Strategies used by Asia-Pacific shipowners

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Abstract:

The rapid globalisation of the world market over the past several decades has intensified competition within the already highly competitive commercial shipping industry.

Particularly in the Asia-Pacific region, the growth in trade is predicted to generate an increased demand for shipping services. For Asia-Pacific shipowners to take full advantage of this growth and successfully compete in the market place, they will need a strategic approach in the way they manage their organisations. Their choice of appropriate strategies will be critical to their success. Indeed, as recent research shows, an organisation’s strategy is the single most important factor leading to success or failure.

The importance of selecting the “right” strategies and of integrating these strategies into the overall strategic planning process cannot be overemphasised. To assist in strategic decision making within commercial shipping in the Asia-Pacific region therefore this paper will present recent research findings on the following areas:

- approaches used by Asia-Pacific shipowners in selecting strategies
- types of strategies selected under various types of environmental conditions

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Introduction

This paper aims to present the findings of a study on corporate strategic choices by Asia-Pacific shipowners. The study was conducted over a three year period and involved 570 senior managers in five countries.

This focus on strategic choices by Asia-Pacific shipowners is particularly relevant given the region's current economic instability. Because most countries of the Asia-Pacific region are highly dependent on maritime transport, any major changes in their economic conditions and trading patterns bear significant implications to shipowners operating in the region. If shipowners are to compete effectively in this highly volatile market, they must know and be prepared to pursue those strategies that will optimise their chances of gaining a desired competitive position, or that will allow them to reduce risks and adopt protective measures when financial crises, such as the one now gripping Asia, hit. Further, since strategy choice is predicated on a knowledge of the environment, it is imperative that shipowners have a good understanding of what is going on in the Asia-Pacific and in the other markets where they operate so that they can determine where strategic opportunities—and threats—lie.

As the region remains buffeted by severe economic and political turbulence, there is growing disquiet over the future of Asia-Pacific shipping. Up until early 1997, the Asia-Pacific fleet had grown significantly to keep pace with the rapid economic growth of the region. By 1996, it accounted for about 38 per cent of the world's fleet, while Europe controlled about 44 per cent (Lloyd's Maritime Information Service, 1997); it held more than 50 per cent of total world container capacity; and its intra-regional trade exceeded the region's trade with the rest of the world (Containerisation International, 1997). Amidst the deepening crisis, would Asia-Pacific shipowners be able to maintain their success? The growing consensus is that if Asia-Pacific shipowners are to sustain their new dominant position in shipping, they have to learn better ways of competing:

No market segment exists in which competitive advantages are permanent. If companies from [traditional maritime countries] are to compete successfully, they will have to adapt frequently to changing market conditions and will have to form strategic alliances on a global level to best respond to the needs of an integrated world economy. Similar conditions for success apply to carriers from the [new maritime countries of the Asia-Pacific], which have to move beyond their cost advantage and use this temporary strength to build a lasting market advantage based on innovative corporate strategies and strategic alliances (Holst, 1993, p 51).

Such calls for innovative corporate strategies are growing, but how able are Asia-Pacific shipowners to rise to this challenge? Unfortunately, the current literature does not provide much guidance to help us answer this question, which brings us to the third reason for the study. While the subject of strategy choice has been extensively examined within the general business and strategic management literature, it has received scant attention within the maritime field (Hawkins, 1997). Although research conclusively shows that strategy is one of the most important determinants of market success (Collis and Montgomery, 1997; Miller and Cardinal, 1994), our knowledge of commercial
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maritime strategy is comparatively limited, and it becomes even more sparse when applied to the Asia-Pacific region.

To help shed light on the topic, therefore, a study was conducted to determine what Asia-Pacific shipowners actually did by way of strategic decision making. What factors did they consider when making strategic choices? What specific choices did they make under what environmental conditions?

The study

To answer these broad questions, a generic model of corporate strategic choice was first developed and based on this model six research questions, stated as assumptions, were formulated. Then data was collected to determine whether Asia-Pacific shipowners behaved as assumed by the model and if they did not where the differences lay. Rather than rely on self-reports, the study required shipowners to make strategic decisions under simulated conditions, using a computer-based simulation program called Stratship for the purpose. Results showed strong support for the model, but instead of strictly adhering to the model, Asia-Pacific shipowners tended to disregard environmental conditions in pursuit of strategic objectives and to combine strategies for greater protection from financial risk. A more detailed discussion of the study follows.

Research focus

The generic strategic choice model integrates current knowledge on corporate strategies, particularly the appropriateness of certain strategies for certain environmental conditions. It focuses on corporate-level strategies, which focus on a company's portfolio of businesses and determine which businesses the company should be in and how these businesses should be managed. An organization's strategic position and choice of strategy are determined by organizational competitive factors and market factors. The first deals with an organization's strengths and weaknesses vis-a-vis competitors; the second, to the opportunities and threats in the marketplace. Organisational factors are internal to the organization and are under the organization's direct control. The particular organizational competitive (internal) and market (external) factors likely to have a significant effect on an organization are called key success factors. These factors are expected to change over time as markets and the competition change.

The model offers five corporate strategic alternatives: grow, develop, stabilise, turnaround, and harvest. To grow or develop is to compete in new high-growth areas; the two strategies differ only in that the first is used by organizations that have achieved a foothold in the market while the second is used by those still in their embryonic stages. To stabilise is to maintain the status quo by keeping to a tried and tested course, changing incrementally in response to environmental changes, or both. In case of
financial trouble, the choice is to *turn around*, that is, to reduce or eliminate those activities that are hurting financial performance and restore financial viability; if this does not work, the next choice is to *harvest*, that is, to divest of a poorly performing business or parts of it that are.

Based on the generic strategic choice model, it can be assumed that Asia-Pacific shipowners will:
1. change/modify their strategies in response to changing environmental conditions.
2. base strategic changes and the time frames for these changes on their future expectations of organisational and market conditions.
3. pursue a 'grow' strategy when internal organisational competitive and market factors are high.
4. pursue a 'stabilise' strategy when organisational competitive factors are high and market factors are low.
5. pursue a 'turnaround' or 'develop' strategy when organisational competitive factors are low and market factors are high.
6. pursue a 'harvest' strategy when organisational competitive and market factors are both low.

How valid are these assumptions to Asia-Pacific shipping? To what extent does the model, which is based largely on non-maritime research, reflect what Asia-Pacific shipowners actually do? If theory and practice do not match, where do the differences lie? And if there are differences, what should a corporate strategy selection model that is more applicable to Asia-Pacific shipowners look like?

**Simulation as a data collection technique**

To test the validity of the model's six assumptions, computer-based simulation sessions were conducted to collect data from shipowners. Rather than merely asking shipowners to report on what they did, as surveys and interviews would have done, the simulation required participants to actually go through the decision-making process, that is, to analyse information and then make strategic choices based on their own judgment and interpretation of this information (e.g. Proctor, 1996; Render and Heizer, 1997).

A computer-based strategic planning simulation program called 'Stratship' was used for the study. Produced by the Esmee Fairbairn Research Centre (1993), Stratship is designed to simulate strategic decision-making in a shipping company. It was selected because it could provide a realistic portrayal of a commercial shipping environment (output figures reflected realistic market conditions, the type and volume of information provided was similar to what shipowners normally had access to, and the range of available strategies was appropriate for commercial shipowners); it had been tested in different contexts over a long period of time, leading to enhancements in the program's ability to mimic shipping conditions; and being a static simulation, it controlled the
variables and gave exactly the same conditions and information to all participants. The simulation was programmed to run for 21 quarters. Every quarter, participants analysed the current financial situation of the company and market trends. From this analysis, they made strategic predictions, set strategic objectives and corporate strategies, and made specific strategic decisions affecting fleet structure and operations. The program 'implemented' these decisions, and then informed the participants of the financial outcome and the market response to their decisions.

Administration procedures

A total of 30 simulation sessions were held over a three year period in five countries (Australia, New Zealand, Indonesia, Malaysia, and Singapore), and a total of 570 senior managers representing 86 shipowners participated. Participation in the simulation was voluntary; however, every effort was taken to ensure that participants held senior management positions with authority to make strategic decisions for their respective organisations. Data provided by participants who did not meet these two criteria were excluded from the study.

To attract shipowner interest, the simulation was promoted as an intensive one-day shipping competition. No deliberate effort was taken to invite individual shipowners to the competition; instead, competitions were announced through various shipowner organisations and shipowners were asked to respond within a given period of time. No direct contact with individual shipowners was established prior to the commencement of the competition. To ensure uniformity, standard documentation was prepared and used during each simulation. This included a guidebook on the requirements and procedures of the shipping competition, a copy of the Stratship manual, and a booklet of decision sheets that participants must complete for each of the 21 quarters covered by the competition. The sequence of activities was also standardised, with a program of activities distributed to participants during the opening presentation. At each introductory session, the rules of the competition and the Stratship program were presented, practice sessions on the use of Stratship held, and background information on the participants and their organisations (demographics, general strategic planning, corporate strategy selection) collected. For the competition itself, participants were grouped into teams. Each team was to turn the fortunes of a financially-troubled shipping company around and gain for it as much profit as possible. Whichever team posted the highest company value at the end of the competition was judged the winner. Each team worked under strict time limits, with a maximum of eight hours to complete the program. During the actual competition, participant/team behaviour was closely observed to gain a better insight into group dynamics and team decision-making styles. At the end of each session, feedback was sought from three randomly selected participants on the realism and utility of the simulation.
Data analysis

The data obtained from the simulation sessions—strategic decisions noted on quarterly decision sheets, observation notes of participant/team behaviour during the simulation, and post-simulation participant feedback—was analysed using a qualitative approach (Miles and Huberman, 1984). Of the 190 sets of decision sheets submitted by competing teams, 174 were usable; for the post-simulation evaluation, feedback from all 90 participants (3 participants x 30 sessions) was used. Strategic decisions were made using company and market information provided by the simulation program. Table 1 summarises the types of company and market information available to participants and the strategic decisions they were expected to make on the basis of this information. As columns 1 and 2 of the table show, information on the company’s financial status included total vessel operating costs, the financial viability of each trading route (route accounts), cashflow and liquidity status (accounts summary), and overall company value; information on market conditions covered route trends, market trends, vessel prices, construction lags, charter rates, interest rates, oil prices, and exogenous shocks.

Table 1 List of quarterly variables used in the Stratship program

<table>
<thead>
<tr>
<th>Company Information</th>
<th>Market Information</th>
<th>Strategic Decisions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total vessel operating costs</td>
<td>Route trends</td>
<td>Future outlook for quarter(s)</td>
</tr>
<tr>
<td>Route accounts</td>
<td>For each route:</td>
<td>Strategic objectives</td>
</tr>
<tr>
<td>For each route:</td>
<td>• leg</td>
<td>Corporate strategy (ies)</td>
</tr>
<tr>
<td>• cash surplus/deficit</td>
<td>• market share</td>
<td></td>
</tr>
<tr>
<td>• capitalised route value</td>
<td>• load factor</td>
<td></td>
</tr>
<tr>
<td>Accounts summary</td>
<td>Market trends</td>
<td></td>
</tr>
<tr>
<td>• operational cashflow</td>
<td>For each route:</td>
<td>Fleet structure decisions</td>
</tr>
<tr>
<td>• financial cashflow</td>
<td>• trade indices</td>
<td>• order</td>
</tr>
<tr>
<td>• net cashflow</td>
<td>• liner rates</td>
<td>• buy</td>
</tr>
<tr>
<td>• current liquid assets</td>
<td>Vessel price</td>
<td>• sell</td>
</tr>
<tr>
<td>Company value</td>
<td>Construction lag</td>
<td>• scrap</td>
</tr>
<tr>
<td>• total fleet value</td>
<td></td>
<td>• charter in or out</td>
</tr>
<tr>
<td>• liquid assets</td>
<td>Charter rates</td>
<td>• re-charter</td>
</tr>
<tr>
<td>• value of routes</td>
<td>Interest rates</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil prices</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Exogenous shocks</td>
<td></td>
</tr>
</tbody>
</table>

* Strategic decisions were made by participants, and affected company information but not market information; market conditions were programmed to change every quarter, irrespective of strategic decisions and changes in company information.

Participating teams analysed this information, jotting their findings on their decision sheets for that quarter, and from this analysis, they made strategic decisions for the next
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quarter, or if they wished, for several quarters ahead. They predicted what the outlook for the next quarter(s) would be, set what strategic objective(s) to pursue within this time frame, selected a specific corporate strategy (or a combination of strategies) to enable them to achieve their objective(s), and translated this strategy (or set of strategies) into specific fleet structure decisions (i.e., order, buy, sell, scrap, charter in, re-charter, or charter out) and operational decisions (i.e., add/delete routes or legs, re-allocate vessels to routes, or decide on port setup costs, vessel speed, joint ventures, freight rates, and marketing expenditures). These decisions were also noted on the quarterly decision sheet. The effect of these decisions on the company's current fleet structure and route status was also recorded.

At the first stage of data analysis, a set of data-classification criteria was developed so that specific quarterly information on company (vessel operating costs, route value, etc.) and market (route market share, market trade indices, etc.) conditions could be systematically categorised into being either favourable or unfavourable. Once categorisation on all quarters was completed, strategic decisions were then summarised onto a quarterly-decisions summary sheet. The summary included the type of company and market conditions that prevailed in each quarter, the type of strategy selected based on these conditions, and the time frame set for the strategy. This information was assessed in terms of the team's future outlook and the strategic objectives selected on the basis of this prediction. Initial analysis uncovered emergent decision-making patterns at the team level. At the second stage, all summary sheets were analysed to identify more general decision-making patterns and make intra-group comparisons. To complete the picture, observations of participant behaviour during the simulation and post-simulation participant feedback were also incorporated into the analysis. Once this second stage was completed, it was then possible to determine whether the simulation data supported the six assumptions of the strategic choice model and if there were deviations where they occurred.

A profile of Asia-Pacific shipowners

What did the simulation sessions tell us about strategic decision making by Asia-Pacific shipowners? Before we answer this question, first let's take a look at the Asia-Pacific shipowners who participated in the simulation.

All participants included in the study held senior management positions in their organisations. These positions fell into three tiers: senior executive positions (21 percent) with responsibility for the entire organisation (e.g., chairman of the board, chief executive officer, president, managing director, executive director), senior divisional level positions (66 percent) with responsibility for major areas/divisions within the organisation (e.g., director, senior manager, general manager), and corporate level positions (13 percent) with responsibility for the organisation’s corporate and/or
strategic management activities (e.g., corporate or strategic manager, development and planning manager, corporate planner or strategist).

More than half of the respondents (62 per cent) had been in their current positions fairly recently (1-5 years) but many (72 per cent) had been involved in strategic planning for about 6 to 10 years. However, much of what they knew about strategic planning had been learned on the job, with the majority (76 per cent) having had no formal training (university degree or short courses) in strategic planning or management. Most were 40-49 year old males (81 per cent) who held the nationality of the country in which they worked. In terms of ethnic background, the majority were Chinese (42 per cent), European or North American (19 per cent), Indian (12 per cent), and other South Asian (11 per cent); the rest were scattered among the various nationalities represented in the study.

The shipowners whom the respondents represented operated in two major market sectors, bulk (53 per cent) and liner (47 per cent). Of these shipowners, 19 per cent could be classified as large operators, 46 per cent as medium-sized, and 35 per cent as small. Company size was based on the number of ships and businesses/divisions in the company. A shipowner was classified large if it had more than 35 ships and more than 5 businesses/divisions; medium-sized if it had between 10-35 ships and between 3-5 businesses/divisions; and small if it had 5-10 ships and 0-3 businesses/divisions.

In terms of strategic planning and corporate strategy selection, the majority of shipowners (68 per cent) had no formalised strategic plans, but most (84 per cent) did report following a systematic process of decision making. A key feature of this process involved intensive discussions among senior management during which long-term goals and objectives were set and specific means or strategies to achieve them were selected. The 32 per cent who had strategic plans described their plans as formalised documents that normally covered a 5 year period and were subject to review and change every year or every one and a half years. Strategic planning was a top priority in their companies, with about an average 28 per cent of the company’s annual budget spent on strategic activities. Majority of these respondents (82 per cent) were satisfied with their plans, giving them an average of 70 per cent success rate.

Regardless of whether they had strategic plans or not, however, majority of shipowners (69 per cent) reported having corporate strategies. Senior management was primarily responsible for selecting corporate strategies (87 per cent), which were reviewed every year (74 per cent) and changed when necessary (65 per cent). In most instances, the selection of corporate strategies did not progress into formal plans (75 per cent), mirroring the trend discerned earlier with regard to the development of strategic plans. These two trends indicated that while the majority might have followed a systematic process of setting goals and objectives and then selecting strategies in support of these goals and objectives, the overall process of strategic planning and strategy selection remained informal.
Strategic choices by Asia-Pacific shipowners

When it came to actual strategic choices made by Asia-Pacific shipowners, the simulation yielded the results summarised in Table 2. The six assumptions of the model can be grouped into two: the first two, A1 and A2, deal with general strategic decision making, while the remaining four, A3 to A6, deal with specific strategic choices. Discussion of results will thus follow this grouping. Please note that the 'internal' and 'external' environmental factors mentioned in Table 2 refer, respectively, to the 'organisational competitive' and 'market' factors discussed earlier.

<table>
<thead>
<tr>
<th>Assumptions of the Model</th>
<th>Categories of Responses (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Followed with no changes</td>
</tr>
<tr>
<td>Asia-Pacific shipowners will:</td>
<td></td>
</tr>
<tr>
<td>A1 change/modify their corporate strategies in response to</td>
<td>58</td>
</tr>
<tr>
<td>changing environmental conditions</td>
<td></td>
</tr>
<tr>
<td>A2 base strategic changes and the time frames of these changes</td>
<td>74</td>
</tr>
<tr>
<td>on their future expectations of environmental conditions</td>
<td></td>
</tr>
<tr>
<td>A3 pursue a 'grow' strategy when internal and external</td>
<td>55</td>
</tr>
<tr>
<td>environmental factors are both favourable</td>
<td></td>
</tr>
<tr>
<td>A4 pursue a 'stabilise' when internal environmental factors</td>
<td>67</td>
</tr>
<tr>
<td>are favourable but external factors are not</td>
<td></td>
</tr>
<tr>
<td>A5 pursue a 'develop' or 'turnaround' strategy when</td>
<td>44</td>
</tr>
<tr>
<td>external factors are favourable but internal factors are not</td>
<td></td>
</tr>
<tr>
<td>A6 pursue a 'harvest' strategy when internal and external</td>
<td>79</td>
</tr>
<tr>
<td>environmental factors are both unfavourable</td>
<td></td>
</tr>
</tbody>
</table>

Support for the model

A1 and A2—Changing corporate strategies

The first two assumptions of the model, A1 and A2, received strong support from shipowners, as reflected in the combined percentages of those who following the model without change (column 2) and those who made occasional changes for strategic purposes (column 3). As assumed by the model, majority did change or modify their corporate strategies in response to changing environmental conditions (76 per cent) and relied a lot on their future expectations of environmental conditions during decision making (74 per cent).
Data from A1 and A2 clearly showed that future predictions had a significant effect on shipowners. The firmer their future predictions of internal and external environmental conditions, the more likely were they to change their corporate strategy even if it was not appropriate for current environmental conditions or trends. Conversely, the less certain they were in the future, the less likely were they to change their corporate strategy. The time frames chosen for corporate strategies were typically short, with the average falling within 3-6 quarters. Further, the longer the time frame set, the more conservative the change predicted, almost as if forecasts were averaged over the period. For example, the freight rates that decision makers would predict within say 5-6 quarters would be half as much as what was predicted within say 1-3 quarters.

A3—Grow (favourable internal and external factors)

Again, as columns 2 and 3 of Table 2 indicate, support for this third assumption was strong (85 per cent). Majority either pursued a ‘grow’ strategy as predicted by the model, that is, when both internal and external environmental factors were favourable, or they chose to spread risks by combining ‘grow’ with other strategies. Typically, participants expanded and diversified into more trade routes and/or added more ships to their most profitable trade routes. Ships were mostly second-hand tonnage rather than newbuildings because of the long lead time required to build vessels and the cheaper cost of purchasing relative to the availability of finance. Another popular ‘grow’ strategy was diversifying operations, which took four major forms: ship operating (ie operating trade routes only), ship chartering, playing the sale and purchase market (ie buying and selling ships), and joint ventures. Other than ‘grow’, the next popular choices were ‘develop’ and ‘stabilise’: the first (‘develop’) to help the company expand and diversify into new and existing high growth areas (e.g. new trade routes, reallocation of vessels to routes, charter-in vessels for high market share/demand routes), and the second (‘stabilise’) to maximise the revenue value of a profitable trade route or charter without increasing costs. To a much lesser degree a ‘harvest’ strategy was also used in conjunction with ‘grow’ to divest of routes which were still profitable but did not show as much potential as other routes, or to divest of charters, ships, and occasionally joint venture arrangements to maximise opportunities.

A4—Stabilise (favourable internal factors, unfavourable external factors)

Most of the shipowners (81 per cent) supported this assumption, pursuing a ‘stabilise’ strategy when internal environmental factors were favourable and external environmental factors were not, but deviating occasionally for strategic reasons. Most shipowners used a ‘stabilise’ strategy to maximise profits by maintaining their internal operating structure (e.g. maintain same trade routes or charters as in previous time frames) and reducing costs. With a stable, albeit slightly declining, revenue base and reduced costs, they were able to increase route performance and profits. Typically, costs were decreased by
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reducing vessel speeds (average 4 knot reduction), marketing expenditure (average 16 per cent cut), and route size. Route size was normally decreased by removing route legs (average 1 leg removed) and indirect routes. The 'stabilise' strategy was mostly used by trading route operators and charterers, while those in the sale & purchase markets used it the least. All of these groups used it as a short term measure: the average was 3 quarters, with very few going beyond 5 quarters. The 'stabilise' strategy proved to be most used during times of relatively high freight rates and when shipowners perceived the market demand to be high but the threat of decline imminent.

'Grow and 'develop' strategies were most frequently combined with 'stabilise'. The typical approach of this group was to maintain an existing route with a 'stabilise' strategy (either change nothing or make minor adjustments to vessel speeds, freight rates, marketing expenditure, and vessel allocation to routes); pursue a 'develop' strategy to expand or diversify into new trade routes or scope of operation (ie instead of just operating vessels, increase scope of operation by adding more charters, pursuing the sale and purchase market and/or less frequently, setting up joint ventures); and pursue a 'grow' strategy to expand or diversify into existing routes (ie by increasing the number of legs or vessels on a route, marketing expenditure, and freight rate adjustments) To a lesser extent, the 'harvest' strategy was also used. The typical approach was to use the 'stabilise' strategy in the most profitable areas, a limited amount of the 'grow' strategy in existing areas that were predicted to be profitable, and a 'harvest' strategy in the most threatened areas or when poor trading conditions were predicted. By using a combination approach, this group of eclectic users aimed to maximise internal strengths while the market still gave acceptable returns. Like those who followed the model without change, they used the 'stabilise' strategy as a short term measure, rarely going beyond 7 quarters but using it for about 1-2 quarters longer than the former.

A5—Develop or turnaround (favourable external factors, unfavourable internal factors)

Support was also strong on this assumption (76 percent), with 'develop', 'turnaround', and 'grow' strategies used the most. The 'develop' strategy was used in a rising market (ie increasing freight rates and trade demand), where the approach was to go into new high profit areas and earn good revenue so that a company's competitiveness could be strengthened. The 'turnaround' strategy was used mostly on existing areas of operations, and it did not matter whether market conditions had been on the rise or stable for a period of time (ie 3-4 quarters of strong market conditions). It was used to reduce internal costs and market exposure as much as possible while maximising good revenues. The 'grow' strategy was used either as a substitute to or in combination with a 'develop' or 'turnaround' strategy. The 'grow' strategy was popular because of its ability to help a company expand and diversify into existing areas of strength without creating significant increases in costs, which was often the limitation of the 'develop' strategy. The typical growth approach was to increase the capacity of existing
operations by purchasing and/or chartering in more vessels (mostly secondhand, as new vessels were more expensive). Wherever possible, positioning costs (i.e., the cost of getting a vessel allocated to a particular route) were minimised by allocating vessels to their closest route; this was an area where many made good cost savings.

Of these three strategies, ‘turnaround’ was the most successful in providing the greatest increase in company value in the shortest period of time. It was also better able to pit market opportunities (i.e., high levels of revenue) against internal weaknesses (lack of capacity and finance). Unlike ‘grow’ and ‘develop’ strategies, for instance, it did not require a major infusion of funds and other resources. This was one of the major problems that financially weakened companies typically met when they tried to implement ‘grow’ or ‘develop’ strategies. They simply did not have the internal capacity (lack of cashflow, limited access to charters and finance due to poor route values) to improve operations (number of trade routes, vessels on routes and chartered vessels) and take full advantage of good market opportunities.

A6—Harvest (unfavourable internal and external factors)

A large percentage of shipowners (79%) showed strict adherence to the model, pursuing a ‘harvest’ strategy when both internal and external environmental conditions were unfavourable. The most common approaches were to abandon poorly performing trade routes and sell off vessels to improve internal conditions. Indeed, the weaker the organisation was (poor cashflow and liquidity, declining company value), the greater the magnitude of divestment. Diversified operators abandoned routes and sold off vessels; at the same time, they maintained their charter operations as their new core base. Ship operators divested either most of their trade routes and vessels (i.e., from 4 trade routes down to 1 and from a fleet size of 25 down to 7) or pursued selective trade route, ports of call, and vessel divestments. A typical approach of this second group was to divest of one trade route, make direct port calls only on the remaining routes, and sell off most of the fleet and maintain the minimum level of vessels on routes (normally 2 vessels per route). Under unfavourable conditions, the most popular combination was ‘harvest’ and ‘turnaround’: a ‘harvest’ strategy for areas or operations perceived to have limited future value or were most vulnerable to worsening conditions, and a ‘turnaround’ strategy for areas that could be improved if costs could be better controlled relative to revenue earning potential. This combination was popular because it was the most successful in increasing company value: for example, a selective ‘harvest’ strategy on trade routes and areas of operation showing limited future potential (i.e., getting out of joint ventures, charters or trade routes; selling vessels at the appropriate time) and a ‘turnaround’ strategy on those areas perceived to show good future potential.
A strategic choice model for Asia-Pacific shipowners

As the preceding discussion has shown, simulation data provided strong support for all six assumptions of the strategic choice model. Support came from two main groups: those who followed the model without making any changes to it, and those who often followed the model but modified its parameters for strategic reasons. Modifications typically involved disregarding environmental conditions when strategic considerations required it, using a strategy under environmental conditions not called for by the model, or combining several strategies to spread risk instead of just limiting themselves to the one or two choices offered by the model. The most frequently used combinations of strategies during the simulation are plotted in Figure 1. Those in parentheses indicate other choices made by shipowners in addition to the strategies assumed by the model.

![Strategic Choice Model](image)

**Figure 1  A strategic choice model for Asia-Pacific shipowners**

Cultural and sectoral differences in strategic decision making

In addition to primary findings on corporate strategic choices, other important secondary findings also emerged. While it must be stressed that these secondary findings require further study, they nevertheless point to the need for a closer scrutiny of the impact of culture and cultural differences on corporate strategic decision making, particularly as multinational and global alliances are increasingly pursued within the maritime industry.

Several major differences in decision-making styles, information use, and competitive performance surfaced between East Asian managers (from Malaysia, Singapore, Indonesia), and managers of European descent (from Australia, New Zealand, and a few
European countries, e.g. UK, Germany, Norway). For ease in reference, the latter group will simply be called ‘European’.

East Asian shipowners took greater risks and made decisions more quickly. However, the level of risk they took did not always correlate with environmental conditions, and they also posted a greater number of bankruptcies. In contrast, European shipowners were more conservative. They spent more time analysing information before making a decision, and the level of risk they took reflected changing conditions, e.g. it increased as company value dropped. Europeans frequently revisited previous decisions to evaluate whether these decisions had indeed been good and whether a change in their current approach was warranted. East Asians rarely did this systematic looking back; once a decision was made, their approach was to live with the outcome, good or bad, and ‘get on with it’. Even when faced with a similar decision in the future, the previous decision was often not cross-referenced; unlike their European counterparts, they put little weight on previous decisions to guide future action.

Another major difference lay in the groups’ overall strategic response to environmental changes. The simulation program structured more periods of environmental change than stable conditions. While this led the Europeans to change strategies more frequently, East Asians tended to keep the same strategic objectives for a longer period of time. However, this did not mean that East Asians had longer-term objectives and Europeans had shorter-term ones. More correctly, the latter made changes depending on environmental conditions: when conditions were stable, they kept their strategic objectives for a longer period of time; when conditions were unstable or rapidly changed, the more frequently were these objectives changed. East Asians consistently pursued more aggressive strategies than the Europeans who tended to be conservative when conditions were stable but who turned aggressive when conditions became tough.

In terms of sectoral differences, most of the East Asians came from the bulk sector; the Europeans, from the liner sector. Irrespective of race, however, in general, those from the liner sector spent more time analysing information than those from the bulk sector. Shipowners from the bulk sector were quicker to change their objectives; those from container trades were usually the last to change. The tanker and liner sectors also pursued more aggressive strategies than the dry bulk sector. East Asians in both tanker and liner sectors were found to be equally aggressive, while European tanker operators were a lot more aggressive than European liner operators.

Despite these differences, data and observations from the simulation provided no clear evidence that one particular approach or style led to a higher level of performance. While it was probable that different approaches/styles could lead to different levels of performance, the simulation was unable to categorically determine the influence of these factors on performance.
Conclusion

This study examined corporate strategy selection practices of commercial shipowners in the Asia-Pacific region, an area about which very little has been written about. Findings showed that the corporate strategic choices made by Asia-Pacific shipowners were broadly similar to those made in other industries both within and outside the region. However, Asia-Pacific shipowners showed a general tendency to combine strategies. Of the five corporate strategies, the 'grow' strategy was by far the most popular choice, often or regularly combined with the other corporate strategies to spread risks and improve strategic balance. There is evidence to show that this pattern of strategic choices exhibited by Asia-Pacific shipowners is similar to that observed elsewhere in the region (Lasserre and Schutte, 1995) and in other parts of the world (Collis and Montgomery, 1997; Harvey, 1988).

The general profile of the Asia-Pacific shipowner that has emerged from the study also bears strong resemblance to other findings outside the maritime field (e.g. Lasserre and Schutte, 1995; Napier and Albert, 1990; Hofstede, 1980). In terms of general organisational management perspectives and practices, Asia-Pacific shipowners exhibit similar behavioural trends observed in other industries in the region: among East Asians, a deference to authority and conformance to the group; among Europeans, democratic decision-making approaches and emphasis on individualism. In terms of strategic planning, the pattern of response is also similar: East Asians follow a more intuitive, informal, and incremental approach to decision making; Europeans, a more formalistic process.

These broad similarities between Asia-Pacific shipowners and other businesses or industries in the Asia-Pacific region and elsewhere in the world have significant implications to the maritime industry because they help chisel away at a prevailing industry view of 'differentness', typified by the oft-quoted statement 'it may apply to them, but we're different'. Often this view of being different becomes an active deterrent against experimentation and adaptation in the field. Thus, while important differences do distinguish the maritime industry from others, it is essential that similarities are also identified and acknowledged to advance both shipping strategy theory and practice.
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