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## **Strategic Management in the Function of Adjustment of Modern Shipping Companies to the Market**

### **Contents**

Under the influence of the global economic crisis, many shipping companies have been forced to sell their old and poorly prospective vessels and change their business strategy in order to survive on the market. The purpose of this scientific paper is to present a change in business strategy within shipping companies aimed at adapting to current needs of the trade market. The analysis of the role and features of strategic management in business operation of modern shipping companies is carried out in this paper with the aim of identifying and analysing those factors that affect the creation of business strategies and the need of shipping companies to adapt to the market.

In the empirical part, business strategy of the largest Croatian shipping company, Tankerska plovidba d.d. (Plc.) of Zadar, has been explored and analysed, along with that of Stena Ltd., one of the largest global shipping companies, which represents a business sphere created through a multiple merger of shipping companies into one, with the purpose of increasing competitiveness on the market.

**Keywords:** shipping companies, shipping market, business strategy, strategic management

### **1. Introduction**

According to its character, maritime transport is a decidedly international activity, thus requiring the study of maritime shipping companies also to encompass the study of the global economy, which has been constantly exposed to the influence of external factors, i.e. factors outside their influence, to which they may only choose to adapt themselves as fast as possible.

Today's shipping companies operate in a very turbulent and dynamic environment and their leading managements are forced to constantly monitor trends on the global market in order to adapt to market requirements and also to gain a better position with regard to their competitors.

This scientific paper aims at pointing out the factors that have produced a long-term influence on the change and development of new business strategies, and at examining the way they have been modified for the purpose of enabling the current shipping companies to adapt themselves to the contemporary market, making reference in this case to the tanker sector.

## **2. The role of strategic management in the analysis of the environment and the organisational orientation of the company for the purpose of achieving the set goals**

Strategic management in general can be defined as the ability to lead the company, i.e. to manage the company's development comprising decision making and implementation of activities in order to harmonise the possibilities and the abilities of the company with the opportunities on the market, and with the aim of achieving best business results possible [14].

In this process, the responsibility of the management is primarily to identify internal and external strategic factors crucial for business operations, since they determine the internal and external environment and mutually shape the business environment. The management can usually affect the shaping of internal factors, but also the company's business environment since the company's internal environment consists of variables within the company, that are reflected through any strong and weak points of the system itself. If any strengths and weaknesses of the internal environment are observed through a shipping company specialized in the carriage of liquid cargo, they will primarily depend on those variables that form the context in which the company's operation take place, and they include the organizational structure, the culture and the resources which the company can use in order to achieve a competitive advantage. The company external environment is set up by certain variables that stand outside the company and usually are not under the influence of the top management, such as the opportunities and threats on the market. The listed variables form the context in which the company exists, and they can be either general strengths and trends in the overall social environment or specific factors that operate in a specific environment of the company's task.

*Table 1 - Strengths and weaknesses in the companies' internal environment*

<p><b>STRENGTHS:</b></p> <ul style="list-style-type: none"> <li>- high-quality maritime personnel,</li> <li>- recognition in the global market,</li> <li>- large number of business partners,</li> <li>- professional management,</li> <li>- effective organizational structure,</li> <li>- knowledge and experience.</li> </ul>	<p><b>WEAKNESSES:</b></p> <ul style="list-style-type: none"> <li>- orientation to a certain sector of the business (e.g. product tankers),</li> <li>- insufficient monitoring of market opportunities,</li> <li>- too expensive and prolonged personnel training,</li> <li>- credit indebtedness and financial limitations.</li> </ul>
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By analysing any strengths and weaknesses, opportunities and threats through the internal and external environment of companies based on tanker carriage, there have been found certain clearly visible positive internal influences, where the greatest strength is represented by the intangible capital in terms of professional personnel with many years of experience in the shipping sector. The external impact is also positive and is defined by the surging demand for liquid cargo vessels, an increasing demand for oil products, and by new oil fields having been found.

*Table 2 - Opportunities and threats in the companies' external environment*

<p><b>OPPORTUNITIES:</b></p> <ul style="list-style-type: none"> <li>- increase in demand for product tankers in the global market,</li> <li>- discovery of new oil wells and the construction of new refineries,</li> <li>- recovery of major economies from the economic crisis,</li> <li>- renewal and modernisation of the fleet,</li> <li>- emergence of new markets.</li> </ul>	<p><b>THREATS:</b></p> <ul style="list-style-type: none"> <li>- emergence of low-cost labour force,</li> <li>- reduction of carriage fares,</li> <li>- growth of motor fuel prices,</li> <li>- global instability,</li> <li>- vessels' price decline,</li> <li>- technological novelties on vessels,</li> <li>- amendments to legal regulations,</li> <li>- sudden increase of tankers on the market.</li> </ul>
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Apart from the analysis of a company's business environment, it is the purpose of the management to determine the business goal, i.e. company's orientation towards the final result of any planned activities the company is to achieve, their scope and the path to follow [3]. When speaking of the aim in the context of business orientation set in order to achieve reliability, effectiveness and accountability in providing maritime transport services and fleet management in a way that is deemed important for the stability of cash flow to be achieved, with most modern shipping companies implies the following:

- focusing on fleet development, i.e. ships that are most needed on the market and capable of satisfying the need owing to their capacities and size, a wide range of world's ports, in order to achieve maximum flexibility and thus popularity with clients,
- maintaining top quality services with customers, maintaining high standards of reliability, safety, environmental protection and quality,
- timely procurement of modern used and/or resale tankers and/or reasonable arrangements for newbuildings and vessel sales in accordance with market conditions,
- monitoring global standards and conventions in order to have vessels adapted to any requirements in a timely manner,
- maintaining strong balance sheet since banks, shipyards and clients prefer better capitalized contracting parties,
- engaging the fleet in long-term shipping contracts on time, in order to maintain the predictability of income and, provided favourable conditions on the market, engaging vessels through voyage charter with the aim of optimising the operating and financial business [18].

### **3. Strategic management in the creation of business strategy**

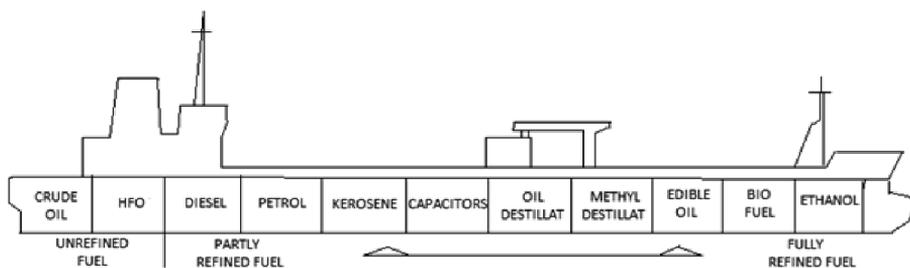
The development of strategy is the basic element of a company's success, aimed at achieving organisational orientation adaptable to the market, representing as such one of the latest steps in the development of a company's long-term activity plan, based on the analysis of the environment and the set goal. In addition to the development of the strategy, another very important step is its implementation in the development program, the budget, the procedures, and rules. Without an effective implementation of strategy, the company is not able to reap the benefits of a conducted situational analysis, established organisational orientation, and the created strategy.

When the management decides to change the company's business strategy, business strategy is usually considered as the orientation towards a certain business sector, i.e. the improvement of the competitive position in the area of operation. Business strategy is most often seen in two forms, i.e. as:

- a competitive strategy,
- a cooperative strategy.

The competitive strategy represents a form of management through which the shipping company focuses on a specific goal and, given the advantages, wants to achieve in relation to the competition. The most common form of achieving the advantage over other competitors is a lower freight rate, in addition to the condition of the fleet in accordance with the latest standards and current requirements of the global market.

The application of the competitive business strategy can be displayed in the simplest way with the example of Tankerska plovidba of Zadar, the management sphere the Tankerska Next Generation Company was founded within in 2015, specialised exclusively in the carriage of oil products and other products. The increase in freight rates on their market, in addition to the competitiveness of product tankers over conventional tankers owing to the possibility of carriage of different types of cargo, determined in the long run the business strategy of the newly formed company, which aims at offering to the market the modern eco-tankers which are exceptional competitors as compared to the fleet of shipping companies within the same scope of operations, mostly owing to their reduced fuel consumption and environment-friendly nature.



*Figure 1 - The most common types of cargo transported by product tankers*

With the establishment of the Tankerska Next Generation within the management sphere of the Tankerska plovidba d.d. (Plc.), a form of company management was established which was designed in the following way: the Tankerska plovidba company holds 51% of shares and at the same is owner of management rights on vessels through management contracts. The Tankerska Next Generation is the sole owner of the Tankerska Next Generation International, consisting of five subsidiary companies out of which two were founded in Liberia (Fontana Shipping Company Ltd. and Teuta Shipping Company Ltd.) and the remaining three in Marshall Islands (Zoilo Shipping, Vukovar Shipping and York Maritime Holdings). On the basis of a concluded management contract, Tankerska plovidba exercises its management rights over related undertakings, thus committing itself as the exclusive manager to the technical and commercial management, vessels' manning, insurance arrangements and accounting activities, sale and purchase of vessels, vessels supply, including fuel supply.

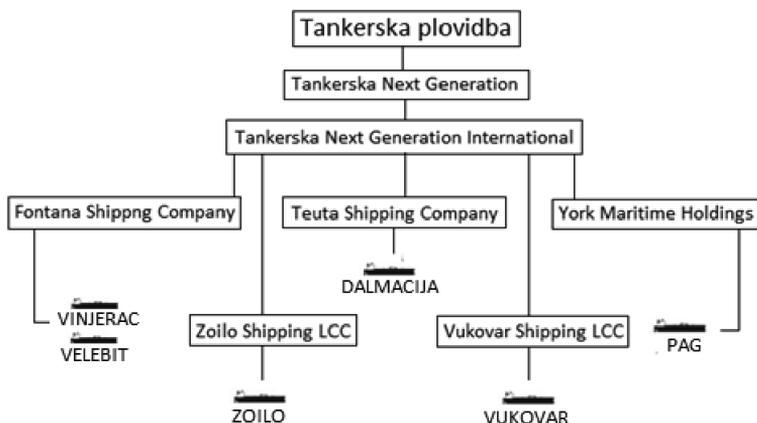


Figure 2 - The management structure between companies

The cooperative business strategy represents a specific form of agreement between two or more companies which mutually commit themselves to sharing knowledge, skills, information, finance, and other resources, in order to achieve common goals. A unique example of the application of the cooperative business strategy is the Swedish company Stena Ltd. which, along with the business cooperation and provision of various services to subcontractors, has developed into a global leader in the area of all branches of maritime affairs and trade. Today, there are a number of companies operating within the Stena sphere, such as StenaWeco, GoldenStenaWeco, Stena Sonangol and Concordia Maritime.

The StenaWeco company was created through a business cooperation between the Swedish Stena and the Danish company Weco and today it represents a respectable shipping company in the segment of MR product tankers.

GoldenStenaWeco is a company that was created through a cooperation between the StenaWeco company and the Indonesian company Golden-Agri Resources as the second largest producer of essential oils in the world and, which for StenaWeco represents an outstanding business venture, whereby both companies were consequently positioned at the very top of distributors and carriers of essential oil representing one of the most expensive cargo carried by MR product tankers.

The company Stena Sonangol was created in the cooperation between the company Stena and the Angolan National Oil Company Sonangol. Since the signing of the cooperation contract in 2005 until today, the Stena Sonangol has developed into a strong company offering 30 modern eco-Suezmax tankers on the shipping market.

Apart from business cooperation, the cooperative business strategy can be seen through the provision of various services to subcontractors, such as legal, technical and commercial support. The Concordia Maritime company is the simplest example of such form of cooperation, where based on a business agreement the Stena company offers full support in the abovementioned areas, sharing the earnings as well.

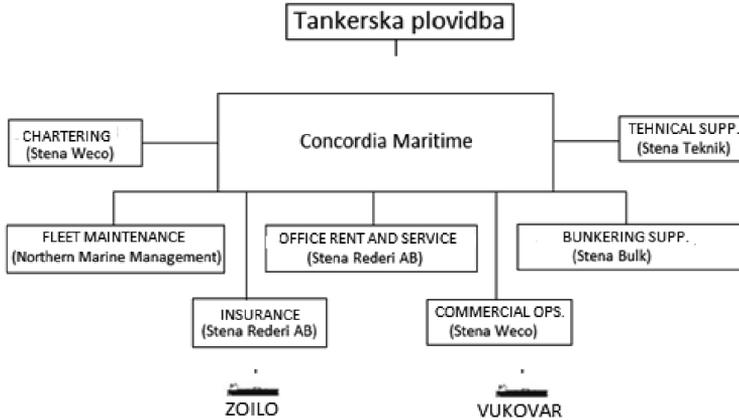


Figure 3 - Graphic representation of the business agreement between StenaWeco and Concordia Maritime

#### 4. Implementation, control and evaluation of strategy

The implementation of strategy is a continuous process which activates a strategic plan set up in advance. Once the so-called strategic plan has been activated, i.e. new activities introduced in practice, there follow occurrences of minor or major changes in the environment where the adaptability of the environment as well as of the company is expected, with regard to the speed and the degree of implementation of the new strategy. In other words, by implementing the strategy, a process of transformation of the shaped strategy to business activities of the company is carried out.

In order for the implementation of the strategy to be successful, the management must have a clear idea about individual different questions, such as:

- what are the necessary changes in the organization when a new strategy is implemented,
- what is the best way to control the organisational culture in order to ensure that the strategy is smoothly and indirectly implemented,
- how the implementation of the strategy and different types of organizational structures interact,
- what are the different implementation approaches that the managers can follow,

- what are the managers' skills necessary to successfully implement the strategies [3],
- However, except for the answers to these questions, during the implementation of the strategy its success will depend upon two very important factors:
- the possibility that a new strategic plan is developed up until the moment of creating a better market position for the company,
- the capabilities and possibilities of the company to perform the necessary changes that will lead to the successfully implemented strategy [3].

The impact of the abovementioned factors is visible through the control and evaluation of implemented new strategies of the companies Tankerska Next Generation Ltd. and Stena Ltd., which represents also the final step after the creation and the implementation of the strategy in the structure of the company, where through control and evaluation, monitoring and comparison of the achieved goals with the established standards, the deficiencies of the strategic orientation of the company are detected, in which way the possibility to remove the detected deficiencies through a new cycle of strategic management is offered [3].

By evaluating new forms of applied strategies within the aforementioned companies, it is evident that they were timely developed and implemented, which is confirmed by the projected world economic growth rate according to the IMF for the year 2017/2018 of 3.4% to 3.6%, and according to which a strong growth in the economies of the developing countries is expected, together with the stability of the shipping companies. However, beside the projected growth in the world economy, the abovementioned companies' managements used in a timely fashion the turbulence of the market and thus renewed their fleets due to the current record-low prices of newbuildings as compared to 2008, that is to the occurrence of the world economic crisis, which points out clearly to the importance of management's ability and strategic planning, i.e. of timely recognition of opportunities on the market with the purpose of achieving the goal, crucial for the survival of companies in the real environment.

## Conclusion

The strategic decision is the choice which shall define the direction and the success of an organization. This paper presented the factors that have influenced managements, i.e. the approval and implementation of new strategies through their own companies, which underlined the importance of strategic management in the operations of shipping companies.

With the occurrence of the world economic crisis in 2008, the overall maritime sector found itself at the turning point, which for many shipping companies meant sinking into large financial debts. However, for others who haven't sunk along with the market, the financial crisis in some way affected the shipping companies to change the way of doing business, and acted as a catalyst and made them renew their fleet

that was saturated with old conventional vessels, thus searching for new technologies that will reduce the operative costs of vessels and offer the necessary competitiveness in the market.

Nowadays it is impossible to achieve competitiveness in the market without a vision, mission, and a specific goal, where the vision of the business definition of a company, which represents a vision of the same in the future, i.e. the ranking in a segment of the market and the mission, which is the reason why a specific company actually exists, we can align with the strategic management tools by which the target and the mode of implementation of the strategy will be selected. Competitiveness in the market cause advantages in the form of reduction in unit costs, but also the use of common resource, knowledge and capabilities, and the acquisition of market excellence, whether it is about changing the shape of companies' business, strategic alliances or mergers with other companies.

The aim of this paper was to draw attention to the importance of strategic management in the management of modern shipping companies, where it can clearly be concluded that management positions, and companies' owners as well, need to consider strategic management determinants, because without appropriate business strategy, it is impossible to achieve any form of success.

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## **Strateški menadžment u službi prilagodbe suvremenih brodarskih kompanija tržištu**

### **Sažetak**

Pod utjecajem svjetske gospodarske krize, brojne brodarske kompanije bile su prisiljene prodati stare i neprespektivne brodove te mijenjati strategiju poslovanja kako bi opstale na tržištu. Svrha ovog znanstvenog rada jest prikazati promjenu poslovne strategije kod brodarskih kompanija u svrhu prilagodbe aktualnim potrebama tržišta. Analiza uloge i značajki strateškog menadžmenta u poslovanju suvremenih brodarskih kompanija u ovom radu provedena je s ciljem definiranja i analiziranja čimbenika koji utječu na kreiranje poslovnih strategija, te potrebe za prilagodbom brodarskih kompanija tržištu.

U empirijskom djelu, istražena je i analizirana poslovna strategija najveće hrvatske brodarske kompanije Tankerske plovidbe d.d. iz Zadra te jedne od najvećih svjetskih brodarskih kompanija Stena ltd., koja predstavlja poslovnu sferu, stvorenu spajanjem više brodarskih tvrtki u jednu, s ciljem povećanja konkurentnosti na tržištu.

**Ključne riječi:** brodarske kompanije, pomorsko tržište, poslovna strategija, strateški menadžment

