# CRUISE SECTOR CHALLENGES RELATED TO CORPORATE SOCIAL RESPONSIBILITY

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## Abstract

The cruise industry's growth has led to increased levels of competition in the sector. The Cruise Lines International Association, which is the world's largest cruise industry trade association, reports in the beginning of 2014 that their member lines will introduce 24 new ships in 2014 and 2015, representing a total passenger capacity of 37,546. This growth in capacity could be expected to lead to even further increase in demand – not just for passengers but also for highly qualified employees. In this context, companies need to differentiate themselves from other cruise providers and employers. The implementation of a Corporate Social Responsibility (CSR) programme therefore might contribute to achieving a competitive advantage. So far, many studies have looked into the social or environmental dimensions of CSR. The purpose of this paper however is to shed more light on the economic dimension of CSR in relation to the 'passengers' and 'nautical employees' stakeholder groups.

## Keywords

Corporate Social Responsibility, multifaceted interests of consumers, knowledge management, employee satisfaction

## Introduction

According to Milde (2011), past experiences related to the enforcement of International Labour Organisation (ILO)-law have shown that "…previous attempts to persuade ship owners to comply with non-binding international law were not very fertile" (Milde, 2011). Fafaliou et al. (2006) stated that similar observations apply to voluntary actions regarding environment protection or general engagement in social matters, with the exception of a few companies. However, it is assumed that ship owners would be inclined to freely promote sustainable development if they see any benefit in it (Fafaliou et al., 2006). Shipping companies compete internationally and their services are intended to meet the demand for the transportation of cargoes, which means that shipping in this case is conducted primarily on a business-to-business basis. Therefore, many experts see no reason for companies to invest in activities that can improve their image as the provision of low cost services is perceived as being of utmost importance for the survival of these companies (Fafaliou et al., 2006). The cruise industry however faces a totally different – an even more complex – situation. Cruise companies act on a business-to-consumer (b-to-c) basis and therefore the image of a good corporate citizen is essential (Fafaliou et al., 2006). These companies are constantly in the public eye. They have to satisfy the demands of their cruise guests who are becoming more and more aware of various environmental and social issues. An ever increasing number of holidaymakers in general consider it necessary to go on eco-friendly holidays (Forschungsgemeinschaft Urlaub und Reisen e.V., 2013). Already twenty years ago, Poon (1994) mentioned the emergence of a new group of

tourists armed with greater environmental awareness (Poon, 1994). Moreover, the cruise industry, which can be characterised as an oligopoly – a market dominated by a few large firms – companies are facing an "aggressive competition" that highlights the importance for understanding their stakeholders' needs in order to survive (Aggett, 2011 and Wiscombe et al., 2011). Furthermore, the cruise industry's growth has led to increased levels of competition in the market (Huang and Petrick, 2010, Hosany and Witham, 2009 and Park and Petrick, 2009 quoted in Aggett, 2011). The Cruise Lines International Association (CLIA), which is the world's largest cruise industry trade association, reports in the beginning of 2014 that their member lines will launch 24 new vessels in 2014 and 2015, representing a total passenger capacity of 37,546 (Cruise Lines International Association, 2014). This growth in capacity could be expected to further intensify competition, not just for passengers but also for highly qualified employees. Wiscombe et al. (2011) claim that an additional 250,000 employees will be needed by the cruise industry by 2020 and explain that recruiting enough staff to both crew and service positions on board cruise ships will be a challenge (Wiscombe et al., 2011). Not only staff recruitment however represents a challenge. Crew retention remains a crucial issue across the entire maritime sector as a job on board requires spending long periods of time on duty at sea away from home, family and friends (Lukas, 2011).

In this context, companies need to differentiate themselves from other cruise providers and employers. There is already a variety of strategies in use to enhance passengers' perceived value of a cruise by constantly improving attributes such as service quality or customer satisfaction with on board and shore leave experiences as well as strategies to attract employees by improving on board communication tools, as discussed by Lukas (2011) and Petrick and Xiang Li (2006). However, a new approach that consolidates strategies to attract passengers as well as employees under one umbrella is required. The implementation of a Corporate Social Responsibility (CSR) programme might be such an approach and could result in achieving a competitive advantage.

Corporate Social Responsibility programmes have proven to be valuable tools for generating benefits for companies' internal and external environments. Companies engaged in CSR have demonstrated that "ethical codes, humane social policies, corporate citizenship and proactive environmental procedures reduce the corporate risks, boost the creativity and loyalty of the workforce and improve financial performance" (Fafaliou et al., 2006). Moreover, the International Labour Conference has emphasised that CSR – as a business-driven voluntary initiative referring to activities that are considered to exceed compliance with the law – is an important part of sustainable management (Sims and Posthuma, 2009).

Economic, social and environmental sustainability is part of the CSR concept (Kakabadse et al., 2005). Carroll (1979) describes four social responsibility categories: economic responsibilities, legal responsibilities, ethical responsibilities and discretionary responsibilities (Carroll, 1979). While discretionary responsibilities are purely voluntary CSR actions which are left to individual judgment and choice by the company after fulfilling all stakeholder demands (and therefore it appears to be inaccurate to call these expectations responsibilities, but there are strong societal expectations assuming that companies should engage in CSR issues), ethical responsibilities imply that a company should engage above legal obligation and do what is judged ethical by society. The legal responsibilities represent all actions a company has to perform to obey the law. However, according to Carroll (1979) the foremost social responsibility of a company is economic in nature and therefore forms the foundation upon which all other responsibilities rest, suggesting that a company should first and foremost strive for being profitable (Carroll, 1979). On the other hand, if a company does not offer services that society really wants, it will not be able to generate much profit.

So far, many studies have looked into the social or environmental dimensions of CSR. The purpose of this paper however is to shed more light on the economic dimension of CSR in relation to the 'passengers' and 'nautical employees' stakeholder groups. A well-thought and customer-oriented CSR programme, which also considers the importance of attracting and retaining qualified personnel, may help companies to differentiate themselves from their competitors and gain competitive advantage.

**Research Questions and Methodology**

As already mentioned, the cruise industry experiences an ever increasing pressure from competition in the sector. The aim of this paper is to look into those aspects of competitiveness which can be achieved through implementing exactly those CSR programmes and actions the guests and (potential) employees are willing to pursue. To answer the research questions, a literature review and two small-scale surveys have been conducted. Although the response rate to both surveys is relatively low and the results cannot be considered representative of the entire population of both stakeholder groups, the findings of these surveys nonetheless provide some valuable insight into the process of formulating recommendations for specific CSR actions.

Two stakeholder groups have been considered in this study: "passengers" and "nautical employees"

A)      Stakeholder group "passengers"

It can be expected that in the context of taking a holiday provided by a polluting mass tourism business, cruise passengers may not attach the same importance to their holiday and may not even be willing to talk about it. To alleviate these problems, cruise corporations have adopted various CSR activities to respond to their customers' demands (Bremner, 2009 quoted in Inoue and Lee, 2011). From the perspective of a company seeking profit, the benefits of investing into CSR activities are important matters to be considered along with financial performance issues (Inoue and Lee, 2011). According to Inoue and Lee (2011) "if the CSR investment does not enhance a firm's bottom line, such investment may not be considered sustainable in the long run (Inoue and Lee, 2011). That is why it is crucially important to know what types of CSR actions are really important to the cruise guests. To find this out, an international online survey has been conducted. This online survey was carried out between 09 January and 13 February 2014. During this period, 162 responses were obtained. The aim of this survey was to collect information on important CSR aspects in choosing one cruise company over another. Although the sample is relatively small and therefore cannot be regarded as representative of the entire population, the findings of this survey nonetheless provide some valuable insight into the process of formulating recommendations for specific CSR actions.

The following research questions have been addressed in this survey:

- Are cruise guests interested in the CSR activities of cruise companies (and if so, how and where do they get the required information from)?
- Is their choice for a cruise line influenced by any CSR activities?
- What types of CSR activities (related to social, environmental or ecological issues) are most important to cruise guests?

B)      Stakeholder group "nautical employees"

In addition to the challenge of satisfying the multifaceted interests of consumers and society, the cruise industry has to overcome yet another obstacle which is well-known throughout all shipping segments. The ever-more technologically sophisticated ships must be crewed by qualified personnel to ensure safe and smooth operations on board ships and also to satisfy the demands of passengers.

Finding suitable personnel to fill vacancies in the shipping industry has become more difficult in recent years. In order to obtain an indication of the average employment period on board ships and the factors affecting it, an online survey was designed and sent out to current and former seafarers worldwide via international mariners associations in Finland (Finish Ships Officers Union), Bulgaria (Bulgarian Shipmasters' Association), Denmark (Danish Maritime Officers), Belgium (Koninklijk Belgisch Zeemanscollege), France (Association des Capitaines et Officiers de la Marine Marchande, Association Francaise des Capitaines de Navires) and Germany (Verband Deutscher Kapitäne und Schiffsoffiziere).

The following research questions have been addressed by this survey:

- What are the most important reasons for seafarers to apply for a job at sea?
- What could make seafarers stay longer on board vessels instead of leaving earlier for an occupation on shore?

The survey was conducted across Europe between 13 January 2014 and 10 February 2014. The questionnaire was sent to various European seafarers' associations that forwarded it to its members and as a result 123 responses were obtained. Even though this number may seem low, the survey offers employers an insight into which factors/job attributes are important for recruiting seafarers. However, it must be pointed out that this survey is not exclusively limited to the cruise labour market because a seafarer working in the container shipping segment can switch to cruise ships later in his/her career and the other way round, which points to the permeability of the labour market segments in the shipping industry.

**Findings and Discussion of Results**

A)      Stakeholder group "passengers"

The respondents in the 'passengers' stakeholder group were asked the following questions.

*Q1: How important are CSR activities of cruise companies to you?*

There is a clear emphasis on the importance of CSR activities in the cruise sector. Therefore, CSR is an aspect which has to be considered.

*Q2: How strong is your perception of CSR activities of cruise companies?*

The general perception of CSR is rather mediocre to poor.

*Q3: How do you keep informed about CSR activities of cruise companies?*

Approximately one third of the respondents do not inform themselves about CSR activities of cruise companies. The rest of them obtain information from the websites of cruise companies or through the news or the press. Travel agencies or non-governmental organisations seem to be less relevant as sources of information.

*Q4: Which economic aspects are or would be important to you when choosing a cruise company?*

A large number of respondents attach importance to cooperation with responsible suppliers and strong commitment to training and education.

*Q5: Which environmental aspects are or would be important to you when choosing a cruise company?*

The majority of the respondents consider low fuel consumption and low air pollution as important. Far less important is the availability of bio (organic) food on board ships. Therefore, the most important implication for companies would be to invest in fuel-efficient engines and high quality fuel.

*Q6: Which social aspects are or would be important to you when choosing a cruise company?*

Social aspects are quite important to the respondents, the working and safety conditions in particular. Since the image of a company influences the informed choices passengers make, cruise companies need to pay attention to the quality and safety of their services and should make every effort to avoid negative publicity that could mar their image.

The survey results have shown that even though CSR activities are regarded as an important factor influencing passengers' choice of a cruise company, the perception of such activities amongst passengers remains quite poor. Therefore cruise companies could intensify their CSR marketing efforts in order to stand out against their competitors and win new costumers.

The substantial part of the image of a cruise company is influenced by the press and news. That is why the all-day media plays a central role for spreading out positive actions regarding CSR. Negative press in particular can have a bad impact on potential customer decisions. Additionally, websites of cruise companies are an important medium to interact with cruise passengers for promoting positive CSR activities. Because of the increasing importance of the Internet in the provision of information to members of society, cruise companies should highlight their CSR activities on their websites. The fact that less people get informed by travel agencies allows room for improvement. The possibility to attract passengers by means of CSR activities should be considered as an important tool in attracting new customers.

Since most passengers rate CSR aspects more important than the price of the ticket, shipping companies have to take care to meet those needs. Particularly important to the respondents are the environmental aspects of a cruise. The ecological footprint is having an increasingly bigger role for travellers. In the long term cruise companies have to invest in sustainable equipment and promote the development of environmentally friendly operations. In addition to the environmental and social aspects that must be considered, it is important to maintain a good and positive image on media.

To sum it up, the results of the survey among the 'passengers' stakeholder group have shown that the most important issues that should be considered when designing a CSR programme are as follows:

- Contracting only environmentally, economically and socially responsible suppliers
- Showing strong commitment to continuous development through employee training and education
- Showing cost awareness by taking up innovations
- Being active in reducing air pollution (e.g. by implementing new technologies)
- Being active in reducing fuel consumption
- Respecting the culture of people living in the cruise destination countries

All these measures have to be implemented without losing sight of the price of a cruise since many passengers want to go on clean-conscious holidays, but at a reasonable price they can easily afford. Also, passengers do not want to do lots of research about CSR before they book a cruise. This places the demand on the cruise company to provide easy access to their CSR actions via the preferred media - their homepage and press releases in newspapers usually read by their customers. In

recognition of the importance of corporate community engagement, Dulcic and Lukovic (2012) point out that the "organizations that are not transparent or socially aware, and do not have a long-term sustainable development business strategy perish, and are replaced by the companies that know how to communicate with the public" (Dulcic and Lukovic, 2012).

B)      Stakeholder group "nautical employees"

The majority of respondents are over 35 years old. 91 percent of them are male, which is not surprising given the gender distribution in the shipping industry. A substantial share of respondents are also in active employment at sea.

Responses are grouped in the following four categories as shown below.

*Category I: Workplace connectedness*

The survey indicates relatively strong attachment to the profession among seafarers. If an employee feels a strong attachment, the chances of him/her leaving the company and depriving it of all his or her skills and knowledge diminish.

*Category II: Retention time*

The majority of survey participants plan to extend their Nautical and/or Technical Certificate of Competence and will then spend further time at sea before transferring to on-shore operations. However, it should also be highlighted that only a comparatively small proportion are willing to work at sea until retirement. Therefore, ship owners should always be aware of the issue of fluctuations in sea personnel.

*Category III: Decisions related to employer selection*

When choosing an employer, the most important factor for seafarers is good reputation for commitment to seafaring personnel. The duration of holidays, as well as good remuneration, play a considerable role in the employee's selection of an employer. Additional answers that were indicated as important in the decision-making process of selecting an employer were "good equipment and food", "reliability in planning of vacation time", "good communication facilities available on board" and "colleagues on board mostly same nationality as myself (Dutch)".

*Category IV: Extension of seafaring career*

Holiday entitlement and leave planning are important to seafarers when deciding whether to extend their career at sea. An additional open question gave the participants the opportunity to state their reasons for leaving the seafaring profession. Family was quoted as a reason for personnel not wanting to spend too long time working at sea.

Survey results have also confirmed that ship owners must be more aware of the risk of fluctuations in staff numbers. Furthermore, shipping companies must distinguish themselves from other companies and competitors by attracting qualified employees using their positive employer attributes. Survey results have shown that the best way to achieve this is through attractive offers relating to holiday entitlement and reliable leave planning. This will not only attract new personnel to the company, but staff may also choose to extend their stay on board based on these offers.

Overall, the results of the survey among the 'nautical employees' stakeholder group have shown that the most important issues that should be considered when designing a CSR programme are different from what customers want. Of course, seafarers pay attention to environmental

protection, but there are other issues which are more important to them. The important issues which might help in attracting and retaining employees in the seafaring profession are as follows:

- Good remuneration
- Good balance between working on board and holidays at home (longer holiday periods)
- Human Resources department has a good reputation for its commitment to the well-being of the seafaring personnel
- Showing a strong commitment to continuous personal and professional development through education and training
- Human Resources department considers on board personnel's requests when making the crew scheduling
- Employer shows strong commitment to the crew's needs on board
- Providing communication facilities on board such as Internet access which enables the crew to keep in touch with family and friends at home

Thai et al. (2013) claim that companies with high CSR performance ratings have a better reputation and are perceived as more attractive as employers compared to those with poor ratings (Thai et al., 2013). High CSR performance based on the right issues (that employees would really appreciate), would therefore contribute to gaining a specific competitive advantage when it comes to the 'war for talents'.

## Conclusions

Cruise line companies must reinforce their efforts to meet the needs of their two most important stakeholder groups - customers and employees. This paper has shown that CSR activities of a cruise line company are becoming increasingly important to the end customer. A well-thought and customer-orientated CSR programme can therefore be employed to help companies differentiate themselves from their competitors and gain competitive advantage. However, any such programme should be developed from the onset with sustainability in mind. This move to sustainability presents major challenges to cruise line companies, especially in the area of personnel management. Due to a growing cruise market and the relatively high turnover rate of the sea personnel, recruitment is increasingly becoming a focal point. To ensure a long-term success in the growing cruise market, companies should constantly be looking for innovative ways of attracting and retaining qualified personnel in order to maintain optimal staffing levels. This paper has shown that CSR has an important role to play in this process as well.

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