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Strategies in "Shipping Business Management"

Alexandros M. Goulielmos[1,2]

[1]Maritime Division, Business College of Athens, Athens, Greece
[2]Department of Maritime Studies, University of Piraeus, Piraeus, Greece
Email: agoulielmos@bca.edu.gr, ag@unipi.gr, am.goulielmos@hotmail.com

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Abstract

The paper deals with the *tactics* and *strategies* applied by global shipping companies. During current depression in the dry cargo sector, shipowners adopted two tactics: 1) to "*survive*" and 2) "*look after opportunities*". Shipowners are mostly *reactive-managers* and apply Porter's strategy of "cost leadership" mainly through economies of scale, cutting-down fleet's average age as well total cost. This has been applied in the 1986 depression and in 2016 one. A short history of "shipping business management" showed a heavy reliance of managers *on* larger ships (par excellence up to 1973; and till today in a lesser degree). This needed 3 actions: 1) *planning*, 2) *improved decision-making* and 3) *knowledge of… finance.* **Originally** (1945s) there were no "*shipping business management*" theory and/or "*shipping business strategy*". Planning, however, was the first urgent requirement, being, however, small part of any strategy... After all, even strategy—as we know it today—is a myth, as it *does not guarantee* efficiency, *unless a* "*business model*" *is also designed and implemented…* The poverty of research and papers about shipping strategic issues, given also that nowadays *all management functions* are *strategic*, is worth noting. It is lately (2013) that "maritime" economists showed an interest in strategies. This, we believe, is due to the fact that many maritime companies are now "listed" and "data" are now freely available. Responsible also we may hold the traditional idea that managers are born, not made; there were no doubt and political reasons as the Members of the Parliament are thought as the privileged persons to *take decision*s for the rest people they represent by voting various laws. This had as a result for management courses to be introduced with a great delay, while the books of Fayol and Taylor showed a different reality since 1911. Moreover, the need of shipowners for someone-*like them* to take over their management functions—part or all—and for him/her to find crews, and especially officers—in proper numbers and quality, and training—and look also after the technical side of their ships, came true. The "third party ship managers", since 1957, (a questionnaire has been used, the results of which are presented here), and par excellence after the establishment of the parallel registries in Europe since 1986-1987, they emerged as world "shipowners-managers" there to be hired for a fee. To hire a shipping firm as an off-house manager introduced also a new strategy for first-owners. The need of shipowners to find funds for the larger and more expensive ships mentioned above, led them to "stock exchanges". And this led into the creation of two separate classes of shipping companies: 1) those that remain outside stock exchanges, which we called them "*traditional*" and 2) the "*modern*"—*those inside*. Certain economists argued that there is an *antagonism* between the two classes and that the strategies of the second are unquestionably superior and more profitable than first's… Is this true or a myth? We cleared this up. There is a further fundamental strategy/challenge for shipping managers: "spot or time charter?" This issue has been worked-out here from a number of interviews. Lastly, "Paragon"—a listed personal private Greek shipping company—has arbitrarily been chosen as a case-study to follow-out actual shipping strategies… After all we do not blame shipowners for having a limited number of strategies, (excluding liners), as "Academia left them helpless"; despite the GARCH(ian), neural networks and chaotic models, no forecasting at firm's level is used or trusted so far. Ship-owners feel that a shipping crisis is coming, but they do not know when exactly and for how long…

Keywords

Shipping Business Strategies, Tactics, Since 2010, History of Shipping Management, 3rd-Party Ship Management, Spot or Time Charter, "Paragon Co" as a Case Study

1. Introduction

"Strategy" is today the most *popular* term in management. Even in a very *volatile* industry like shipping, it appears more frequently, especially after 2004 (Niamie, 2014 [1])[1]. No doubt, it is *prestigious* for a shipping manager to design a strategy… to be like a General in businesses. The depression—which came now in the dry cargo sector—"forced", however, companies to adopt mainly *tactics due to its urgent character*. Now, what is required is an *increased degree of flexibility*[2] (Lublin and Mattioli, (2010) [3]). Moreover, companies have learned-out that "strategic planning" and "performance" have a *positive* correlation (Song *et al.*, (2011) [4])…

In addition, in shipping, increased difficulties were always encountered to design and implement a strategy, because maritime industry is, apart from volatile, and *cyclical,* and this comes mainly, but not exclusively, from the cyclical character of "World GDP" (**Figure 1**).

As shown, the cyclical character of global demand for shipping services—

[1]Niamie, (2014 [1]), argued that most of the *strategic papers* (for liners) appeared between 2005 and 2009, and in a lesser degree, between 2010 and 2014. He failed, however, to take into account the papers published in "Maritime Economics and Logistics"; also he did not consult 4 relevant surveys: 1) Talley W K, (2013 [2]), and 2) Wilson W W; 3) Notteboom *et al.*; and 4) Lau *et al.*, in 2013, all published in Maritime Policy & Management.

[2]Robbins and Coulter (2016) [5].

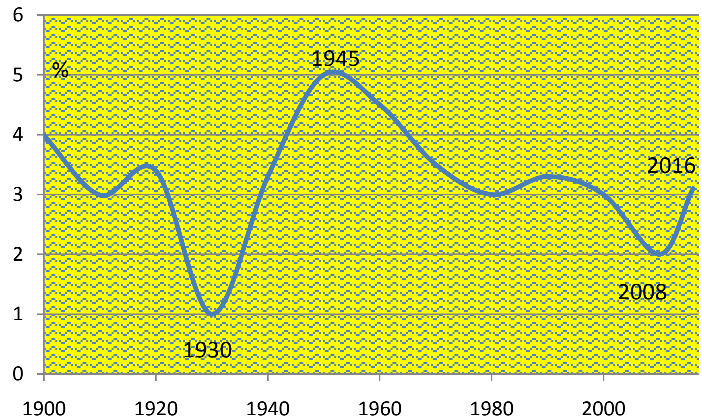

Figure 1. World GDP growth in the last 116 years. Sources: Data mainly from Eurostat and IMF.

which is determined by GDP, and then by the resulting seaborne trade—is clear the last 116 years. As shipping managers declare, they are unable to forecast shipping demand, and especially its turning points, and as a result construct plans that are called directional (Robbins and Coulter, 2016 [5]). All managers know that dynamic environments are more the norm than the exception nowadays. Greek shipping managers acting in a traditional way—from father to son—they apply a standard strategy depression after depression ignoring cycles but exploiting them: they buy at rock bottom prices larger and bigger ships and sell thereafter smaller and older ones.

The apparent cause of the above shown fast growth of world GDP… was first the total destruction caused by the 2nd World War[3] and by the Great Depression! Since 1945, the growth rate of the world GDP regressed down round the 3% mark. Worth noting is that "World Seaborne Trade" (not shown), as a rule, grows faster than GDP. Moreover, maritime economists quite rightly pay attention to the growth rate of certain large economies, which are also located at distant places (China e.g. had 11.2% max. growth in 2007 and India 9.7%). These countries manifested par excellence "the *distance* and the *size"* effects for shipping industry…that will follow us in centuries to come.

Figure 2 presents the entire picture of the dry cargo market since 1741 and till 2015 or for 274 years.

Figure 2, presents 265 years of the index for dry cargo shipping due to Stopford (2009, [6]), which the author has updated for 2008-2015 (helped by Clarkson's staff with thanks). Figure 2 indicates 2 **"extra-long" waves**, and a *number of frequent short cycles*. One long wave started in 1741 and ended in 1914 (Goulielmos, 2017, in this journal, [7]). This means it lasted 173 years.

Kondratieff did not know about this very long wave, lasting more than 3 times his long wave (of an average of 54 years). The peak was in 1813 (72 years; at the 303 units of the index) and the low in 1908 (94 years; at the 48 units of the index). This conclusion is reached by the definition of a cyclical long wave starting

[3]It is remarkable to note that **wars** helped shipping as they have created exceptional additional needs during their course and after their end…

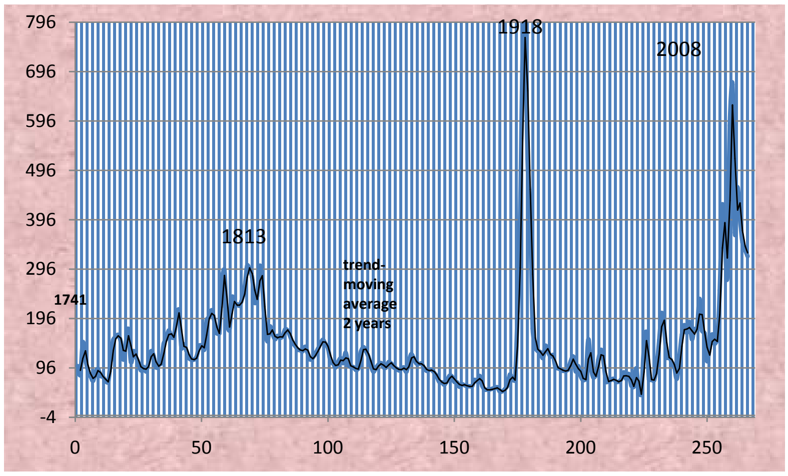

Figure 2. The "Maritime economics Freight" Index 1741-2015. Source: Stopford (2009; [6]) till 2007; then Clarkson's staff till 2015 with thanks.

from 100 units of the index, reaching 303 (peak) and falling to 48 units (trough).

The second wave started in 1915 and ended in 2008. This means it lasted 93 years. In this calculation we skipped 8 years for which figures are missed due to 2nd World War (1939-1946). This wave has been *interrupted by the war* and for this reason is shorter than the previous one. The current short term cycle started in 2009 (decadence). The "Great War" also influenced the dry cargo market, given the great peak of index in 1918, which has resulted from the *destruction of the world fleet due to Great War*.

First, we believe that a *strategy* is broader than *planning*[4]. Planning, no doubt, is important, because it supports controlling (Figure 3). In addition, controlling in shipping is the superior function—the *number one*—of management due to the particular conditions in shipping industry, as management is done by distance.

Secondly, the dominant paradigm is given by Porter in 1980 [8]. Porter led to the strategies of *cost leadership,* and *differentiation*, which were intensively used by *liner shipping* (Niamie, 2014, [1]). Business world, since 1980, *has however*, ***drastically changed*** through **globalization** and requires nowadays a higher *velocity in decision-making*. This faster time in decision-making made possible by the "computer/communication" advances; shipping became more complex, unstable and dynamic, changing rapidly over time.

The principles of the **nonlinear management**, as being dynamic, had to be applied. Moreover, strategies based on managing prices are invalid in *bulk shipping,* as the freight rate is determined by demand, supply *and time only, and is* ***given*** *for the individual shipping company* (sign of pure competition).

As shown, shipping companies plan how to carry-out their businesses, how to compete their competitors successfully, and how to attract (and satisfy) charterers (customers), so that to… m*ake money* (Robbins and Coulter, 2016 [5] in

[4]Mr Reksten (1971) is a Norwegian ship-owner, who interviewed by Prof. Svendsen about "shipping planning and forecasting". Mr Reksten started up his company in 1929—at the start of the Great Depression… He faced difficulties in planning, with abortive plans, etc. as he claimed.

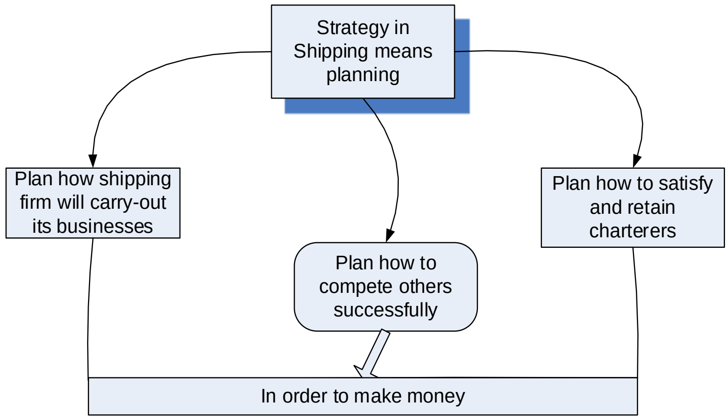

Figure 3. Is planning in "shipping business management" enough for strategy? Source: inspired from Robbins and Coulter (2016; [5]).

another context). A tactic—which is almost neglected—is also applicable during depressions, which is to "**minimize**[5] **losses**". Theory, however, tells us, that in order to *make money in business*, a "*shipping*" *business model* has to be applied (Margretta, 2002 [9], in another context)[6]…

Goss (1987; [10]) wrote that we have 3 ways to make money in shipping: 1) buy cheap, sell dear; 2) do better what others do; 3) implement technical advances with an economic target[7]. The first depends on finance; moreover, the value of the ship must rise faster than the rate of interest. For the second, a new ship-design is required; and: cost-saving techniques; a proper combination of short and long term charters; a future market estimation; minimum crew; right time between dry-dockings, and a more efficient propeller[8] design. For the third, economies of scale; minimum port time; a long term chartering contract "a la Greek", is required. Then, learn to take risks. Goss (1987, [10])—who passed away this year—gave us a job description of the shipping manager.

Anonymous (2006, [13]) argued that "asset-playing", *("buy or order ships cheaply, and sell them dearly")*, was *the only way* to "make money" in shipping[9] between 1980 and 2000. But things changed[10] in the time of the "unbelievable high freight rates" (2003-2008). Moreover, since 2000 one notices also an increase in the number of public-listed ship-owners, especially from "dry and liq-

[5]Resort to: lay-up, slow steaming, cancelling unwanted ship orders, re-negotiating loans and terminate adverse charter parties, sell vessels etc.

[6]The literature on "business models" is expanding fast (Baden-Fuller and Morgan, 2010 [11]). Companies who applied such models are: "Southwest Airlines"; "Netflix"; "eBay"; "Amazon com" and "Starbucks" (University of Tennessee, 2014 [12]). *The focus is whether charterers value company's services, and whether this brings-in money into a* (*shipping*) *company*…

[7]Giving emphasis on *cost control*, a manager may lose sight to how he/she can increase revenue, during an intense demand. The revenue side of shipping management is *more exciting* and *quite inventive*. *This second strategy can be titled*: "*Maximize ship's time in hire*".

[8]Companies fitted new main engines, arranged for ship's bottom cleaning and lengthening vessel by adding a section in the middle, and "cut"-out propellers to a more efficient design. There is at least one book now on "ship performance", which managers may consult.

[9]In the "Genmar" case plenty of single-hulled tankers bought and sold profitably. Also, "Stelios Hadjiioannou" bought over by "Overseas Shipholding Group" (listed in 2005).

[10]This implies that ship-owners prefer the more profitable activities.

uid cargo sectors”[11].

The CEO of “Overseas Shipholding Group” (in 2006) argued that in order for one to make money in shipping, he/she has to run: safe-secure-reliable ships-and invest every year so that to do things better: there is, out there, a *race to quality*. He added that shipping, as time went-by, became more professional, and more demanding. It needs: scale-systems-well-trained-staff and continuous-improvements. This will favor the public and transparent companies. But, “*good private companies will be able to compete, as they always did*”…*So, there is always a place for the fittest*[12], *no matter public or private, listed or non-listed*...

Maritime companies (*i.e.* those in shipping, ports and shipbuilding) have, however, to *check whether* their charterers *value*[13] their services. Moreover, safety and security have to be delivered, at a certain acceptable level, though “quality” is not paid by charterers…

We saw the beginning of a shipping depression in dry cargoes (started as a recession in 2010-2011, and turned into a depression by 2016), resembling the 1981-1987 depression. Daily Freight rates of $3500 prevailed in early 2016. This paper revealed that shipping companies used only *tactics*[14]. It would be more necessary, surely, to have strategies for shipping companies titled like: “not to be caught by surprise” or “be prepared for turbulence”!

Another obstacle, which makes this work on shipping strategies more difficult, is the fact that certain previous research on “shipping strategies” does not exist. This may be due to either lack of data (concerning non-listed shipping companies) or lack of insight about companies’ policies/strategies. Niamie (2014 [1]) confirmed this. We can say that hopeful signs, however, came from research published recently about “maritime logistics companies” (Cariou *et al.*, 2015 [15]).

2. Aim and Structure of Paper

The objective of this paper is to investigate[15] the strategies and tactics adopted by shipping companies in the dry cargo sector, especially since 2010. The paper is organized as follows: next is a literature review; this is followed by a brief history of “shipping business management”; then, the institution of “third-party-ship-managers”—in theory and practice—is presented, using a questionnaire. Next, strategies and tactics in shipping businesses follow, in two separate sections: 1) “shipping tactics & strategies, 2010-2016” and 2) “shipping business: further strategic issues”, including interviews with ship-owners and charterers on “chartering strategy”. Finally, we conclude.

[11]Mrs A Frangou raised $180 m to buy “Navios”. By 2000 only “Anangel American Shipholding” (tankers) was listed. In mid-2006, 17 dry cargo companies were listed. In 2006 also about 25 Greek shipping companies listed in various stock exchanges, except in Athens one, which admitted 5 earlier.

[12]Moundreas G & Co (2016 [14]).

[13]This is one target in business models.

[14]*Tactics are distinguished from strategies, being: short term, flexible, on specific market conditions; using resources for the achievement of certain sub-goals, and within company’s mission.*

[15]Companies’ internet sites.

3. Literature Review

"Strategic management" deals with *competition* and *growth* (Priesmeyer, 1992 [16]). Strategy *determines* company's *basic long run goals*, adopts *actions,* and allocates *resources* (Chandler, 1962 [17]). Strategy is a pattern of objectives, major policies, and plans to achieve… (Andrews, 1971 [18]). Strategy *determines* the framework of business, and provides guidelines for coordination, cope with, and influence… a *changing environment* (Itami, 1971 [19]). Strategy deals with long term goals/the major policies *determining* company's success or failure; it has to be consistent; once set, should not be reversed; strategy shapes company's competitiveness; and creates a collective understanding of *how* company is going to *be successful* in a competitive environment (Besanko[16] *et al.*, 2013, p. 1, [20]).

The 43 companies with a long term superior performance in profits and growth had 3 common characteristics: closeness to customers, stickiness to core businesses and bias for action (Peters and Waterman, 1982, [21]). Firms in the *new* economy focus on *internet*, *technology* and *communications*—run by market leaders—skilled in segmenting markets, develop *new* products and services, advertise intensively and outsource all but core activities. Moreover, they were these too close to customers (Wiersema, 2001 [22]).

Eleven companies, entering a 15-year period of great performance, led by managers who "*shunned the spotlight*, *worked for the company*, *placed the right people to right place*, *used technology to support strategies and confronted with the brutal facts*" (Collins, 2001, [23]).

Summarizing this part, it is clear that a strategy concerns a rather longer horizon planning, and this makes it more difficult. Copying Keynes, we may say that strategy means "plans for not to be dead in the long run"… No writer, however, forgets to mention competitors and business environment. Most writers stress *the care about those that buy* services/products as this was not so clear in the past and emanates from the existence of many competitors. The customer or the charterer is the king in contemporary times, because the "technical pride" may be a property of many competitors. As the world has entered, however, into the environment of computers and novel telecommunications etc., no firm can be left behind in this race, as here may be found many competitive advantages…

"Manning, maintaining, supplying, insuring, and ensuring ships—to be available to their operators for as long as possible—is what ship-managers do"; this, since 1950, has changed as the tasks of people has also changed; tradition cast aside by certain economic pressures[17] (Downard, 1984 [24]).

Shipping companies are in a closed industry; most executives are recruited and trained within[18] (Lorange[19], [25]). To pursue "strategic and corporate plan-

[16]There will be found most of the citations mentioned above.

[17]He was writing in the middle of the 1981-1987 shipping depression.

[18]Today, young Greek "ship-owners-to-be" are trained by their fathers, and by maritime schools. Young "ship-owners-to-be" learn about money. Kulukundis M wrote that traditional Greeks knew only how to operate ships, but ignored finance. This surely excludes Onassis.

[19]He is an ex-shipowner (since 2007); retired from academia in 2008. He dealt mainly with strategic management and planning (Lorange, 2009, [25]).

ning" is the most important commercial decision, involving the whole company; but *few large shipping* companies do it (Stopford, 2009, [6]). e.g. from 840 studies, only 3.5% concerned with "ports' strategic management" [2000 & 2009; ~94%)] (Woo *et al.*, 2011 [26]).

Strategy means choice, and choice means to create a sustainable competitive advantage (Lorange and Fjeldstad (2012) [27]). The number of times that terms like "strategy" and "strategic" explicitly mentioned in port reports (2000-2011), *increased by* 40 *times*—especially *after* 2008 (14 which appeared since 2001 were on "port strategy") (Van der Lugt *et al.*, 2013 [28]); they concluded that a strong analytical base supporting the significance of strategic management for *port authorities* is, however, *still missing in* 2013.

Niamie (2014; [1]) found 6 strategies in liner shipping from 41 studies: *differentiation* (1997-2005; 10%); *diversification* (1997-2013; 17%); *concentration* (2005-2008; 7%); *alliances* (1997-2013; **34.5**%); *specialization* (2002-2011; **19.5**%) and *cost-leadership* (1997-2011; 12%). The dates show when a relevant strategy started/stopped and what importance it had gained by researchers.

The connection now between "corporate strategy"[20] and "profitability" (2008-2011), over 144 publicly listed maritime[21] companies, from 44 countries[22], showed that *insights* into contemporary issues in the strategies of "maritime logistics firms", are *limited*, and the relevant topics received *little attention* from Academia (Parola *et al.*, 2015 [29])…

As shown "strategic and shipping management" has been neglected by Academia for a rather long time…as shown by this literature review. No doubt, the end-2008 depression and the early-2016 one, and the rising number of listed maritime companies, boosted research about strategies, as data and information became at last available.

4. A Short History of Strategic "Shipping Business Management"

"Shipping management" till 1973 has indeed received little attention; we noticed that *management functions* in shipping in 1973 were almost unnoticed at the time of the writings of Lorange and Norman (1973 [30]). But also 30 years later, (Shipping) management and organizational research and writing, remained limited as argued by Lorange and Fjeldstad (2010 [31]). The poor development of shipping management was due to the fact that its broader discipline, "Management", was too young[23] in 1970s. *Shipping companies, however, needed urgently planning, as mentioned.* Moreover, there was also the belief that leaders/managers are born-as also mentioned. It was Drucker who disputed this, and argued that

[20] *It deals with growth, focuses on core activities, on vertical integration, and on diversifications: related, unrelated and international.*

[21] These have a primary interest in either shipping and/or in ports.

[22] Greece, China/Hong Kong, Japan, India.

[23] The first publication on… "Scientific Management" appeared in 1911, written by Taylor (USA). Five years later Fayol published his book in France on… "General Management". Both writers were industrial managers. Weber in about 1945 published his book too.

"management is roles to be learned and performed".

Reality—once more—*forced* Academia to respond to industry's requirements also for a *better* "*decision-making*"; investment decisions in 1970s became very serious, as ships became larger and dearer (due to economies of scale). This trend continues till today; worth noting is that, in the 1980s, a loan of $10 m was a "fair medium-sized loan", and by 2007 this became $100 m…

The period (up to 1973) is one of exceptional economies of scale[24], as companies sought for "*lower long run average cost*", faster ships—more powerful main engines[25]—and lesser port time—through stronger gears. Shipping also *specialized over speed, size*, *as it left behind* "*Liberties*" *and the* 10,000 *dwt small sizes and passed into the* 60,000 *dwt bulk carriers*… These developments were stronger in liquid cargoes, where oil was in 1973 cheap and abundant, and is this period, which has created the ULCCs and the VLCCs—the very and ultra large crude (oil) carriers[26].

Older and smaller ships led to scrapping; technological progress made them obsolete: an outcome of the *contribution* of shipbuilding and of shipping equipment manufacturers[27] to shipping. As the size of ships increased, the "freedom of entry" reduced. Individual banks resorted to syndication to cover higher finance amounts required (and to spread risks). Maritime companies resorted to stock exchanges the last 12 years or so for abundant and cheap finance.

Another requirement was the knowledge of *shipping finance, as mentioned*. Finance[28] in shipping is the necessary, but not the *sufficient*, condition for success. Finance became more imperative—as the size of ships increased—and was also an important decision parameter. It established itself permanently in shipping agendas and maritime conferences since then. In 1973 most shipping companies lacked a finance division and/or an economic/finance department[29]!

New practices have introduced: "consortia finance", "total fleet finance" and "bareboat chartering". The "Bretton Woods" agreement, soon after 1971, caused exchange rates to float, and thus *currency risks emerged*. As a result the need for "*risk protection tools*" appeared, like the "shipping derivatives[30]" (hedging). In general, risks by now are everywhere in maritime economy—some insurable and some not. It is another matter that risk has been wrongly defined as equal to the "standard deviation" (Goulielmos-Psifia, 2011 [32]).

[24]"Economies" appeared like economies "of density" (Besanko *et al*., 2013 [20]). Worth noting all "economies" are cost-connected. "Economies of speed", however, meaning doing business faster over a fixed period, with *scale unchanged,* are related to revenue… for a change.

[25]Also, new engines were smaller in volume, economizing on space and allowing for more cargo. The more expensive oil led to more economic slow-running main engines and perhaps using also cheaper and heavier fuels. Air pollution and climatic change became another issues later.

[26]Dry cargo ships achieved the same miracle by the 400,000 dwt vale type ships (Goulielmos, 2017, [7], this journal).

[27]Also "fuel-saving main engines" (fewer rounds per minute) were constructed when maritime fuel became very expensive, covering almost 1/3 of operating cost in 1981-1987.

[28]American banks used to finance 2nd hand ships on prospective income (on charter party). UK banks used to finance differently (on mortgage).

[29]Today top-managers do company's contacts with banks personally for confidential reasons.

[30]"Teekay tankers" lost about $96 m in 2011 from using derivatives.

Moreover, much progress occurred in telecommunications; the planned maintenance introduced; the "management by distance" spread its dominance by following up more closely the actions of the vessel by people in the shore office: "the Angels of Charlie" for the ship. "Management by distance" called for a closer controlling of Captain/ship by "shore office", facilitated by fast and cheap telecommunications.

The study of shipping management indicates, however, quite clear, that the majority of ship-owners is *reactive*. An improvement was "management by walking around", implementing *concurrent* controlling from shore-offices. Shipping became more international, and as a result, issues like "flags of convenience", "flag discrimination", "financial subsidies", "cargo sharing" and other practices, appeared, challenging once more the "unsuspected" shipping manager. On top of the above[31], a new breed of "professional managers" emerged. It is true that economic theory suggests outsourcing, based, however, on a lower cost (Goulielmos *et al.*, 2011 [33]) of the outsider.

- Distinction of shipping companies

Shipping companies can be distinguished according to their style of ownership and management (**Table 1**). Worth noting are the "Greek ship-management style", as a "way of life", and the coincidence of ownership and management at the same person.

5. Third-Party Ship Managers

The "3rd party ship managers" provide the possibility, to other ship-owners, to appoint the former, under a specific global contract, to carry-out, part or all, of owners' management functions. This institution, established in round/about 1957, it was known also in 1973 (Lorange and Norman, 1973 [30]). It was evolving fast since then, and allegedly created an antagonism between "family-type"-managers and "3rd party ship-managers".

The separation of management from ownership it goes back to 1930s. In shipping[32], this separation occurred in the 1950s (Goulielmos *et al.*, 2011 [33]). Spruyt (1994; [34]) referred to it as the "contracted and professional supply of all on-board services, together with their shore supervision, by a management company, usually separate from vessel's ownership".

The "3rd party management" is presented here through a questionnaire, which my MSc student B Pallari sent/delivered in end-2010, and it covers more companies than the ones mentioned in our first joint paper (Goulielmos *et al.*, 2011 [33]). The "3rd party management" grew between 1997 and 2010. In 1997, 20 main managers managed from 1649 to 2302 ships (Willingale, 1998, [35]). Each manager managed 196 ships, on average, and a total of 1959 ships there is for the 10 main managers. Crewing is one of the dominant functions, where "Marlow" manages 900 ships, of which 98% for crewing…

[31]Not an exhaustive account.

[32]The "3rd party managers" appeared in 1957. At that time "Denholms" was connected with "Clarkson", and as a result "Erling Naess" undertook the ship management of "Denholms" ships (ISBN 0907383289/1991).

Table 1. Styles of ownership and management in shipping.

OWNERSHIP STYLE	MANAGEMENT STYLE
One ship belongs to one (owning) company. The owner may be a person or family. All owning companies deposit their shares with the mother-holding company, belonging to family. In every ship-owning company may exist majority and minority share-holders. Shares are anonymous to bearer. Owning companies are formed mainly under shipping laws of countries like Malta, Cyprus, Liberia, Panama, Greece and others. Shareholders look after profits. Best archetype: Greek Shipping.	Management is done by a separate company established by the owners of the ships. Ownership is the "passport" to management. Ship Management (in Greece) is a *way of life*. A separate company acts as a fleet banker. The management know-how is of secondary importance to manage a shipping company. Management and ownership coincide to the same person. There may be established and other companies for chartering, travel, ship repairing, shipbuilding etc. Best archetype: Greek shipping.
Public companies are owned by wide public and usually are listed; their shareholders look after dividends.	Management is carried out by a board of directors and by a professional manager. Management is separate from ownership.
Owners retain their ownership, but refrain wholly—or partly—from *managing* their own ships.	Management is carried out by "3rd-party-ship-managers" on a fee under "Shipman 1998" contract. These companies may be personal, private and/or listed.

In 2005, 8% new owners attracted 7% in 2006 and 9% in 2009. V-ships[33] attracted 16% and 25% respectively. All managers expect increases since 2010 between 10% and 15% per year of new customers, or 40 new owners every year. The majority of managers believe that existing demand is adequate. All managers believe that the future of the "3rd party management" is bright.

Ten "3rd party Managers" manage ships belonging mainly to tankers (69%), (Tankers 61% & clean products 8%), of 27.5 m dwt (in 2010). Bulk carriers: 8% (3.2 m dwt); containerships: 10% (3.97 m dwt); gas carriers (LNG, LPG): 6% (2.33 m dwt); other types: 8% (3.13 m dwt). Total 40 m dwt.

The "3rd party managers" are indeed large shipping companies of relatively many (small) ships. The ship size was on average of 20,400 dwt (2010). For comparison, Greek owners of the largest 50 ship-owning companies managed ships of an average size of 82,000 dwt (2009).

The size of the individual "3rd party managers": "Columbia" had a 20% share or 7.9 m dwt, followed by OSM ("Arendal of Norway") of 19% and 7.6 m dwt; "V-ships" with 17% and 6.96 m dwt and ITM, 17% and 6.7 m dwt. The remaining 6 companies managed 11 m dwt (27%). "Marlow" managed 900 ships and had a 46% share; "Columbia" 327 ships and 17%; "Bernhard Schutle" 171 ships and 9%. Worth noting is that the number of ships *owned* by the "3rd party managers" is not revealed...

For head office location, we see a relative steadiness (1997[34]-2010); head offices are in Cyprus, UK, Norway, Singapore, Dubai (appeared after 1997) and Malaysia. For the choice of flags, of the 944 ships, 4 flags are preferred (for reasons of taxation): Antigua & Barbuda 39%; Liberia 14%; Marshall Islands 12% and

[33]The "Vlasov group" owns 40%, "Senior" management 40% and "GE Capital" 20%. Monaco based.

[34]Geneva, Hong Kong, Melbourne, Bermuda, Kuala Lumpur, Isle of man, Limassol, Glasgow, New Jersey, Singapore and Monaco.

Cyprus 9% (despite Turkey's embargo) (=74%). The owners come mainly from Germany 21%; Norway 21%; UK, Greece, USA and Japan (due to lower taxation).

The most interesting question is why owners appoint "3rd party managers"? The answer is mainly for *technical* and *crew management*, covering 69% and 67% of cases respectively.

McConville (2002; [36]) by the way underlined the steady decline in the number of seafarers coming from *developed* countries. In 5 years (1995-2000), the 4 main developed countries (Japan, Greece, Italy and Russia) lost away about 20,000 posts. Crews from *developing* countries and from *economies in transition* filled-up this gap immediately. Worth noting is that during the 1981/1987 shipping depression, "traditional maritime countries", mainly in EU, allowed[35] on board their ships foreign crews by establishing massively, for the first time, parallel registries[36]. "If there is an acute need even Gods are convinced" said ancient Greeks.

The recruitment and training of this foreign labor, cleverly, were undertaken by "3rd party managers". This indeed is one of their strong competitive advantages. They took this function seriously by creating "training centers/crew offices" and "schools" at key-seafarers' centers. One headache of many ship-owners, which was the "adequate supply of 'qualitative' officers and ratings", undertaken by "3rd party ship managers" after 1984 or so… The above is surely an old tested good recipe: "anticipate and provide what customers will need".

We may go one step further and say that "3rd party managers" applied "*economies of scope*" as well after all, as "crewing" was their *own problem too*. So, with "one stone they killed two birds"…

Core functions that owners do not outsource by majority are: Insurance 75%; Chartering 75%; Post fixture 71% and to a lesser degree accounting: 35%. So, to outsource management functions by owners is not only how much to pay, but also to focus on what is more important. Some owners, however, do that as they do not know how to do it… and those who do know how to do it they hire it to the former, gaining also from the plethora of ships that this means—economies of scale from the size of the company and volume discounts involved.

- How 17 shipping companies faced 2016 recession?

Now, the majority of the 17 major shipping companies, of which we visited their internet sites, and studied their financial reports, adopted 4 tactics to face the 2011-2016 recession/depression: paid no dividends; sold vessels; adopted a *more profitable* chartering strategy, and restructured loans.

Table 2 summarizes the picture of 7 of them (in the dry cargo sector).

[35]Greece allowed foreign labor on board national flagged ships decades ago at various increasing %s, but shipping policy committed the mistake to demand that foreign labor will be paid at Greek wages, up to 1985... when the socialist government of PASOK terminated this. But the socialists committed another mistake by demanding that crews will stay on board for a specific time…of 6 - 7 months.

[36]Certain parallel registries were clever enough not only to allow foreign labor on board, but also to retain "safety standards" in the parallel as those in the national flag (e.g. Norway's) to remove suspicions that this was an effort to deteriorate safety.

Table 2. The financial picture of 7 dry cargo shipping companies, 2010-2011.

Company's name	Gain or (loss) in 2010 and 2011 (2nd quarter)	Tactics	Strategies
"Star Bulk carriers"	\$6 m and \$1.7 m	Resort to time charters	Fleet expansion (buying 4 Capes)
"Top ships"	(\$103.5) in 2011 (excluding impairment charges)	____	____
"Eagle bulk shipping"	\$11 m in 2010; (\$1.4) in 2011	______	_____
"Diana shipping"	\$33.9 m in 2010; \$27.7 m in 2011	Relied on past time charters	_____
"CMB-Belgium/Bocimar"	€42.7 m in 2010; €32.4 m in 2011 (half year)	Rely on past time charters	_____
"TBS Int."-bulk carriers/multi-purposes	\$9.7 m in 2010; \$14.4 m in 2011	Raise funds to repay loans	____
Paragon	Revenue \$169 m 2008; \$161 m 2009; \$9.1 m net income 1st Q 2010 (−52%); operating income[37] \$94 m in 2008; \$69 m net income in 2008; \$79 m in 2009 \$65 m net profit in 2009; the TCE was \$29,882/d in 2009 and \$37,179/d 2008 (−20%). (\$16.8 m) in 2011.	See detailed analysis below	See detailed analysis below.

Source: companies internet sites and reports.

As shown in Table 2 above, one company adopted only tactics.

- Spot or time charter?

From companies' reports, we saw that they have stayed *longer* time[38] in the spot market; however, during the 2016 depression they have regretted it and wanted to be in the time charter market; also, they considered themselves lucky for whatever past time they stayed in "time charter market"… What does this mean? This means lack of foresight.

The strategy of being in the *spot market*, when spot rates are higher, and switch to time charter market, when time charter rates are higher—obviously helps companies *to maximize profits* (Figure 4).

As shown, there is a "freight rate switch point", where the owner has to turn to next market from what he/she was then, and to move to next market, in a continuous pattern…Surely, whatever protection from a falling spot market is provided by time charter market may be short-lived. This is so, as time charters are not anymore 15 - 20 years as used to be—but maximum 3 years. Charterers do not want to be locked-in in high hires—as they did in 1981—and before. Owners, however, found themselves lucky to be in the spot market during 2003-2008, and they were locked-in there in 2010-2011, a fact, however, that they did not want…

[37] *Operating income*: profits less operating expenses and depreciation (EBIT). *Net income* is reached if taxes and certain other expenses are deducted.

[38] As a result of the high freight rates that prevailed from 2003 to 2008.

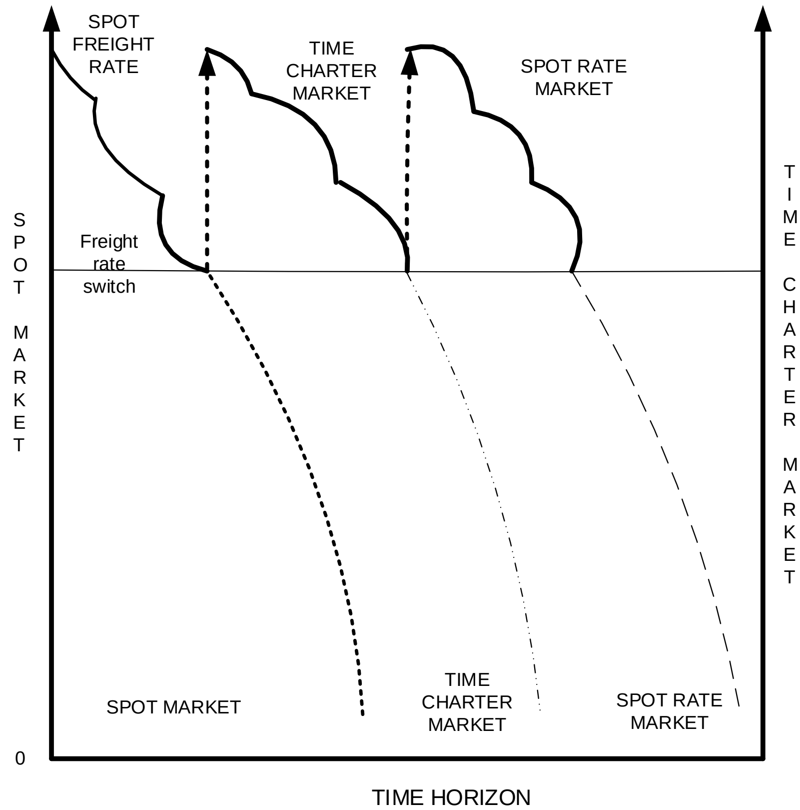

Figure 4. Spot versus time charter market.

The strategy adopted by seven (**Table 2**) companies shows clearly the *lack of foresight*. The manager that *knows* future, he/she will be in only one of the 2 markets each time, and as along as one is more profitable than the other… This, however, needs a "switching off strategy" (and ability to foresee).

- Interviews about chartering strategies

Interviews, carried out by my former student Mrs Georgantzi K (2005 [37]), showed that if the *spot freight* market is considered good, and rising, ship-owners' *strategy was to fix their vessels in the spot market* (end 2003). When spot market reaches its peak, ship-owners choose time charters to retain the highest possible income (end-2004); 60% to 80% of charters in a *peaked* market were in *time charters*.

Is there a normal duration of time charters? In a peaked market, the majority of ship-owners fear that charterers would be unable to pay the exceptionally high hires in a time charter *longer than* 12 *months*[39]. Charterers must be of good standing for ship-owners to try *longer*[40] charters *from* 1 *to* 3 *years*… chartering policy differs also among Cape, Panamax, and Handy.

The last type is found *only* in spot market. For Panamax, the number of time charters fell, and those of voyage charters rose (2001-2005). An exceptionally

[39]This is from the traumatic experience of the 1981-1987 depression, when a number of charterers became bankrupt and others re-negotiated charters.

[40]As all things change fast, nobody likes long term commitments. Drastic surprises (good or bad) are hidden in all long term arrangements…

good spot market *tempts owners to stay*—even by taking risks (and finally to be locked-in). During end 2003 (Nov.) and mid 2005 (April) owners *switched to time charters*, because they *expected* a fall in the spot market, which did not came true.

Charterers act in the opposite way of owners; ships over-aged were chartered only in the spot market, for the fear of causing a marine accident. If a charterer expects the market to *improve,* then he/she proceeds to time-charter, (at rates *below* spot market?). The parties interviewed also stated, that from a percentage 80% to 100%, owners are affected by whatever market forecasts exist, including *those based on FFA markets*! Moreover, owners with financial obligations are likely to prefer *time charters* by majority (70%) for obvious reasons...

- The "Paragon" shipping company case-study

To get deeper into shipping strategies, we decided to focus on **one** company, for lack of space, selected arbitrarily: "Paragon". This is a personal dry cargo company run by an ex Sup. Engineer, listed in both NASDAQ (in 2007) and NYSE (in 2011); it was founded in 2006. Company's strategy was one of triple *specialization*: 1) to be in specific markets, *i.e.* those of coal, coke, and iron-ore, (by 55%); 2) to be in specific places, *i.e.* cargo discharged in SE Asia and Far East (by 53%); 3) to own only[41] handysize, handymax, supramax, panamax and kamsarmax (82,000 dwt). Company's further strategy was to maximize[42] the number of ships and/or tonnage owned; and to reduce fleet's average age (e.g. company's policy was Panamax fleet's age to fall from 7.5 years to 6.7).

The company had (14/03/2016) 297,879 dwt and ordered additionally… 372,400 dwt to be delivered[43] in the 1st Q of 2016. So, company's strategy to maximize number of ships or tonnage owned was rather rhetoric and it meant that this strategy is valid on *the pre-condition that* "*ships are profitable*"… *Nobody wants many ships that lose money*! *It was again Kulukundis*, *who said to Greeks*, *that is better to lose money with* 5 *ships*, *than with* 10…

The company could not resist a "temptation"[44], however: to buy a 2nd hand ship of 75,151 dwt, bulker, for $41 m, 5 years ago. However, this was not a rock bottom price. Prices e.g. for a Cape fell to 1/3 of their pre-crisis amount in 2010, i.e. to $60 m, but by March 2016 they were ~$24 m (http://www.economist.com/node/21677207)...

[41]Depression in all shipping markets affecting all ships at the same time is *rare*. Every ship has its own demand and supply, and thus one sector may be in a depression and other not. Crisis varies among companies, ages, sizes and types of ships. There is no fixed rule across the board. This time (2016), tanker market is very much better than dry. So, companies with a specialization in one sector, *i.e.* in the dry, regret it. *How one calls the strategy of* "*not putting all eggs in one basket*"? = "*Dis-specialization*"?

[42]Worth noting is that company's *original* strategy was *to maximize tonnage* reaching 1 m dwt or even 1.3m dwt, by 2011-2012. This was not followed, given the radical fall in company's net income in 2010 (Table 2), we presume.

[43]The company also formed another company, the "Box Ships", to which all containerships were transferred and this reduced company's size.

[44]Company "expected" to earn $1.72 m per year after deducting expenses from a period charter ($20,000/d × 360 − $15,000 × 365) out of this vessel and a total of $8.6 m from 2010 to 2015. The fall in the value of ship is, however, $28 m...

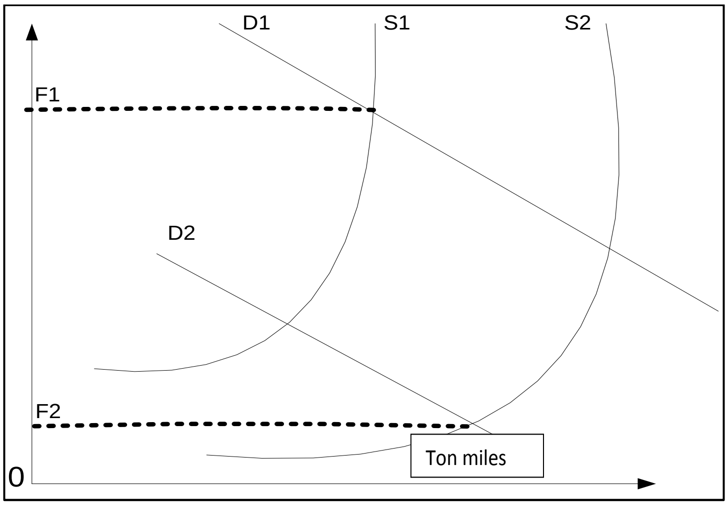

Figure 5. Fall in Demand and rise in Supply-the worst combination.

Company's further strategy was to be in *time charters* as long as possible (it was 25% in 2008 and 20% in 2009). *i.e.* the strategy was to have 33% of the fleet in time charters, from 1 to 5 years. This too was a wishful thinking. In 2013 estimated to be 27% and the time charter duration to be 2.5 years on average.

The company did not pursue the drastic cost minimization strategy, which were followed of most of Greek companies. It reduced expenses marginally by 3%, from $7.1 m in 2009 to $6.9 m in 2010. Company continued to distribute dividends, while other companies stopped. Company was obviously misled by the fact that market corrected itself from 2008 to 2009… but market taught its lessons later, in 2010-2016.

Lessons can be derived from overcapacity and fall in seaborne trade—the worst combination—as happened many times in the history of maritime economy (Stopford, 2009, [6]) (**Figure 5**), where F_1 may fall to F_2.

6. Conclusions

The history of "shipping business management" over last 50 years or so showed that Academia failed to work-out *a theory of strategies* for maritime companies. Ship-owners, as reactive persons, realized 3 needs after the great economies of scale in 1973, and thereafter: *better planning*, *better decision-making* and *better knowledge of shipping finance*. Shipping, however, is characterized as an industry lacking foresight, till the time of writing. This last concluding sentence is derived mainly from our experience with Greek shipping, where e.g. no one foresaw the 1981-1987 depression or the end 2008 meltdown. This is so as Greeks and non-Greeks continued to order ships till the day before the depressions knocked the door of their business...

Ship-owners were lucky people, however, because they did not have to wait for maritime economists to produce strategies for them. Other economists helped shipping. In 1980, "Michael Porter" advanced his strategies of *cost leadership* and *specialization*, *among others*, both found suitable by maritime companies. But unfortunately, Porter was writing in 1980, where *all business decisions were at that time slow*. Now *flexibility* is the quest for crises/depressions since end-2008 and in early-2016.

In 2016, shipping depression for dry cargo peaked, resembling that of 1981-1987. Overcapacity and fall in seaborne trade and this was not the first time-emerged together. Two great countries—China and India—decided to slow down their growth.

Shipping managers witnessed the end-2008 crisis, but being liquid from the exceptional boom of 2003-2008, and given "China's effect", underestimated the 2009 crisis. They ordered ships, many ships, as if nothing happened (100 m dwt in 2012 delivered, ordered 3 - 4 years before, in 2009-2010). Shipping managers in front of the decadence had to adopt *tactics*: *they cut dividends, sold ships, restructured loans and wondered whether they did a mistake in their chartering strategy by being in the spot market*, while time charter market was better…

Maritime managers, sooner or later, felt the burden of their responsibility. Most ship prices started from an amount of over $200 m (an LNG e.g.). What maritime economists have done? They realized that risk became huge and resorted to maritime derivatives (FFAs) as a solution (the BIFFEX has failed in the meantime since 1987), where Teekay lost almost $100 m in 2011 (out of derivatives).

Also the industry in "acute need of reliable forecasting" relies not on forecasting models—GARCHian, neural or chaotic—but on FFAs, where also the principle of "standard deviation" prevails to lead ship-owners… from losses to losses…

Maritime economists argue that there are 2 strategies and 3 managerial schools. "Maximize ownership/tonnage" and keep management in-house, within the family, perhaps being smaller, be traditional and all management functions to be carried out by company's top-management… or be listed. Professional managers and "third party managers" are ready to take over management, and top-management will do only chartering, which it likes. But for those whose "ship-owning/ship-management" is a way of life, they say "no". Greeks traditionally disliked new-buildings, and avoided to be adventurers—as we saw one needs extra $9000/day for a Cape new vessel at a time when freight rates cover only bunker costs…

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