stronger. As shipping companies increasingly establish themselves in new countries and form joint ventures with local companies, CSR becomes more important. Similarly, market

changes also necessitate changes in business strategy, welcoming new initiatives such as CSR.

The approaches taken by shipping companies to address their social and environmental responsibilities vary. Fafaliou *et al.* (2006:415) identify three approaches to the matter. The first group is companies that are hostile to the notion of CSR. This is a fairly small group of companies, described as substandard operators. These companies focus only on competitiveness and profit, and do not mind lowering safety and quality standards in order to reduce operating costs. Companies implementing this approach negatively affect the image of the whole industry. The second group practices what is termed the typical approach, and is implemented by the majority of companies as an attempt to stay within the rules of the game. The responsibility for these companies is to create profit while complying with the rules. They therefore apply a standard acceptable level and conform to regulations and conventions, accepting the cost, in addition to implementing fair and commonly accepted practices. In other words they neither produce externalities by intention nor do they affect the public image of the industry. The last group are those companies that adopt the supportive approach and move beyond compliance to rules by additionally complying with non-mandatory standards, or set their own.

3.5 CSR issues in the shipping industry

“Given that shipping is a global business, with many players and jurisdictions involved in any single shipment of cargo, even in a simple A to B voyage, there are a myriad of potential pitfalls where the unscrupulous may seek to take advantage of the unprepared. As parties are often based in multiple jurisdictions, and necessarily deal with each other “at arm’s length” and/or through brokers and financial institutions, there may be little or no opportunity to make physical checks” (Ott, 2014:4). The unique situation of the shipping industry, both geographically and juridically, illustrates the complicated context for rules and regulations and, it can be argued, demonstrates an extraordinary need for self-regulation and voluntary responsibility.

Whether or not a shipping company is socially responsible depends on how it is perceived by its stakeholders. In general Vilsted (2004:26) argues that a socially responsible shipping company is one that works actively to integrate social and environmental concerns in their business operations and that manages to find a sound balance between the need for

operational efficiency, shareholder value and attention to the interests of non-financial stakeholders. Vilsted (2004) further emphasizes that there is not one way for a company to approach CSR, as the focus differs depending on the type of services provided and on where it operates globally. Shipping companies also engage in onshore activities. CSR expectations to onshore activities will often be similar to expectations of other land-based industries, thus, as offshore activities account for the core activities of shipping, core elements of company's CSR focus be directed here. Shipping companies must consider the right balance both with regard to CSR in on- and offshore activities and in home and host country activities (Vilsted, 2004).

A joint research project on CSR and shipping was formed between the two shipping companies Eidesvik and Jebsens, the NSA and the classification organ DNV. It was carried out by Petter Vilsted between 2003 and 2004. The report identifies several CSR issues for shipping companies, and suggests how responsible shipping companies should deal with these challenges. The following sections will present the CSR challenges in the shipping industry, and the DNV reports' suggested CSR measures.

3.5.1 Employees and working conditions

For shipping companies, employees are the most important stakeholders, although they are not a homogenous group. Important differences exist between land-based employees and the crew on board ships, as well as between crew from labor-supplying countries and ship-owning countries. Labor laws and regulations protect the rights of land-based employees in the developed world, and are enforced by agencies and authorities. CSR in relation to this employee group therefore implies going beyond governmental requirements, for example by offering further training and education, ensuring staff diversity and promoting equal opportunities for male and female employees.

The same focus applies to land-based employees in developing countries. However, labor rights and their enforcement might be lacking, thereby increasing the responsibility of the shipping company. With regard to off-shore crew, companies should address issues related to isolation and the lack of recreational activities, and ensure communication opportunities, family initiatives, entertainment and welfare services. Employment at sea requires highly specialized roles and there is a strict hierarchy on board. This ensures efficiency but also risks the suppression of bottom-up communication and information. It is therefore important to

establish an organizational culture that allows open communication so that problems can be addressed in order to avoid a dissatisfied crew and external whistleblowing (Vilsted, 2004).

Shipping companies increasingly rely on crew from the Indian sub-continent, the Far East and Eastern Europe. The Philippines is the dominant labor-supplying country for the world's merchant fleet, with almost a quarter of a million seafarers. When hiring crew from developing countries, value formation in the company is important to ensure that crew from these countries live by corporate standards that are compatible with universal rights and values upheld in the ship-owning country. However, most important for the welfare of the employees is the payment of living wages. The DNV report states that it is not irresponsible to differentiate between wages paid to crew of different nationalities, as this is a consequence of the labor-supplying countries' competitive relationship, created by the international economy.

In short, the issues related to shipping crew will differ from those that apply to land-based employees, as well as between crew from developed and developing countries. Areas that might require CSR effort include the recruitment process, training, payment and working conditions, working hours, recreation and welfare at sea and in port, and providing a career path.

3.5.2 Safety and security

The growth of global insecurity has led the safety focus in shipping to be complemented by a security focus. Ships are not only vulnerable targets for terrorists, they are also potential means for terrorist attacks. Supply-chain security is therefore increasingly important as the content of containers represents a source of fear and insecurity. The International Ship and Port Facility Security Code (ISPS Code) contains mandatory requirements with regard to how shipping companies should address port and ship security issues. A responsible shipping company should work proactively to identify security risks and provide proper training for the crew. Security measures can, however, reduce the individual freedom of workers, for example by limiting the possibility for shore leave. Shipping companies must therefore be aware of the implications of security measures on seafarers' welfare, while at the same time working actively to ensure security.

3.5.3 Flag state and choice of flag

The flag state of the ship indicates the nation-state that ship is registered in, and determines under which country's laws the ship is obliged to operate. The flag state is responsible for the enforcement of rules and regulations, inspections, and the certification of ships registered under its flag (Vilsted, 2004). In international shipping, a general principle is that one can freely choose ships for import and export. Discrimination against ships based on flag state is considered a threat to the customer's free choice of carrier and towards shipping companies that provide transport outside the home country, such as large parts of the Norwegian shipping industry (Skinnarland and Mühlbradt, 2014).

The choice of flag is important in relation to CSR and responsible shipping for several reasons. It influences the rights and welfare of the workers, and can attract both positive and negative attention from NGOs and trade unions. The standards and enforcement of rules and regulations vary significantly between flag states, both with regard to whether they have ratified international conventions, such as the ILO and IMO, and with regard to the frequency and quality of inspections. Even if ratified, the interpretation and implementation of international conventions may vary.

Many countries have ship registers that are open for ships owned by other nationalities, which may lead to inconsistency between the ship's flag state and the actual ownership nationality. Companies can take advantage of this and choose a flag of convenience to avoid taxes and regulations. Statistics from the United Nations Conference on Trade and Development (UNCTAD) show that in 2012, more than 70 per cent of the world's gross tonnage had a different flag than the owner's nationality (UNCTAD, 2013). The DNV report compares self-imposed codes of conduct in land-based industries to the decision a shipping company makes when choosing under which flag to register its ships. The report further states that a quality shipping company chooses quality flags belonging to states conducting operations in accordance with international requirements and that are administered by well-run registries with quality inspections.

In many flag of convenience countries, flag state revenue is an important source of income. Shipping companies must be aware that in some cases revenue is used negatively, for example to sustain oppressive governments or contribute to regional destabilization, and the company can become the target of negative media attention. The DNV report therefore raises

the question of where to draw the line between political and commercial decisions and asks how far a company's responsibilities should extend. Changing flag state might give other companies a competitive advantage by not reflagging, and the uncertainty might prevent companies from re-flagging. The report however claims that a responsible firm should take into account broader considerations of revenue effect and extend profitability considerations to include the risk of negative brand reputation, not just financial competitive advantage.

3.5.4 Corruption, bribery and transparency

Worldwide, the fight against corruption has intensified, involving actors from NGOs, governments, the international community and the business community. From previously being considered as an unavoidable part of international business, with the possibility of tax deductions for bribes given in business, there is now a consensus amongst actors that corruption prevents well-functioning business processes and hinders development (Vilsted, 2004). Conventions and declarations have been issued by the international community through several important channels, such as the UN, OECD and Transparency International. Many governments, including the Norwegian government, are passing laws to hold companies accountable for business practices in host countries. The shipping industry constantly has to deal with questions of corruption, bribery and facilitation payments in their operations. The DNV report therefore stresses that companies must take risk and reputation into consideration when making decisions related to corruption.

Corruption in the shipping industry is not only an issue for the companies, but also for the seafarers, manning agents and governments. For a seafarer it can mean purchasing illegitimate training and medical certificates, while for manning agents, it can mean obtaining commissions from training centers or accepting placement fees. For a shipping company corruption can be tempting in order to secure contracts, and ensure priority or efficiency in ports. There are often strong financial incentives behind these decisions, hence the saying "pay or delay". For governments, low levels of efficiency and discretionary freedom facilitate the opportunities for corruption, especially in labor-supplying countries (Vilsted, 2004).

A shipping company should therefore implement codes, raise awareness and have functioning auditing systems in place, to prevent corruption and bribery. Governmental agencies in the Philippines expressed the desire for shipping companies to accept standard processing times and forget about short cuts when things become urgent. In addition, they call for better

communication with the government regarding problems, instead of simply referring to governments as corrupt and inefficient. Shipping company's anti-corruption policies should be communicated to employees, clients and to other business associates, and should address both the receiving and giving of bribes. It is also necessary to implement training in business dilemmas, and to clarify the boundaries between relationship building and bribing. Companies can also share best-practices, engage in industry associations or join initiatives such as The Global Reporting Initiative (Vilsted, 2004).

The calls for increased openness in business activities have increased, along with the globalization process. The many actors involved in the operation of ships, and the global nature of the business operation have led many stakeholders to see the shipping industry as non-transparent. The DNV report states that by communicating openly with stakeholders, shipping companies demonstrate social responsibility and contribute to a more transparent industry. Increased transparency is important to better inform markets, help state control of ports to target sub-standard operators, improve reputations and trust in the industry, and to make quality shipping more commercially beneficial. This openness should include information on ownership structures, ship operation and performance data, and information on revenue streams such as flag state payments and donations. The report concludes that "increased transparency over flag state payments is most likely best achieved by a coalition of quality shipping companies making joint efforts" (Vilsted, 2004:49).

3.5.6 Operations in the developing world, and local community engagement

As a result of the international character of the industry, many shipping companies establish themselves in host countries, often developing countries, with very different competitive environments. The company then needs to consider what performance levels should be accepted in their operations, and whether the same performance levels and principles should apply in host as in home-country. Cultural sensitivity and respect for foreign practices must be balanced with loyalty to the company's own principles and observance of universal rights. Both the host economy and national shipping industry can benefit from foreign companies, and they often establish joint ventures with local companies. Communities and businesses are interdependent; companies rely on the health, stability and prosperity of communities while communities rely on businesses to provide jobs and pay taxes and wages. Land-based industries often have a strong and noticeable presence in local communities through local recruitment, the use of local suppliers, sponsorship of idealistic organizations, and through

consultations with local governments. Shipping companies are no exception, as their administrations are land-based, although their core business takes place at sea. Expectations with regard to CSR efforts in local communities may differ from the expectations of land-based industries. Land-based businesses working with CSR are moving away from donations and sponsorships in favor of a more active and strategic local involvement. Similarly, some shipping companies also seek to improve their level of community engagement. However, the overall impression put forward in the DNV report is that the community involvement activities focused on by most shipping companies are philanthropy, sponsoring and employee volunteerism.

In interviews conducted for the DNV report, informants broadly agree that the focus should be on high-level environmental and social performance at sea, and that proactive initiatives should be associated with life at sea, rather than with community engagement.

3.5.7 Environment and Ship Scrapping

The shipping industry is a major consumer of non-renewable energy, and is under pressure to shift towards greener, lower-carbon and more environmentally friendly operation patterns (UNCTAD, 2013). In addition to pollution caused by fuels, ships are potential polluters if not built properly and manned professionally. Responsible shipping companies should focus on their external environment, and by implementing non-mandatory tools and certifications, a company convinces its stakeholders that it is focusing on the effects its operations have on the environment, in addition to considerations of quality and efficiency (Fafaliou, 2006). Environmental CSR in the shipping industry has moved from a traditional focus on preventing pollution, to a broader focus on issues such as ocean health and climate change. However, shifting towards greener operations can be costly. Therefore “a combination of policy and financial instruments needs to be developed to reorient and leverage investment for more sustainable transport patterns” (UNCTAD, 2013:4). The business case idea for sustainable business can help mitigate the possible discouragement if greening the operation seems too costly.

A responsible shipping company should take responsibility for the whole life cycle of its ships, but the very last phase, the ship scrapping process, is especially crucial. Ship scrapping is a labor intensive process with health and safety dangers, most often taking place in developing countries, with Pakistan, Bangladesh and India being the dominant countries.

Efforts to secure safe working conditions are scarce, and organized waste treatment is non-existent. Old ships contain several toxic substances, threatening the environment as well as labor conditions, which have led to allegations of toxic waste dumping by the shipping industry. The DNV report therefore suggests that companies should ensure that ship scrapping is undertaken by quality companies, and they should remove dangerous materials when preparing the ship for recycling. Further, a responsible shipping company should communicate its environmental codes of conduct and its policies to suppliers and make these criteria apply to all suppliers. Companies should also inquire about the suppliers' environmental standards and performance (Vilsted, 2004).

The previous sections have answered the sub-question *What are the industry-specific CSR challenges faced in the shipping industry?* In Chapter 4, these challenges will be evaluated in light of the governments CSR, and help answer the sub-question *How does the Norwegian Government endorse and promote CSR in Norwegian shipping?* The evaluation will be the first of two steps carried out in Chapter 4 in order to answer the main research question of the study.

3.6 Conclusion

This chapter started out by giving a historical background for the development of CSR, from the first publication in 1950. Secondly the chapter focused on CSR in a Norwegian context, mapping the country's political and social traditions affecting CSR. The Norwegian government's White Paper on CSR was further presented, and mapped the government's aims, ambitions and expectations with regard to CSR in the public and private sectors in Norway. The last part of the chapter focused on CSR in the shipping industry and presented the historical evolution of CSR in shipping, as well as the CSR challenges facing by the industry. The historical development of CSR globally, nationally, and in the shipping industry is important for this study, as it provides an understanding of the importance of CSR for the business community and authorities in general, and for the Norwegian government, and the shipping industry in particular. The CSR issues in the shipping industry were mapped in the last part of the chapter in order to evaluate the government's role in promoting CSR in the industry. The following chapter will undertake this evaluation, based on the CSR presented in the White Paper. It will further apply the theoretical framework from Chapter 2, on the case, namely the Norwegian government and the shipping industry in order to answer the main research question.

Chapter four: Evaluating and Analyzing the Role of the Norwegian Government in promoting CSR in the Shipping Industry

Section 3.5.1 to 3.5.7 in the previous chapter, provided this study with the specific CSR challenges faced by the shipping industry. This chapter links the same challenges to the Norwegian governments CSR. This chapter has a two-step approach to answer the main research question. In the first step, the relevance of the Norwegian government's CSR on the specific CSR challenges in shipping is evaluated in light of the aims, ambitions and efforts in the White Paper (presented in Chapter 3). This makes up section 4.1.1 to 4.1.6, and enables the study to identify strengths and limitations in the government's CSR efforts, and answer the research question *How does the Norwegian Government endorse and promote CSR in Norwegian shipping?*

The second step to answer the research question, builds on the theoretical framework presented in Chapter 2, as few studies have investigated the institutional determinants of CSR. The Norwegian government's interpretation of CSR is analyzed in light of Gjørberg's (2010) model which presents governments with four possible interpretational outcomes⁴. Further, the government's role as an institution is analyzed in light of new institutional theory and CPE, as introduced in Chapter 2. The sections investigate various arguments from the second chapter, such as the link between liberal and coordinated market economies and CSR, and the claims regarding an institutional comparative advantage. Norwegian shipping companies' CSR is also discussed, by following the conceptual framework set out in Chapter 2, distinguishing CSR as a dual construct of implicit and explicit CSR. Altogether, the two steps help answer the study's main research question *What is the role of the Norwegian government, as a political-economic institution, in promoting CSR in the Norwegian shipping industry?*

4.1 CSR challenges in the Norwegian shipping industry

All ships in Norwegian registries fly the Norwegian flag and are under Norwegian jurisdiction when operating at home and abroad. In Norway there are two registries, the previously mentioned Norwegian International Ship Register (NIS), and The Norwegian Ordinary Ship Register (NOR). While the first one is an open registry, the latter is open only to foreign companies with technical or commercial management from Norway and which

⁴ see Figure 1 in section 2.2

apply Norwegian wages- and labor laws (The Ministry of Trade, Industry and Fisheries, 2004). In addition to national legislation, Norway must adhere to international law. The most relevant international laws for this study are provided by the UN bodies ILO and IMO.

There are a total of 31 ILO conventions for seafarers covering aspects such as certification, working hours, health, security and welfare. Of particular importance in regulating the welfare of crew is The Maritime Labor Convention, ratified by 56 members, including Norway. In 2013 the convention became binding in international law, and is responsible for regulating the conditions for seafarers on more than 80 per cent of the world's gross tonnage of ships. All ships flying the flags of ratifying countries are bound by the convention, which contributes to fair competition and ensures a level-playing field (ILO, n.d).

4.1.1 Employees and working conditions

As Chapter 3 has established, employees in shipping companies are not a homogenous group, as significant differences exist between land-based employees and crew, and between crew from labor-supplying and ship-owning countries. Chapter 3 also identified possible CSR challenges related to employees in the shipping industry. These involved the recruitment process, training, wages, career paths, working conditions, working hours, recreation and welfare at sea and in port. This section will examine the government's effort in promoting CSR in relation to employees and working conditions, in order to underpin the later analysis of the Norwegian government's role in promoting CSR in the shipping industry. The focus will thus be on national and international crew and not on Norwegian land-based employees.

The Norwegian regulations concerning crew are rather complex. There are several laws in this area and regulations have been issued pursuant to these laws. Besides legislation and regulations, collective agreements and individual contracts play a significant role with regard to the mutual rights and obligations in an employment relationship (The Ministry of Trade, Industry and Fisheries, 2012). Moreover, the regulations are largely influenced by international agreements and conventions. Issues concerning working conditions for seafarers are largely governed by the Norwegian Seamen's Act (Norwegian Seamen's Act, 1975) along with the Ship Security Law (Ship Security Law, 2007), the ILO's Maritime Labor Convention (ILO, n.d) and various IMO conventions⁵. Although Norway is not a member, it

⁵ The most important IMO Conventions are the International Convention for the Safety of Life at Sea (SOLAS), 1974, international Convention for the Prevention of Pollution from Ships, 1973, and International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), including the 1995 and 2010 Manila Amendments

is also committed to the labor laws of the European Union (EU). However, a large part of the EU directives on labor only applies to land-based industries, and EU maritime regulations are mostly parallels to the IMO and ILO regulations, and will therefore not be assessed separately in this study.

According to the ICONS report, the treatment of crew is driven by the relationship between shipowners, classification societies and flag states (ICONS, 2000). NOR-flagged vessels require Norwegian contracts, wages and working conditions regardless of the crew's nationality. For ships registered in NIS, the rules allow Norwegian shipowners to hire foreign crew at their home country's wage rates (Skinnarland and Mühlbradt, 2014). Hence, many foreign-registered ships operate along the Norwegian coast or on the continental shelf without having to adhere to Norwegian wage and working conditions. These ships often operate with foreign crew, who are often paid as little as 20 per cent of wages that a Norwegian crew would receive.

Given the increased number of reflagging from Norwegian registries, the situation is threatening for Norwegian shipping. In a joint note, The Norwegian Confederation of Trade Unions (LO), The Norwegian Seafarers' Union (NSU), and Norwegian Maritime Officers Association (NSOF) accuse the legal situation of fostering social dumping in domestic shipping (LO, NSU and NSOF, 2011). In the note they express the wish to change existing regulations so that The General Application Act will apply equally to NIS, NOR and ships under foreign flags operating along the coast and on the Norwegian continental shelf. The act, the purpose of which is to ensure that foreign employees' wages and terms of employment are equivalent to those of Norwegian employees, only applies to NOR registered ships (The General Application Act, 1993).

The Norwegian government does not devote much attention to wages when expressing its CSR policies and ambitions in the White Paper. Wages are mentioned in relation to human rights, where it is stated that human rights obligations include "creating decent working conditions where fundamental labor standards are complied with and employees receive a living wage" (Norwegian Ministry of Foreign Affairs, 2009:32). It is problematic that the government chooses such a vague approach to the issue of wages and corporate responsibility. First of all because there is no universally accepted formula or agreement as to

what constitutes a living wage. Neither is there an international convention on living wages, though the term has been used repeatedly by the ILO⁶. The lack of specification in the White Paper implies that the government does not require more from a responsible company than compliance with international law.

However, international laws on living wages are arguably also insufficient. Thus the Maritime Labor Convention has established a minimum wage for seafarers, the only ILO convention setting a basic wage for any industry. In addition, a new resolution⁷ of 2014 agreed to raise the minimum wage to US\$592 per month (ILO, 2014). The minimum wage, however, does not necessarily coincide with a living wage, as a living wage varies depending on factors such as the nationality and family situation of the seafarer. Based on Norwegian social standards, it is reasonable to expect the Norwegian government to advocate for higher wages and better social security standards for ships sailing the Norwegian flag, rather than just accepting the minimum set by the ILO. In addition, the government could express its view on issues such as over time, sick leave and shift work in the White Paper.

4.1.2 Safety and security

The suicide attack on the US warship Cole in Yemen in October 2000, followed by the '9/11' airplane terrorist attack against the US in 2001, were wake-up calls for the maritime industry, and the latter event led the IMO to establish new regulations governing maritime terror security⁸. Regulatory developments in the industry have traditionally been a result of accidents, and little attention has been put on the level of political risk. But threats and actual acts of terrorism have changed this dramatically. The industry was faced with the risk of ships, harbors and other maritime installations constituting potential goals for terrorist attacks. Ships can also be used to transport weapons of mass destruction, as the sheer quantity of transported goods and the use of containers prevents absolute control. The new regulation and security code therefore include requirements about safety management, terror alarm systems, action plans and specific training for security personnel. The new rules also included active precautionary measures such as restricted access to harbors and increased control of cargoes. IMO has thus changed focus more towards risk analysis (The Ministry of Trade,

⁶ See for example ILO constitution in 1919; Declaration of Philadelphia in 1944; Convention No 131 on minimum wages; 2008 ILO

⁷ Update of Recommendation, 1996 (No. 187); Maritime Labour Convention, 2006, Guideline B2.2.4 – Minimum monthly basic pay or wage figure for able seafarers (Geneva, 26–27 February 2014)

⁸ The new regulations of 2002 were included in the International Convention for the Safety of Life at Sea (SOLAS), 1974 and in the new International Ship and Port Facility Security Code (ISPS)

Industry and Fisheries, 2004). Accidents in the maritime industry are often a result of lack of regulatory compliance. Norway has therefore, in a joint effort with other countries, submitted a proposal to the IMO to establish an audit scheme to make sure each flag state has implemented and adheres to the IMO conventions.

As discussed in Chapter 3, the White Paper requires a responsible shipping company to work proactively to identify security risks and provide proper training of the crew. The Norwegian maritime fleet is generally considered to maintain high standards of safety and security, which gives both the government and the industry an incentive to work for stricter international regulations to ensure a level playing field in the industry. However, the White Paper does not address the economic incentives for going beyond the regulations and including safety and security issues in CSR strategies. As the ICONS (2000:84) report suggests, “a safe and seaworthy ship is more apt to deliver cargo in good condition, on time to the receivers, which is an important factor for the protection of markets”. Their report continues: “Safety and business success evolve through the provision of well trained, team spirited employees, who are motivated, fairly rewarded and provided with good and properly maintained equipment” (ICONS, 2000:84). Training and competence building is important for the quality and security of both operations and crew. There is no international consensus on whether the training of seafarers is a governmental or an industry responsibility. Norwegian shipping companies have thus chosen to engage extensively in the competence-building of crew from labor-supplying countries. Such training is seen to increase productivity, empower the crew, and build loyalty between the company and its crew (Vilsted, 2004).

Vilsted (2004) also argues for shipping companies to be conscious of the potential implications that security measures may have for employees’ welfare, an issue the government omitted to address in its White Paper. The Ministry of Trade, Industry and Fisheries (2004) recognizes that national regulations are not sufficient to ensure safety and quality in this truly global industry, and that working with the IMO is therefore a priority. Even though the new regulations concerning security will increase operational costs, the government emphasizes the importance of rules to address the risk of terrorism specifically. By actively participating in international and regional forums, the government has shown initiative and taken on a leading role in the work to further establish international regulations

on safety and security issues. The Ministry of Trade, Industry and Fisheries is the responsible body for facilitating and supervising compliance by Norwegian and foreign ships entering Norwegian harbors. In 2012, a total of 638 unannounced inspections were conducted of NOR\NIS ships, and 561 of foreign ships (Norwegian Maritime Authorities,). The authorities expect the new regulations imposed after '9/11' to increase the general security level and decrease the risk of the maritime industry being used as a means or goal for terrorism (The Ministry of Trade, Industry and Fisheries, 2004). In total, the government seems to address the issue of security by taking an international regulatory approach, rather than a CSR approach. The reliance on international bodies is reasonable. However, this should not hinder Norwegian authorities from ensuring safety and security through national regulations, nor should it undermine the promotion of CSR efforts aimed at improving safety and security.

4.1.3 Flag state and choice of flag

Many ship registers indicate that they aim to provide quality service to the shipping industry, and quality registries will educate and inform ship owners to help them raise their standards. Given the easy process of reflagging, the competitive edge for a modern registry is to be quality conscious in order to attract respectable clients (ICONS, 2000:75). There is a demand for quality registries, and those who fail to provide these registries risk being identified and eliminated. Despite this, sub-standard ships benefit from some registries' lack of enforcement of regulations (ICONS, 2000).

The ICONS report suggests that quality requires reward, and quality companies should therefore be offered better commercial terms from the broader shipping community (ICONS, 2000:79-80). One example of such an initiative is the US Coast Guard reward program that reduces the frequency of port state inspections for quality ships. Other possible measures mentioned are refusal of insurance for sub-standard ships, levying fines, and imposing penalties for the charterer. The ICONS report estimates that the problem of sub-standard ships occurs in 10 to 20 per cent of the world's fleet. Eliminating sub-standard ships is also important in relation to safety and security issues (The Ministry of Trade, Industry and Fisheries, 2004). It is generally acknowledged that there are sufficient regulations in place to secure a minimum level of responsibility in the industry, the lack of implementation is thus the main issue. The ICONS (2000) report states that the lack of competent personnel, limited financial resources, and lack of political will in many cases are to blame.

Vilsted (2004:42) compares the choice of flag to codes of conduct. When land-based corporations seek to self-impose rules regarding social and environmental performance, they adopt codes of conduct and social policies. Shipping companies make a similar decision when deciding what flag to register under (Vilsted, 2004). Systematically choosing a quality flag indicates a certain degree of corporate responsibility. Hence, choosing a flag of convenience might indicate a company's lack of awareness or concern for social and environmental issues, and the use of flag state revenues. It can also indicate the degree to which businesses wish to be subject to international regulations about safety, labor rights and the like, as different states have to various degrees ratified international conventions. The reputation and quality of the ships' registry should therefore be an important issue for shipping companies engaged in CSR. The International Transport Workers' Federation (ITF) has issued a list of 34 countries considered to be flags of convenience. Amongst them are Panama, Malta, and the Marshall Islands, (ITF, 2012) which are also popular registries for Norwegian-owned ships. Some flags of convenience states have registries for the sole purpose of making money, without having their own national shipping industry. The lack of political will to regulate in these flags of convenience states might be a direct result of the fear of companies re-flagging from the registry, and consequently loss of incomes.

A total of 58 different flags were represented on ships engaged in domestic transportation between Norwegian ports in 2010. In the same year, 489 Norwegian ships were operating domestically, of which 30 per cent were registered in NOR, representing only 8 per cent of the total freight capacity. In comparison, 10 per cent of the ships were registered in Malta but representing 15 per cent of the total freight capacity (LO et al, 2011). These numbers show that the NOR registered fleet, which falls under Norwegian labor laws, is diminishing, and that new ships are rarely registered in NOR due to the high requirements which makes it difficult to compete.

Norwegian offshore activities have previously been dominated by NOR registered ships. Teekay, one of two large providers of shuttle tanks in the North Sea, has reflagged from NOR in order to hire cheap crew from labor-supplying countries. LO *et al.* argue that legislation has created a competitive situation where Norwegian seafarers are unable to work on a large proportion of offshore vessels. As a result, Norwegian seafarers and expertise in this section of the oil and gas industry will diminish. In 2011, only two of 54 tank vessels working on the Norwegian continental shelf were registered in NOR, eight in NIS, 23 in Bahamas and the

rest in other registries. LO *et al.* predict that shipping companies would still operate on the Norwegian shelf, even if they had to pay Norwegian wages, because they would operate under the same terms and conditions. Such a regulatory change would also make NOR more attractive and competitive. Thus they maintain that it is the shipping companies that create the need for regulations to ensure Norwegian wage- and labor conditions on all ships in national operations (LO *et al.*, 2011). As Norwegian regulations apply to all oil rigs and floating installations, regardless of crew nationality, the three organizations see it as reasonable that the same regulations should apply to the vessels supporting such installations.

Norway had the sixth largest fleet in 2011, but more than 65 per cent of the fleet was sailing under a foreign flag (UNCTAD, 2011). The Norwegian government has acknowledged the problem of a diminishing fleet sailing under the Norwegian flag, and in March 2014 it announced the establishment of a committee to look into the existing rules that prevent NIS ships from operating between national ports. As other registries and NOR ships are allowed to do so, the committee will look into the possibility of relaxing the trade area restrictions. The solution might be to open up for NIS ships in order to increase the number of Norwegian-flagged ships engaged in national operations. Representatives from a broad range of stakeholders, such as the NSA, are represented on the committee (Ministry of Trade Industry and Fisheries, 2014), thereby increasing the possibility of finding a solution that will satisfy both industry and state interests.

As Chapter 3 showed, both the government and the NSA find it important to facilitate competitive conditions to make Norway attractive for the shipping industry, and one of the government's goals is to keep a large part of the operation in Norway and to facilitate value creation in the domestic maritime industry. LO *et al.* (2011) argue that in order to reach this goal, all ships, regardless of flag state and registry, must compete on terms that will stimulate and encourage the use of Norwegian labor and skills. The work of the newly established committee might therefore lead to a larger number of Norwegian registered ships being used in domestic operations.

4.1.4 Corruption, bribery and transparency

Karoline Bøhler, CSR Manager in the NSA lists corruption as one of the most challenging CSR issues in the shipping industry (email interview, 2014a). Indeed, the Norwegian government recognizes in the White Paper that corruption is a serious obstacle to social and

economic development in many parts of the world, and claims that the size of international development assistance is insignificant compared to the values that disappear from poor countries due to for example corruption and tax evasion (Norwegian Ministry of Foreign Affairs, 2009:34). In addition, corruption undermines democracy and weakens public governance. The White Paper acknowledges the many forms of corruption, from large capital flows to facilitation payments. It further highlights that Norway is party to several international agreements which define the conditions for business activities at home and abroad. In addition, Norwegian law prohibits all forms of corruption, regardless of where it takes place, and the penalty is up to ten years' imprisonment.

The existence of several different jurisdictions prevents a universal zero-tolerance approach to corruption. The government therefore aims for the UN Convention UNCAC to be universally adhered to. In addition, Norway is actively participating and supporting several international anti-corruption initiatives. One of these is a suggestion to establish mechanisms to ensure the implementation of the UNCAC, another is being member of a working group enabling the return of proceeds of corruption, and supporting a UN and World Bank initiative for the recovery of stolen assets abroad. Norway also participates in the development of international law against corruption in the OECD, and in the OECD working group related to bribery of foreign officials, and anti-money laundering in the International Monetary Fund (Norwegian Ministry of Foreign Affairs, 2009:84). The government also assists developing countries, bilaterally and multilaterally, to put in place good governance systems for combating corruption. A positive trend is thus occurring as countries increasingly tighten legislation on corruption, and move toward an international standard (Norwegian Ministry of Foreign Affairs, 2009:35). Because of this development, Norwegian shipping companies increasingly face the similar legislation in their foreign operations to that which they face at home, thereby leveling the competitive conditions in the industry.

The White Paper addresses the issue of corruption and bribery primarily by focusing on the government's anti-corruption efforts, and by informing about Norwegian legislation on corruption. It is positive in the sense that it communicates to businesses that the government is heavily involved in anti-corruption work, and shows that the issue is clearly on the government's agenda. At the same time, the government fails to provide businesses with incentives to actively work against corruption. Furthermore, the White Paper states that most

major Norwegian companies with operations abroad have implemented anti-corruption guidelines and routines, but the challenge is to implement and follow up on these. The White Paper thus comes short in highlighting important incentives for anti-corruption implementation, and lacks suggestions on how to implement and comply with anti-corruption initiatives, other than whistleblowing.

In addition to considering legislation and government efforts, the White Paper would benefit from focusing on the additional costs and risks resulting from corruption, thereby highlighting the financial incentives for anti-corruption CSR. The government could emphasize how corruption can result in additional expenses throughout the value chain, or lead to costly operational disruptions, or penalties. The White Paper could also refer to research on the issue to underpin the financial incentive, as one study suggests that corruption can add more than 10 per cent to business costs in some countries (Hills *et al.* 2009:11). The risk of imprisonment for corruption is stressed in the White Paper, but the financial risk of incurring large fines is omitted. So is the potential risk of being blacklisted from various ranking systems or investment lists, and the risk of damage to reputation and being targeted by campaigns run by NGOs and civil society organizations.

The issue of corruption is very relevant for the shipping industry, as it is a truly global industry. As Hills *et al.* (2009) argue, developing countries are most exposed to corruption, and these countries are often emerging markets. Thus, as the proportion of global business conducted in developing countries is increasing, the cost of corruption is expected to increase, unless it is eliminated. As emerging markets are crucial for the success of many companies both at present and in the future, there is a strong incentive to engage in anti-corruption work (Hills *et al.* 2009:12). Following this argument, the shipping industry, with operations world-wide, including in developing countries and emerging markets, should experience strong incentives for the industry as a whole to combat corruption

Business leaders world-wide are becoming increasingly interested in addressing the negative effects of corruption. Data from a global online survey of 390 senior executives shows that more than 70 per cent believed that a better understanding of corruption would help their companies “compete more effectively, make better decisions, improve corporate social responsibility, and enter new markets.” In addition, two-thirds of respondents believed that a

level playing field was critical to their companies' future business success (Hills *et al.* 2009). Business-related incentives like this are not emphasized in the White Paper, which focuses mostly on legislation and businesses impact on development. In short the government simply “expects companies to actively combat corruption by means of whistleblowing or notification schemes, internal guidelines and information efforts” (Norwegian Ministry of Foreign Affairs, 2009:36).

The White Paper acknowledges that the responsibility to combat corruption is shared between the authorities and the private sector, as is the responsibility to promote transparency. There are many obstacles preventing the elimination of corruption, including lack of knowledge and enforcement capacity, lack of willingness to cooperate and poor transparency. The government repeatedly stresses the importance of transparency with regard to economic, social and environmental factors throughout the White Paper and “expects companies to show the maximum possible degree of transparency in connection with financial flows” (Norwegian Ministry of Foreign Affairs, 2009:36). As Chapter 3 showed, the shipping industry is often seen as non-transparent, due to the many actors involved in the operations, and the global nature of the industry. In line with the recommendations in the DNV report (Vilsted, 2004), the government argues that transparency helps establish good relations with societies where the company operates, and provides clients, shareholders, authorities and society with information about a company's guidelines and achievements. The DNV report suggests that companies can influence registries to improve transparency in the industry, but the government does not mention the option of companies putting pressure on industry associations to encourage a minimum level of transparency.

In the White Paper, the government promotes the GRI as a transparency tool that motivates companies to intensify their CSR efforts and helps them to comply with UN and OECD standards. The government emphasizes the usefulness of the GRI, especially for large companies (Norwegian Ministry of Foreign Affairs, 2009). This formulation is unfortunate as it can be perceived by smaller companies as a legitimate reason or excuse, not to join the GRI. The GRI specifically addresses this problem by offering small and medium-sized enterprises a guide to simplify reporting. The government could rather encourage increased participation by these companies by emphasizing relevance of the guide for small and medium-sized companies. This would make the transparency section of the White Paper

specifically relevant to the Norwegian shipping industry, which also includes small- and medium-sized companies.

4.1.5 Operations in the developing world, and local community engagement

The White Paper emphasizes that investment is an important means to promote development, especially in poor countries, because it can lead to transfer of technology and knowledge, competence building and development of the private sector. Much of Norwegian investment in developing countries is in the oil, gas, shipping and environment sectors, which are also sectors where Norway has substantial expertise (Norwegian Ministry of Foreign Affairs, 2009:57). The government stresses that it is important to build on these areas of expertise. The shipping industry, as one of these expertise areas, and with large investments in developing countries, should therefore be aware of its potential influence.

Further, the White Paper suggests that the low level of Norwegian private investment in developing countries may be due to the high risk that accompanies such investments. It further sees the possibility that companies fear that high expectations with regard to CSR standards increase the risk, as they might fail to adhere to their own values, ethical guidelines, and stakeholder expectations, thereby risking damage to their reputations (Norwegian Ministry of Foreign Affairs, 2009:58). The Norwegian Investment Fund for Developing Countries (Norfund), The Norwegian Agency for Development Cooperation (Norad), and the Norwegian Guarantee Institute for Export Credits (GIEK) are all bodies that facilitate cooperation between private and public interests, and offer support to stimulate investment in developing countries. The White Paper states that Norwegian companies can contribute to value creation that can reduce poverty, and pass on Norwegian standards by creating quality workplaces and promoting environmental awareness. Among the informants interviewed in the Philippines there was consensus that Norwegian shipping companies operating in the Philippines represented quality in the shipping industry. The Norwegian companies were also perceived to have brought higher standards to the Philippines maritime industry as a whole (Vilsted, 2004).

Thus, the White Paper acknowledges that whilst there may be major challenges, good practices will enhance the chances of success. Businesses can generate development by improving local access to goods and services, by promoting local businesses and by reducing impacts on the environment. The use of local labor and suppliers is encouraged, and can build

competence and encourage technology transfer in the host country (Norwegian Ministry of Foreign Affairs, 2009:58). The shipping industry generally makes use of local labor from developing countries both at sea and in foreign on-shore operations. In addition, the recruitment and training of seafarers is an important issue for the NSA, which runs training projects in collaboration with local educational institutions in the Philippines, China, Russia, Brazil and Vietnam. This effort is mentioned in the White Paper in relation to local partnerships and the importance of the exchange of information, experience, and competence-building (Norwegian Ministry of Foreign Affairs, 2009:99).

The Norwegian government calls on the private sector to increase investments in developing countries and to enter into strategic partnerships to reduce risks and improve development impact. It further expects Norwegian companies to demonstrate social responsibility, good business practices and to make use of local suppliers. The White Paper is thorough and detailed when describing the potential impact of Norwegian businesses in developing countries, and puts forward expectations as well as encouraging good corporate behavior in host countries.

4.1.6 Environment and ship scrapping

There is much international and national legislation aimed at limiting the environmental impact of shipping operations. However, many companies choose to go beyond legislations and implement environmental concerns in their CSR strategy. The environment is repeatedly mentioned in the White Paper, but is often just listed alongside other areas of responsibility such as human rights and social responsibility. Areas such as loss of biodiversity and climate change are highlighted, along with the most important international environmental conventions. The White Paper further stresses the importance of the IMO in following up climate change issues related specifically to the shipping industry, as it is excluded from the Kyoto Protocol. This is mentioned without emphasizing the government's own importance in influencing the country's own shipping industry by promoting CSR or by means of regulation.

The government expresses its expectation that all companies should conduct environmental awareness and acknowledge responsibility. In the White Paper, the government also argues for a business case for environmental CSR by stating that environmentally friendly companies can gain competitive advantages financially and in terms of markets. One recent

incident exemplifies the financial risk of irresponsible practices, and illustrates the economic incentives for environmental awareness and the importance of proactive CSR measures. In August 2014, the Norwegian shipping company Odfjell SE was fined US\$900 000 and an additional US\$300 000 to be paid to an environmental fund following three illegal spills in 2011 and 2012. Half of the fine was to be rewarded to two Pilipino crew members, who, according to the prosecutor, took a risk by whistleblowing to the US authorities (Hustadnes, 2014).

The White Paper further stresses the importance of private sector efforts to combat climate change. The responsibility of the government itself is mentioned briefly as being shared with the private sectors, and the role of the authorities should be to establish frameworks promoting innovation and cost-effective solutions. The government states that it will consider measures to prevent Norwegian companies from committing environmental crimes abroad. However, it is not specified what these measures will entail, or when they will be introduced. Further, international initiatives are promoted, but without providing incentives for corporations to participate. The White Papers non-specific approach to environmental CSR might be a result of the many variations of industries and companies, and their ability and willingness to change their impacts on the environment. There is not one solution that fits all of the intended audience of the White Paper. However, the government could have stressed enhanced environmental performance as a possible goal for most companies regardless of industry and size, and they could have given incentives that could apply to most Norwegian companies. The environmental focus in the White Paper is very general, and does not detail the variety of environmental issues and available improvements. By specifying challenges and solutions, environmental CSR would appear more attainable and this would show the many possible ways a company can act to improve its influence on the environment, regardless of size and industry.

For the shipping industry, environmental issues such as emissions, chemical use and spills are strictly regulated by national and international laws. One environmental issue in the shipping industry not yet subject to regulation is the process of ship scrapping. The IMO guidelines states that virtually nothing goes to waste in the recycling process, as materials and equipment are almost entirely reused. In other words, ship scrapping can be a green industry. However, financial incentives result in many ships ending up on the beaches of India,

Pakistan and Bangladesh, where a more or less complete absence of relevant laws and industry standards has a negative impact on both people and the environment.

Guidelines were developed by the Marine Environment Protection Committee (MEPC)⁹ in 2003 to give advice to all stakeholders in the recycling process, and these later came into force as IMO resolutions under the Hong Kong Convention. The IMO's Hong Kong Convention addresses concerns about health, safety and the environment with regard to ship scrapping, and this could have been a milestone. Norwegian authorities and the NSA were the initiators of the convention. However, Norway is so far the only country to accede to the convention, which requires ratification by 14 more states to enter into force. The Hong Kong Convention shows the Norwegian government's efforts to address the issue of ship scrapping, while at the same time, it highlights the lack of international political will to ratify and comply with regulatory measures which could have contributed to the much needed improvement of the ship scrapping process.

The Norwegian government and the NSA have engaged to put ship scrapping on the agenda of the IMO, pushing for international rules and guidelines on the scrapping process. Marit Trodal, Corporate Responsibility Manager in Grieg Star confirms that ship recycling practices are improving amongst Norwegian shipping companies, partly as a result of pressure put on members by the NSA and media. Today, there are better alternatives than the traditional beaching of vessels and the hazardous working conditions that obtain under such circumstances. A number of companies are choosing green and ethically sound recycling alternatives and are taking responsibility for their vessels' last voyage (email interview, 2014b).

Furthermore, the EU has forbidden all ship scrapping on beaches from 2014, a prohibition that the environmental organization Bellona (2014) expects to have a minimal effect and rather increase reflagging to flags of convenience before scrapping. The scrapping market to a great extent functions by the ship owners selling the vessels to companies specializing in the scrapping business. Such companies purchase ships from the original owners, put their own crew on board and sail the ship to the most economical scrapping yard. Formally, this puts the original ship owner in the clear, as he no longer controls the ship, and as he can

⁹ These guidelines were adopted as IMO Guidelines on Ship Recycling by resolution A.962(23) and were subsequently amended by resolution A.980(24).

claim not to know about, or be able to influence, the real intentions or actions of the buyers. The issue of scrapping therefore highlights the need for ship owners to take responsibility for their assets throughout their full life-cycle, and to implement this in CSR standards. The efforts of the government, the NSA and NGOs seem to have had a positive effect on Norwegian shipowners. In 2013, 21 of 40 Norwegian registered or owned ships ended up on beaches for scrapping, a decrease of almost 50 per cent from 2012 (Bellona, 2014). The numbers show that information and documentation of the bad conditions for workers, and the negative environmental effects of ship scrapping on beaches have yielded positive results.

4.2 Strengths and limitations in the government's efforts to promote CSR in the shipping industry

This chapter has so far shown how the government's CSR relate to the specific CSR challenges in the shipping industry. The White Paper has been evaluated against the sector-specific challenges in the shipping industry, revealing both strengths and limitations. This evaluation is the first step in answering the main research question of this study. The second part of answering the research question will be carried out in light of the theoretical foundation set out in Chapter 2. Before moving on to this second part, the following section will sum up the main findings so far in this chapter.

First, this study has highlighted the White Paper's lack of focus with regards to wages, and made recommendations regarding ways in which Norwegian companies can ensure the payment of decent living wages. National employees are subject to national regulations, so this issue applies to foreign employees, or sub-contracted employees. On the issue of safety and security, the government has shown initiative in working with international organizations such as the IMO. The government has mainly focused on ensuring compliance with existing regulations, advocated for stricter regulations in the future, and conducted ship inspections to safeguard national security. However, the White Paper comes short when it comes to providing companies with incentives to improve safety and security by going beyond compliance to the new anti-terror regulations. In addition, the focus is on regulation rather than CSR. To address safety and security issues by advocating for stricter regulations is a natural approach, however, the White Paper lacks focus on going beyond regulations, which is what CSR is initially about.

Issues related to flag states are naturally not mentioned specifically in the White Paper, but other sources show the government's ambitions to make Norway attractive to the shipping industry. Criticism was presented on the different rules applying to NOR, NIS and foreign flags in domestic operations. The number of ships operating domestically under a foreign flag was used to illustrate that there is a competitive advantage for vessels in national operations to avoid NOR registration, because the registry is subject to strict regulations. It is therefore desirable that the government follow up on its ambitions by establishing the previously mentioned commission. The inclusion of various stakeholders in this process is a positive sign of the government's effort to improve the national conditions for the shipping industry.

In relation to bribery, the government is involved in several initiatives and has adopted a zero-tolerance approach to bribery and corruption. However, a financial and risk focus should be added to provide companies with economic incentives to implement anti-corruption CSR, as this could target companies doing business internationally, such as the shipping industry.

In relation to businesses operating in the developing world, the government encourages increased investments, and has provided support for this through various support and information bodies. Use of local labor is also encouraged, as well as transfer of technology. The shipping industry makes extensive use of local labor, both at home and in foreign operations. For quality shipping companies, high standards of labor and technology are transferred to the local shipping industry, as seen in the example of the Philippines. The high expectations of the government with regard to CSR and corporate behavior in developing countries are stated repeatedly in the White Paper, and the possible impact of companies is highlighted. The environment is also frequently mentioned in the White Paper, but without much details on how companies could contribute. It is thus positive that the government argues for a business case for companies to implement environmental concerns to their CSR, as financial incentives are probably the strongest incentives for companies to go beyond laws and regulations. On the issue of ship scrapping, government efforts have been focused on the development of international standards and information on the safety and environmental problems associated with ship scrapping. The rapidly decreasing number of Norwegian vessels ending up on beaches indicates success in the government and the NSA's efforts to put ship scrapping on the agenda.

While the third chapter presented the government's CSR as expressed in the White Paper, this chapter has so far evaluated how the government promotes CSR in the shipping industry. The chapter has evaluated the relevance of the White Paper for the sector-specific CSR challenges in the shipping industry. Because the White Paper is a general document intended for all industries, the study also looked beyond the White Paper to map the efforts of the government to promote shipping related CSR. The remaining part of this chapter will analyze the government's interpretation of CSR and the impact of the government, as a political institution, on CSR in light of the theoretical framework presented in Chapter 2.

4.3 The Norwegian government's CSR interpretation

As seen in section 2.2, Gjølberg (2010) finds that there are two dimensions which affect how governments understand CSR. The normative or instrumental dimension, and the national or international dimension together give four possible interpretational outcomes, as illustrated on Figure 1. In light of this chapters' analysis of the White Paper, the Government's approach seems to fit the CSR interpretation based on instrumental justification with an international focus. Although the White Paper fails to highlight economic incentives with regard to some CSR issues, the government uses an instrumental language when framing its CSR policy. This includes promoting CSR as a utility maximization tool, with the possibility of improving competitiveness. The government thus explains CSR according to the business case idea, without focusing excessively on the normative aspect of business responsibility. Under the sub heading "Responsibility and Opportunities", the government promotes CSR as a business case, stating "there are considerable opportunities for internationally oriented companies to increase their competitive edge through socially responsible practices" (Norwegian Ministry of Foreign Affairs, 2009:46). It is emphasized that the integration of CSR helps companies identify and utilize new market opportunities, and through responsible practices all companies can promote good value, while at the same time strengthening their long-term competitiveness.

The lack of a normative focus in the White Paper is not a significant limitation. Financial incentives are generally the most attractive incentive to businesses, as their initial aim is to make profit. However, the business case may not seem applicable to all shipping companies. Whilst smaller shipping companies are often privately owned, larger shipping companies which trade globally are often listed, sometimes in multiple stock exchanges. Listed

companies are obliged by law to report events of consequence for their share value, as shareholders are exposed to fluctuations and financial losses resulting from accidents and bad publicity. In the same way, positive news can boost the share value in favor of the shareholders. In 2013, the government added a new paragraph on non-financial reporting to the Norwegian Act on Annual Accounts of 1998. The new § 3-3c obliges all listed companies to issue a report on efforts related to human rights, labor- and social conditions, the environment and anti-corruption. The report must include codes, standards, and procedures, and how they are converted into practice, as well as results and future ambitions (Norwegian Act on Annual Accounts, 1998, as amended in 2013). This law only applies to Norwegian shipping companies listed on the stock exchange, while smaller shipping companies might consider CSR to be irrelevant as it is not required by law, and if the financial incentives seem absent. The moral dimension could therefore be given more prominence in the White Paper, in order to make CSR more appealing to small- and medium-sized companies.

The second dimension concerns the government's geographical CSR focus. The White Paper generally interprets CSR in relation to policy questions in the international arena. Gjølberg (2010) explains that the combination of an instrumental justification with international focus produces an interpretation of CSR as providing competitive advantage for the nation, where CSR gives an innovative edge to domestic companies operating on global markets. As Gjølberg (2010:208) argues, by raising CSR awareness and competence, the government can help Norwegian companies succeed in global markets, thereby increasing exports, and creating employment and economic growth. These potential CSR outcomes provide the government with incentives to encourage Norwegian businesses to implement CSR. Along with the government's own description of the reason for the publication of a White Paper on CSR, this helps to answer the sub-question *What are the government's incentives to promote CSR?*

The international focus represents both strengths and limitations for the White Paper. This is because of the broader aim of the White Paper, namely to promote CSR in private and public sectors in Norway. Having been prepared by the Ministry of Foreign Affairs, the scope of the White Paper is clearly delineated and this restricts its applicability to a range of Norwegian companies and businesses without international operations. As Sjøfjell (2009:1) puts it "the focus is nearly solely on the behavior of Norwegian companies in poor countries and in more

or less corrupt countries. The general issue of the aggregated societal impact of Norwegian companies, regardless of where they operate, is thereby set aside in favor of focus on a segment of the issue". In other words, the White Paper focuses solely on the societal impact of Norwegian companies in other countries. If the government's interpretation of CSR were to be built on a national and normative dimension instead, the White Paper might not be of particular relevance for the shipping industry, as a result of the industry's international characteristics. If this was the case, the findings of this study could be significantly different.

In short, the international focus may be a shortcoming for the White Paper's relevance for Norwegian companies in general. However, the international focus at the same time increases the impact and relevance for the shipping industry specifically. As this study has stressed, the shipping industry is one of the most international industries, and many of the international focus points of the White Paper, such as corruption and the impact on development, therefore applies to many Norwegian shipping companies. The international focus is reinforced by the repeated references to international regulations and institutions, which are relevant in the operations of large parts of the shipping industry. By relying heavily on international regulations the government may appear to shift the focus away from its own ability and responsibility for regulating Norwegian businesses both at home and abroad, as well as avoiding the regulatory possibilities represented by CSR. Sjøfjell (2009) argue that another fault line in the White Paper is that the government interpret CSR as a purely voluntary business activity. In doing so, the government implicitly restricts the scope of its own regulatory action. One incentive for the government to promote CSR can thus be to reduce the need for national regulation. This is problematic if used as a pretext for not developing national laws aimed at improving business responsibility. Sjøfjell (2009) stresses that legislation must create a minimum standard which no company can go beneath, and voluntary CSR must develop good practices from this legislative starting point. With regards to meeting the high ambitions and expectations put forward in the White Paper, the Norwegian government's CSR promotion should not be at the expense of national regulations designed to promote responsible businesses.

Sjøfjell (2009:6) states that the government, with help from business lobbyists, sees the regulation of companies as a threat when this is not part of international cooperation. This is mainly because of the danger of breaching the free movement requirements laid down by the

internal market rules of the EU¹⁰, and secondly, because of the fear of weakening the competitiveness of Norwegian companies. As this study has shown, there are strong arguments for a competitive advantage for responsible and sustainable companies. Sjøfjell (2009:7) further suggests that a sustainable company law could give Norway a competitive advantage as a country of investment, and this could make Norwegian companies the market leaders of tomorrow. Sjøfjell (2009:7) therefore argues that if the government wants to achieve real change, it must dare to enter the terrain of company law, rather than only discussing external measures. At the same time, this study has shown that the shipping industry desire a level playing field for the industry internationally, and therefore oppose national laws.

The government's approach to CSR in some ways resembles the liberal CSR discourse, or stakeholder theory, as presented in Chapter 2. The similarities lie in the government's presentation of CSR as a strategic choice based on self-interest, thereby possibly improving a company's competitive advantage. Thus, the Norwegian government does not oppose international regulation, as is the case with the liberal discourse. On the contrary, it is actively involved in drafting international laws on issues relevant to CSR. Thus, as this study has shown, the focus on international law and CSR might divert attention from the possibility of regulating Norwegian companies through national legislation. One could expect the Norwegian government to be more influenced by the social democratic CSR discourse, due to the country's long traditions for social democracy and the welfare state. The White Paper thus shares minimal arguments with the social democratic view of CSR as a "social contract" between businesses and society. Such responsibility only vaguely resembles the CSR in view in the White Paper's and is limited to the approach in relation to businesses operating in developing countries.

4.4 CSR and the effort of the Norwegian government as a political institution

From the perspective of new institutional theory presented in Chapter 2, CSR is adopted not only for financial reasons, but also because of the legitimacy it brings businesses. This is because businesses are judged by their success in adhering to what is conceived as good behavior by relevant actors. In light of this theory, CSR in the shipping industry can be explained partly as a reaction to, or as compliance with, the government's expectations. In

¹⁰ Norway is not a member of EU, but the rules are implemented through The Agreement on the European Economic Area

order to meet the requirements in the institutional environment, in which the government is an important actor, structures such as CSR are adopted. As Campbell (2006:933) suggests, “corporations will be more likely to act in socially responsible ways if they operate in an environment where normative calls for such behavior are institutionalized”. The argument can therefore be made that more normative national institutions influence CSR. In this view, the decision-making process in corporations is therefore seen as not only based on economic logic, but also a logic of appropriateness. CSR efforts have become a necessity for companies that not only seek the financial benefits associated with business responsibility, but also aim at being perceived as modern and legitimate by actors in the institutional environment. Along with the idea of a business case, new institutional theory helps answer this research study’s sub-question, *What are the incentives for Norwegian shipping companies to engage in CSR?* The theory further helps this study to highlight the institutional determinants of CSR, as it assists in explaining the relationship between governments and business behavior.

As new institutional theory suggests, the Norwegian government helps to form the institutional environment in which shipping companies operate. Hence, as the Norwegian government expects companies to integrate CSR and act responsibly, shipping companies, based on a logic of appropriateness, to a large extent behave according to what the institutional environment considers to be legitimate and appropriate. Such processes lead to increasingly homogenous institutional environments across nations, which again lead to increasingly homogenous organizational practices across nations. Seen from a new institutional theory perspective, CSR has spread and become a global phenomenon as a result of this homogenization. In light of the argument put forward in Chapter 2 by DiMaggio and Powell (1983), coercive isomorphism resulting from pressure by governments, civil society and international organizations is an important factor pushing shipping companies to engage in CSR. Mimetic processes may also lead a shipping company to copy the CSR strategies of successful opponents in the industry. Lastly, the normative pressure shipping companies experience from different parties in the evolving CSR community, for example the NSA, civil society, investors, and NGOs, can influence a company’s decision to integrate CSR into its business practices.

By establishing a comprehensive CSR document for the Norwegian private and public sectors, the government has taken on the role as a guiding institution, promoting and

encouraging CSR among Norwegian businesses. In relation to the shipping industry specifically, the government has often taken a leading role in international forums and organizations, by promoting the Norwegian shipping industry's interests at home and abroad. The government seems to actively consult relevant stakeholders, organizations and other actors in matters concerning the shipping industry. In light of the arguments of Hall and Soskice (2011), the institutional framework in Norway can be seen as providing a competitive advantage for the shipping industry, and shipping companies can develop strategies to maximize the institutional support available to them. Hall and Soskice's (2011) approach further suggests a distinction between LME's and CME's. According to their argument, shipping companies in Norway, a coordinated market economy, depend more on market actors, such as political institutions. Hall and Soskice (2011) characterize CME's as being more prone to collaboration rather than competition when building corporate competence. This description is in line with the findings of this study, as actors in the shipping industry strategically cooperate and interact with each other, through forums such as the NSA, as well as with relevant political institutions, such as the government.

As Chapter 2 showed, there is no consensus as to whether CME's or LME's foster more CSR, as there are arguments both for and against the relationship between strong institutional embedding of the economy and CSR. Some researchers have argued that CSR is less likely in CME's because CSR is a substitute of national institutions rather than a mirror (Jackson and Apostolakou, 2010 and Matten and Moon, 2008). The link between LME's and CSR is the weak embedding of the economy in national institutions. In Norway, the economy is strongly embedded in institutions, however, CSR cannot be characterized as a substitute of institutions, or as a means to fill institutional gaps, as expected by Matten and Moon (2008). On the contrary, this study has shown that CSR in the shipping industry is rather a mirror of the CSR attitudes and efforts of the government. For example, the government and the shipping industry share the perception that there are strong financial incentives to engage in CSR. In addition, they share a common understanding that CSR can potentially mitigate risk, for example related to safety and security in offshore operations. As Gjølborg (2012:55) puts it, Norway provides an example of the mirror effect "whereby strong institutions for social embedding of the economy "force" companies to adhere to higher social and environmental standards, thereby providing companies, governments and civil society actors with a stronger base from which to pursue CSR". As expressed by Crouch (2006), CSR is essentially about

businesses taking responsibility for their negative externalities. Strong institutions for embedding of the economy will consequently be more able to hold companies accountable in this respect. Campbell (2007) offers a theoretical justification for the mirror argument, as he suggests that strong state regulation and strong institutionalized norms regarding appropriate corporate behavior will encourage and demand social responsibility from companies, hence objectively increasing the level of social and environmental standards in corporate practices. In the case of the shipping industry, the government's CSR, to some extent, also resembles a mirror of the industry's CSR. This is because the industry and authorities cooperate to formulate common goals for the industry both at home and in international institutions such as the IMO. The government and industry also consult each other in relevant issues. The lack of a national dimension in the government's CSR interpretation also supports this argument. Because the White Paper lacks focus on national CSR and thus do not promote CSR as a form of welfare state relief or as a means of filling institutional gaps. This study supports the opposite of Matten and Moon's (2008) argument, and suggest, in line with Campbell (2007) and Gjøølberg (2012), that companies in strong institutionally embedded economies are likely to have higher standards and more experience with CSR issues when CSR hits the agenda.

Matten and Moon (2008) further couple LME's to what they term explicit CSR, and CMEs to implicit CSR¹¹. The distinction between the two is based on the language and intent of the two types of CSR. Whilst the explicit version consists of strategic, deliberate decisions, implicit CSR is more value and norm-based. According to Matten and Moon (2008) this is because coordinated market economies has a high degree of state responsibility, which to a lesser extent leaves companies with the responsibility for social goods, and provides fewer opportunities and incentives to do so. According to Matten and Moon's (2008) theory, Norwegian shipping companies' CSR should fit into the implicit CSR category, as a result of Norway being a CME. Operating in a country characterized by collectivism, partnerships, and policies that provide obligations, Norwegian companies should accordingly not have the same incentives as US companies to practice explicit CSR. However, during the research for this study, it was confirmed that Norwegian shipping companies that engage in CSR do not concur with Matten and Moon's description of CSR in CME's as implicit.

¹¹ see Table 1 and Figure 2 in section 2.2.3

One of many examples of this is the way CSR is expressed on the website of the large shipping company Odfjell. The webpage informs that Odfjell “aim at sustainable development for our investors, customers, employees and the communities in which we operate through balancing financial results and corporate social responsibility within our sphere of influence”, clearly expressing their view on CSR as a strategic decision. Another example is how most shipping companies openly reflect on the link between safety and security related CSR and financial risk. In other words, large Norwegian shipping companies have adapted the language of CSR. They communicate their CSR efforts to stakeholders, and many devote much attention to CSR on their web pages. In annual reports, codes of conduct and on the web pages of shipping companies, CSR is more often than not expressed as strategic, deliberate and innovative decisions with competitive and financial incentives. Accordingly, CSR is presented as an obligation and a responsibility for which not only the company as such is responsible, but also the board members and senior management. In short, the CSR strategy and performance found in Norwegian shipping companies largely coincide Matten and Moon’s description of explicit, rather than implicit CSR.

As previously mentioned, this chapter aimed to answer the research question in two steps. The first step evaluated the government’s efforts to promote CSR in the Norwegian shipping industry by looking at the sector-specific CSR challenges faced by the industry and whether the government deals with these issues in the White Paper. The findings, both strengths and limitations, were summarized under section 4.2. The second step was the analysis of the government’s CSR interpretation, as well as the government’s impact as a political institution. In short, the second step addressed Norwegian government’s CSR and CSR in Norwegian shipping from the perspective of the theoretical framework presented in Chapter 2.

4.5 Conclusion

This study has researched the institutional determinants of CSR, and found that the Norwegian government, as a political institution, influences the CSR practices of Norwegian shipping companies. In a broader sense this affects the perception of the interaction between CSR as a management tool and strategy, and CSR as a political and regulatory tool that can be used actively by authorities.

The first part of this chapter identified both strengths and limitations which affect the White Paper’s relevance for the shipping industry. A recurring shortcoming in the government’s

effort is the general lack of incentives, and especially the lack of a consistent focus on economic incentives for implementing CSR. The study also found that the government is widely involved in the process of establishing international regulations for the shipping industry, and it was pointed out that this might divert attention from the regulatory possibilities that are present in national regulation and CSR. Further, the study has shown that a well-established relationship, characterized by cooperation and consultation, exists between the government and the shipping industry, represented by the Norwegian Shipowners' Association. From this connection arise mutual benefits for both companies and authorities, and this may represent an institutional advantage for the industry.

The second part of this chapter analyzed the government's CSR interpretation in light of the fourfold model developed by Gjølborg (2010), presented in Chapter 2, and found that the government's understanding is based on an instrumental justification of CSR coupled with an international focus. The government's instrumental focus is positive in the sense that it makes CSR attractive to businesses because it may represent opportunities of increased profit. The possible limitation of such a focus was found to lie in the exclusion of smaller companies which may not see a business case as applicable to their situation. Issues regarding the geographical dimension of the government's CSR interpretation were also discussed, and the conclusion was reached that the international focus enhances the White Paper's relevance and applicability for the shipping industry. At the same time, this possibly makes the White Paper less applicable to domestically oriented businesses in general. Therefore, the findings of this study cannot be used to generalize about Norwegian industries or businesses as a whole. The same would apply if a domestically oriented industry, such as the fishing industry, had been chosen as case study. This supports the argument mentioned in Chapter 1: data collected on one case is not suited to make generalizations on other cases, as every case is unique. However, the sector-specific findings may be applicable to industries or businesses sharing the same international characteristics as the shipping industry. In addition, the findings can be helpful in making hypothesis about other industries, or other national governments.

The chapter also explored the government's CSR in light of new institutional theory and CPE literature as presented in Chapter 2, primarily drawing on Hall and Soskice (2011), Matten and Moon (2008), and Gjølborg (2012). First, the study found that CSR can be adopted in order to comply with what important actors see as modern and just. CSR is thus adopted not

only as a financial tool in line with the business case idea, but also as a tool to gain legitimacy from important actors. Further, the link between LMEs and CSR was challenged, as the findings in this study on the shipping industry do not support the argument that CMEs are less prone and likely to foster CSR because of the strong institutional embedding of the economy. It was also suggested that CSR in the shipping industry can be seen as a mirror rather than a substitute of national institutions. This is due to cooperation between state and industry, and the lack of focus on CSR as a means to fill institutional gaps and ease the burden on the welfare state. It was further argued that the lack of focus on national CSR underpins the argument that Norwegian CSR in general is not a substitute for national institutions. The last finding related to the theoretical framework was that CSR in the Norwegian shipping industry is explicit, rather than implicit. This finding does not coincide with those of the scholars in Chapter 2, which expect CMEs to foster implicit, rather than explicit CSR.

Chapter 5: Evaluation of the Research Study and Concluding Remarks

5.1 Introduction

The purpose of this study has been to research and analyze the role of the Norwegian government in promoting corporate social responsibility in the shipping industry. The objective was to increase knowledge about the role of national political institutions in promoting business responsibility. The research topic was chosen due to a lack of CSR research from a political science point of view in general, and on institutional determinants on CSR in particular. Studying the link between corporate behavior and the government as a national institution therefore contribute to the existing literature.

This final chapter will provide a brief outline of the progression of the study, present the research findings, and evaluate the study's contribution to the field. Suggestions for further research will be made, before the conclusion will end the study with some final remarks.

5.2 Progress of the research study

This research study started out with the broad aim of studying CSR in relation to Norwegian authorities. From this starting point, the topic was narrowed. Firstly, by delineating the focus to be on the Norwegian government, as a prominent national institution, and secondly by choosing the Norwegian shipping industry as a case. As this study has repeatedly stressed,

CSR has emerged as a result of, and a response to, economic globalization. The shipping industry was chosen because of its truly global characteristics and long-standing importance for the Norwegian society and economy. The main research question was articulated after researching existing literature on the topic, and finalized to ask *What is the role of the Norwegian government, as a political institution, in promoting CSR in the Norwegian shipping industry?*

The opening chapter introduced CSR a phenomenon resulting from globalization and the negative effects of modern corporations. The Norwegian shipping industry was introduced as leading and complex, and its importance to the Norwegian economy was stressed. It further provided a review of existing literature on central topics relevant for this study, including CSR, the role of institutions, and the Norwegian context. Chapter 1 further articulated the research questions and objectives guiding this study. A qualitative methodology and case study research design was adopted for the purpose of answering the research question, drawing on explorative and explanatory research. Lastly, the limitations of the study were projected, along with an outline of the further chapters.

The second chapter provided this study's theoretical guidance. Gjølborg's (2010) model of possible governmental interpretation of CSR was explained for the later analysis of the Norwegian Government's CSR. Relevant CPE literature and new institutional theory was presented as theories helpful to explain the institutional determinants of CSR, and provided the framework for the second part of Chapter 4, which analyzed the government's role and effort on CSR. The theories were chosen because they allow the study of the interaction between institutions and corporate behavior: new institutional theory described how companies adapt to expectations in their institutional environment, while CPE was helpful for this study's aim to couple a national political institutions with corporate behavior. Views on the relationship between coordinated and liberal economies and CSR were also explored in Chapter 2, along with a conceptual framework distinguishing implicit and explicit CSR. Altogether, the chapter provided the theoretical framework needed for this study to analyze the Norwegian government's effect on CSR in the shipping industry, and contributed to answering the main research question.

Chapter 3 contextualized the research study. First, it provided a historical overview of how CSR evolved into a business concept world-wide. The Norwegian context for CSR was explored, and the particular characteristics of the country, such as the welfare state and strong state ownership, were highlighted. This was followed by a thorough presentation of the government's White Paper on CSR, including the government's ambitions, expectations and recommendations for CSR in the private and public sectors. The chapter further established the context for the shipping industry in Norway, and the evolution of CSR in the industry. Lastly, an overview of sector-specific CSR challenges faced by the shipping industry was provided by looking to CSR challenges found in the joint research project on CSR and shipping carried out by Vilsted (2004). These CSR challenges were the foundation for the first part of the fourth chapter, which evaluated the government's efforts, as found in the White Paper, in light of the CSR challenges highlighted in the report.

Chapter 4 provided a two-folded case study analysis, investigating the efforts of the Norwegian government to promote CSR in the shipping industry. The first part evaluated the government's CSR, as established in the White Paper, in light of each of the sector-specific CSR challenges in the shipping industry. As a result, strengths and limitations of the government's CSR efforts in relation to shipping were identified. The second part analyzed the government's CSR in light of the theoretical framework presented in Chapter 2. Firstly, the government's interpretation of CSR was identified in accordance to Gjølborg's (2010) model from Chapter 2. Secondly, the Norwegian government's CSR was analyzed in light of new institutional theory and comparative political economy, exploring the relationship between the Norwegian government and CSR in the shipping industry.

5.3 Evaluation of the research study

Chapter 3 answered the sub-questions *What are the industry specific CSR challenges faced in the shipping industry?* in order to use these challenges in the analysis in chapter 4. The White Paper was evaluated against each of the CSR challenges in the shipping industry, and revealed that some of the government's focus points address the CSR challenges faced by the industry, such as corruption, security, and issues related to operations in developing countries. It was also discovered that the White Paper falls short in providing incentives for companies to engage in several of the CSR issues they focus on. This applies in particular to financial incentives, which is probably the strongest attractant for businesses to implement CSR. The analysis of the White Paper in combination with the CSR challenges in the

shipping industry, answered the sub-question *How does the Norwegian Government endorse and promote CSR in Norwegian shipping?*

The study discussed the government's interpretation of CSR, finding that it is essentially built on an instrumental dimension in line with the business case, coupled with an international, rather than national, dimension. The government's instrumental interpretation of CSR is thus somewhat incoherent considering the lack of focus on financial incentives in the White Paper. Further, the international focus was found to make the White Paper less applicable to Norwegian businesses in general, but highly relevant for the shipping industry in particular. Therefore, a different CSR interpretation from the government's side would result in a different outcome for this research study. The repeated focus on international organizations as important regulatory bodies was also suggested to possibly shift the regulatory responsibility away from national governments. This finding, along with the reasoning offered by new institutional theory, and the government's own reasons for publishing the White Paper, answer the sub-question *What are the incentives for the government to promote CSR.*

The study further found that the government tends to seek cooperation and consultation with the shipping industry in relevant matters, especially with the NSA, which represents a large part of Norwegian shipping companies. Cooperation with stakeholders was found to represent a strength, and especially important because of the government's leading role in international forums, such as the IMO. This mutual cooperative relationship may constitute a competitive institutional advantage for the shipping industry, in line with the argument of Hall and Soskice (2001).

Scholars presented in Chapter 2 argued that LMEs are more prone to CSR than CMEs, because it functions as a substitute, rather than a mirror of existing national institutions. CSR was therefore argued to fill institutional gaps and support weak welfare states (Matten and Moon, 2008). Chapter 2 also presented the argument that CSR practices in CMEs often takes on a more implicit form while CSR in LMEs are most often explicit. The findings of this study, however, do not coincide with these arguments. This study suggested that the shipping industry is largely involved in, and prone to CSR, despite Norway being a CME. The shipping industry's CSR was also found to resemble a mirror rather than a substitute of

national institutions. This is because CSR in the shipping industry to a minimal degree is aimed at filling institutional gaps in Norway, or ease the burden on the welfare system. The lack of national CSR focus found in the White Paper underpinned this argument. The study also found that the type of CSR applied in Norwegian shipping companies does not fit the description of implicit CSR expected to be prominent in CMEs, quite the contrary, it was found to share more similarities with explicit CSR.

5.4 Recommendations for further research

As previously mentioned, the findings of this study cannot be generalized to account for all Norwegian businesses in general. However, the findings can be used to generate hypothesis about other industries or other governments, to be tested in further studies. The understanding of the government's role in promoting CSR could therefore be further discovered by doing a similar analysis on a domestically oriented sector. Such an analysis could also take the form of a comparative case study to find how the government's impact varies in nationally and internationally oriented industries. Another approach could be to conduct a similar research in a liberal market economy to further build on the theories presented in this study on the relationship between CMEs, LMEs and CSR. Alternatively, comparing the findings of this study to a similar sector-specific CSR analysis in a LME would also be beneficial.

5.5 Conclusion

This study has revealed the areas in which the Norwegian government has experienced both success, as well as some limitations, in its efforts to promote CSR in the Norwegian shipping industry. Large parts of the CSR approach taken by the government in the White Paper is highly relevant for the shipping industry, due to its international nature, however, the very same factor represents a limitation for the White Paper's applicability and relevance for nationally oriented Norwegian businesses.

In sum, this research study has contributed to the understanding of how CSR relates to national governments as political institutions. In broader terms the study has partaken in the discussion on the relationship between the state and market, and how this relationship is organized. Due to a general lack of CSR studies from a political science and social science point of view, the study has contributed to the existing literature dominated by economic-business- and management scholars by viewing CSR in light of national institutions. Focusing on a Nordic empirical case has also balanced and distinguished this study from today's predominantly Anglo-American CSR research.

This study has reached the final conclusion that the Norwegian government, as a political institution, plays an important role in promoting and influencing CSR practices in the Norwegian shipping industry. The finding informs the understanding of the relationship and interaction between national political institutions and corporate behavior, and the institutional determinants of corporate social responsibility.

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