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**DEPARTMENT OF MARITIME STUDIES**  
**M.Sc. IN SHIPPING MANAGEMENT**  
**THE ROLE OF THE MANAGEMENT STYLE**  
**IN THE PERFORMANCE OF SHIPPING**  
**COMPANIES**

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**Masters' Dissertation**

**Which has been submitted to the Department of Maritime Studies as  
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*To my father*



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## Abstract

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The main purpose of the thesis is to introduce the moderating role of the management style in the performance of shipping companies. Management style is one of the most important decision a company can take, yet through Gallup's research found that organizations choose the wrong manager a whopping 82% of the time. Wrong management styles and bad managers costs business millions of dollars and affect her image, her performance and her corporate behavior. Although the effects are not only economics, they affect both employee motivation & productivity. Every company adopts different management styles when dealing with their subordinates and with their superiors. Moreover, management style is significantly related to manager fixed effects in performance and that managers with higher performance fixed effects receive higher compensation and are more likely to be found in better governed firms. More specifically, management is the process of guiding the development, maintenance, and allocation of resources to attain organizational goals, so managers are the people in the organization responsible for developing and carrying out this management process. Management is dynamic by nature and evolves to meet needs and constraints in the organization's internal and external environments. In a global marketplace where the rate of change is rapidly increasing, flexibility and adaptability are crucial to the managerial process. This process is based in four key functional areas of the organization: planning, organizing, leading, and controlling. We are going to explain more about the organization in the chapters below and how the management is related to the performance of a shipping company. The analysis for the management styles helps us understand according to our organization witch management style we should adopt and which one we should avoid. There are specific KPI's that measure performance in shipping companies and of course according to the management style we have different financial outcome and different financial performance.

**Keywords:** management, shipping companies, performance, evaluation, management style, organization, Key Performance Indicators, financial performance, success



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## Περίληψη

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Ο κύριος σκοπός της εργασίας είναι να εισαγάγει τον μετριοπαθές ρόλο του τρόπου διαχείρισης στις επιδόσεις των ναυτιλιακών εταιρειών. Το στυλ διοίκησης είναι μία από τις πιο σημαντικές αποφάσεις που μπορεί να πάρει μια επιχείρηση, όμως μέσω της έρευνας του Gallup διαπιστώθηκε ότι οι οργανώσεις επιλέγουν το λάθος διευθυντή κατά ένα επιβλητικό ποσοστό 82%. Οι λανθασμένες μορφές διαχείρισης και οι κακοί διαχειριστές κοστίζουν εκατομμύρια δολάρια και επηρεάζουν την εικόνα της, τις επιδόσεις της και την εταιρική της συμπεριφορά. Παρόλο που τα αποτελέσματα δεν είναι μόνο οικονομικά, επηρεάζουν τόσο το κίνητρο των εργαζομένων όσο και την παραγωγικότητα. Κάθε εταιρεία υιοθετεί διαφορετικά στυλ διοίκησης όταν σχετίζεται με τους υφισταμένους και τους ανωτέρους τους. Επιπλέον, το στυλ διαχείρισης σχετίζεται σημαντικά με τα σταθερά αποτελέσματα των διαχειριστών στην απόδοση και ότι οι διαχειριστές με υψηλότερα επιδόματα σταθερού αποτελέσματος λαμβάνουν υψηλότερη αποζημίωση και είναι πιθανότερο να βρεθούν σε καλύτερα διοικησιμής επιχειρήσεις. Πιο συγκεκριμένα, η διαχείριση είναι η διαδικασία καθοδήγησης της ανάπτυξης, της συντήρησης και της κατανομής των πόρων για την επίτευξη των οργανωτικών στόχων, έτσι οι διαχειριστές είναι οι άνθρωποι στον οργανισμό που είναι υπεύθυνοι για την ανάπτυξη και διεξαγωγή αυτής της διαδικασίας διαχείρισης. Η διοίκηση είναι δυναμική από τη φύση και εξελίσσεται για να ικανοποιεί τις ανάγκες και τους περιορισμούς στο εσωτερικό και εξωτερικό περιβάλλον του οργανισμού. Σε μια παγκόσμια αγορά όπου ο ρυθμός των μεταβολών αυξάνεται ραγδαία, η ευελιξία και η προσαρμοστικότητα είναι ζωτικής σημασίας για τη διαχειριστική διαδικασία. Η διαδικασία αυτή βασίζεται σε τέσσερις βασικές λειτουργικές περιοχές του οργανισμού: σχεδιασμό, οργάνωση, καθοδήγηση και έλεγχος. Θα εξηγήσουμε περισσότερα για τον οργανισμό στα κεφάλαια που ακολουθούν και πώς η διοίκηση σχετίζεται με τις επιδόσεις μιας ναυτιλιακής εταιρείας. Η ανάλυση για τα στυλ διαχείρισης μας βοηθά να κατανοήσουμε σύμφωνα με το στυλ διοίκησης της οργάνωσης που θα πρέπει να υιοθετήσουμε και ποια θα πρέπει να αποφύγουμε. Υπάρχουν συγκεκριμένα κριτήρια KPI που μετρούν τις επιδόσεις στις ναυτιλιακές εταιρείες και φυσικά σύμφωνα με το στυλ διοίκησης έχουμε διαφορετικά οικονομικά αποτελέσματα και διαφορετικές οικονομικές επιδόσεις.

**Λέξεις κλειδιά:** διοίκηση, ναυτιλιακές εταιρείες, απόδοση, αξιολόγηση, στυλ διοίκησης, οργανισμοί, βασικό δείκτη απόδοσης, οικονομική απόδοση, επιτυχία

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## Chapter 1

### Introduction

We usually see shipping companies as different from the typical industrial or service sector firms. More specifically, as being parts of a rather closed industry network, where most executives are customarily recruited early and trained within the industry. Another important factor in shipping is the significant share of high-profile, charismatic leaders, typically combining a major ownership stake and personal wealth with the CEO management function. In this part I should notice that many shipping firms have done well, although there are many failures to be noticed. In this analysis there are some answers we have to clarify in the following questions. First of all, what can leading companies learn from other types of corporations that are equally or more successful, in order to pragmatically professionalize its approach to management where it will matter? More specifically, is there anything to be learned when it comes to focus on business development and growth? Also how can the assessment of risk be handled as a key aspect of each business project, considering the risk implications associated with the overall business portfolio?

Shipping industry it's a large worldwide market and this makes very difficult to adopt a specific management style. Long lasting crises in the freight markets along with changes in the competitive and institutional environment of the shipping industry and the new maritime nations emerged as dominated players in world shipping and this made the competition in the industry more intense and made more critical the right adoption of management, so that the company will be successful. Very critical is the safety and quality of services as well as the care for the protection of the environment. Nowadays minimum standards of operation in the shipping industry are the ISM Code, ISPS, TMSA ISO 9000:2000, ISO 14001 along with several other codes have led the shipping industry into the era of standardization.

All shipping companies that wanted to remain competitive were forced to adapt to these changes. The 7<sup>th</sup> strongest ship-owner in the world I. Angelicoussis, who is Greek, described the changes in the shipping business environment and their effects on the structure and management of companies as follows (Angelicoussis, 2002, p.36): In order to be competitive, bigger offices, more complex administration and degrees of transparency, as never before seen, are needed. In fact, many new requirements were not in existence even a decade ago. My father passed away 13 years ago, and I often wonder what would be his reaction if he could see my office today. He would probably be shocked at the sheer number of people per vessel now needed, as well as considering it an imprudent waste; I would also imagine that he couldn't even recognize some of their positions!

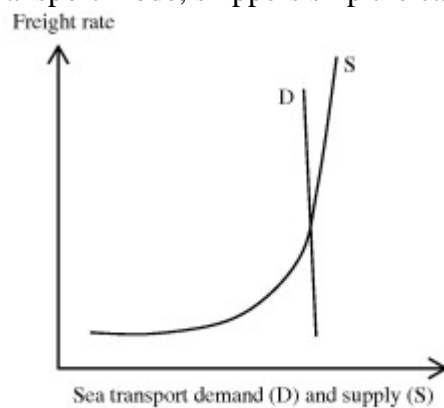
### Shipping Industry



Shipping Industry and consequently the shipping companies that are active in the industry to ensure sustainability and their profitability are influenced by many factors, such as:

- In what market will they operate based on demand and supply, such as dry bulk, containerships, passenger ships, tankers and gas, LNG and LPG vessels.

Stopford (1997) described the basic shipping supply and demand functions as shown in Fig.1. The fleet supply function (S) is a hockey stick shaped curve, it works by moving ships in and out of service in response to freight rate. The ship supply function is elastic when freight rate is low and inelastic when freight rate is high. The fleet demand function (D) is almost vertical, and it shows how charterers adjust to changes in freight rate. Due to the lack of alternative transport mode, shippers ship the cargo regardless the cost.



Source: Maritime Economics (Stopford, 1997)

Fig. 1. Shipping supply and demand functions.

Source: Maritime Economics (Stopford, 1997).

- What kind of vessels you operate (type, age, capacity, speed etc.)

Very important decision for a shipowner the kind of fleet he will operate. The condition, the age of the fleet, the capacity and the speed. The mix of a fleet size will provide flexibility to a company to have access to several cargo and market needs. The new vessels are being chartered more easily and in a higher price, unlike old ones. The capacity and the type of a vessel are also important. A vessel with bigger capacity can transfer more cargo in one voyage, but has problems in entering to small ports. Thus, shipowners for example that operate in dry-bulk trades are faced with the decision on what size ships to employ. Broadly, three weight categories of dry-bulk ships are distinguished. Handysize (30000 dwt), Panamax (60000 dwt) and Capesize (120000 dwt). Each size ship corresponds to different trades and is used in different routes. Handysize vessels are used to transport grain mainly from North America and Argentina, and minor bulk products virtually from all over the world. Panamax ships are used for coal exports from North America and Australia, and grain from North

America and Argentina. Capesize vessels transport iron-ore, mainly from Brazil and Australia, and coal from North America. Shipowners will then typically consider the risk/return trade off in different weight categories and invest or speculate accordingly.

- Newbuild secondhand market and scrapping they are going to be involved

Ship prices and their movements over time are of great importance to shipowners taking decisions regarding purchase and sale of vessels. This activity often contributes more to their balance-sheet than ship operation itself, since the amounts involved in ship transactions are large, and as Stopford (1988, p. 383) notes: ‘Typically, second-hand prices will respond sharply to changes in market conditions, and it is not uncommon for the prices paid to double, or halve, within a period of a few months’.

Past research on explaining ship prices has concentrated primarily on modelling the level of ship prices (see, among others Charemza and Gronicki, 1981; Beenstock and Vergottis, 1989; Stopford, 1988). An exception to this is Kavussanos (1996b) who models explicitly the time varying variance of monthly tanker prices. It is argued there that shipowners as profit maximizing ‘agents’ who hold portfolios of shipping assets, are interested in measures of risk in conjunction with returns when selecting the type of assets to include in their portfolio (Markowitz, 1952).

Very important criterion for the shipowners to make a choice in which market are they going to involve and invest their money is in which period of the shipping market cycle are in the current moment. The shipping market cycle is divided into 4 periods (trough, recovery, peak, and recession) based upon shipping cycle theory. It is very often when the market faces her peak period shipowners don’t have the patient to order a new vessel and wait at least 2 years more and they buy from the second-hand market, usually in higher price than there is in the newbuild. When the market faces the recession usually everyone sells and the price falls, this makes the shipowners to scrap their vessel in a younger age and in lower price than they should. The same happens on the through period. In recovery where they can forecast a rising market everyone orders new vessels so they can be prepared for the high demand of the market, leading us to conclude that the shipping cycle rules still apply.

- Are they going to operate in the spot market, time charter, voyage charter, bareboat charter or contact a FFA

To be more specific about the different types of charter, the voyage charter starts when you hire a vessel and crew for a voyage between a load port and a discharging port. The charterer pays the vessel owner on a per-ton or lump-sum basis. The owner pays the port costs (excluding stevedoring), fuel costs and crew costs. The payment for the use of the vessel is known as freight. A voyage



charter specifies a period, known as laytime, for unloading cargo. If laytime is exceeded, the charterer must pay demurrage. If laytime is saved, the charter party may require the shipowner to pay dispatch to the charterer.

A contract of Affreightment is a contract similar to voyage charter, but shipowner undertakes to carry a number of cargoes within a specified period of time on a specified route. Agreed frequency of cargoes may require more than one ship.

A time charter is the hiring of a vessel for a specific period of time; the owners still manage the vessel, but the charterer selects the ports and directs the vessel where to go. The charterer pays for all fuel the vessel consumes, port charges, and a daily hire to the owner of the vessel.

A trip time charter is a comparatively short time charter agreed for a specified route only (as opposed to the standard time charter where charterer is free to employ the vessel within agreed trading areas).

A bareboat charter is an arrangement for the hiring of a vessel whereby no administration or technical maintenance is included as part of the agreement. The charterer obtains possession and full control of the vessel along with the legal and financial responsibility for it. The charterer pays for all the operating expenses, including fuel, crew, port expenses and P&I and hull insurance. In commercial bareboat chartering, the charter period may last for many years; and may end with the charterer acquiring title (ownership) of the ship. In this case, this is a form of hire-purchase from the owners, who may well have been the shipbuilders. That is common for tankers and bulk-carriers.

- Freight volatility and freight rate

The larger the freight volatility is, the more the freight rate fluctuates. Previous studies show that freight volatility can be forecasted but based largely on its past values. An abundance of studies have been carried out in an attempt to understand the time-varying characteristics of freight rate volatility (Kavussanos, 1996a, Kavussanos, 1996b, Kavussanos, 2003, Lu et al., 2008; among others), yet among them only a few discussed what are the causes and impacts of the time-varying risk in shipping markets.

Previous studies (see, for example, Beenstock and Vergottis, 1993, Kavussanos, 1996a, Kavussanos, 2003) have also concentrated on explaining the determinants of freight rate (FR) from the perspective of shipping supply and demand. The following three variables including fleet supply and demand have been widely used:

Freight rate= f (Fleet size, Industrial production, Bunker price)

Where fleet size (FS) indicates the supply of fleet trading in shipping market, industrial production (IP) denotes the demand for shipping services, and bunker prices (BP) reflects the transportation costs. According to previous empirical results, IP and BP are found to positively affect FR, while FS has a negative effect on FR.

An attempt on determining the impact of the change in fleet size on the freight volatility shows that the freight rate volatilities are regressed against variables that represent the changes of the supply of fleet, the demand for shipping services, and the transportation costs.

- Political developments

Political boundary changes or changes in political systems, which affected the position or permeability of national borders, human migration, changes in the mode and volume of international trade, or recent industrial practices and environmental laws are very important and have huge impact in the shipping industry. Also, wars have huge impact to this international industry, because before and after a war the demand for transportation of goods is bigger. A current worry among global shippers now is U.S.-China tension over conflict in South China Sea. Another worry is the Middle East, with tension of war in Syria, Iraq and Iran. Such tension could interrupt trade deals with partners around the world and, ultimately, even obstruct shipping. Also, it is not just import-export policies or political positions that have a bearing on trade and commerce. A cut in government programs or higher taxes can potentially result in less money in the market and lower demand, Rising interest rates may have a similar impact, as fewer customers may be inclined to use their credit cards, reducing demand and, by extension, the overall volume of international shipping.

A protectionist policy restricts trade between countries by taxing imported products, thereby pushing consumers to buy domestically. A good example is the current spate of uncertainties and speculations surrounding President Trump's plans to impose taxes on international trade, and its impact on international shipping.

The global movement of goods through the ocean, inland waterways, railways and roadways constitutes an important element in the freight transportation system. An effective freight transportation system ensures seamless connectivity and multiple shipping options to the senders of the cargo. Many international shipping options involve balancing trade-offs to facilitate trade. While economic factors such as cost, time and reliability of delivery play a key role, political factors are often underestimated.

Threat of pirates in high seas, chances of bottlenecks in ports, trade union activism, inflated cost of loading and unloading cargo, corruption in third-world countries, civil or other disturbances hinder reliable movement of cargo. These

can all be clubbed as political factors that can distort the shipping industry and influence the choice of transportation. While politics may seem detached from economic considerations, the reality is that no shipper or business can afford to ignore political factors which often shape the external environment of the business.

- Very strict industrial framework, especially for environmental protection issues and security (prevention of human injury or loss of life, avoid marine pollution and safe operations at sea, cargo protection and property protection)

Regulations can have a direct impact on the shipping industry. Environmental concerns are at an all-time high with air pollution and destruction of marine ecology being the two most pressing areas. Nowadays minimum standards of operation in the shipping industry are the ISM Code, ISPS, STCW Amendments, MLC, TMSA ISO 9000:2000, ISO 14001 along with several other codes have led the shipping industry into the era of standardization.

CO<sub>2</sub> emissions from maritime transport represent around 3% of total annual anthropogenic greenhouse gas (GHG) emissions. Consequentially, the maritime sector is facing the challenge by imposing new regulations to significantly reduce its GHG emissions as contribution to the international ambition to limit the effects of climate change.

- Economic prospects and forecasts of the world economy (as maritime industry is a worldwide market)

Economic prospects and forecasts for a new demand or for increasing a price of a cargo is always affecting the shipping industry. For example, if we have a forecast that the price of oil will rise, the demand for oil now will go up and the transportation need will be bigger, since everyone is going to buy more oil in lower price, to avoid paying more in the future. When the price of oil falls the retail sales of gasoline, the major oil product, increase as people will use more when the price is lower. In addition, businesses that are heavily reliant on the price of oil, including the shipping industry and the airline sectors, saw reduced costs and higher profit margins. All in all, the lower costs of transporting goods and delivering purchased cargo benefited both consumers and businesses alike.

Also important economic prospects of the world have huge effects in the shipping industry. For example, World Economic Outlook has forecast that the global economy is projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020. The global economy continues to expand, but third-quarter growth has disappointed in some economies. Idiosyncratic factors (new fuel emission standards in Germany, natural disasters in Japan) weighed on activity in large economies. That's why all those changes and expands have huge opportunities, but huge risks too for a shipping company. You have to be sure before you



decide where to invest or where you should stay out of a specific project, according to the forecasts and to economic prospects of the global economy.

- Technological development and innovation

Sensor technology is one of the most advanced and well-developed technologies today. With the introduction of sensors, there is no need for checking equipment on the ships manually. Connecting all the machinery to sensors through wireless connectivity enables the crew on the ship to keep accurate tabs on the working condition of machines, the maintenance required at regular intervals, and their complete operability on ships. In addition, if the sensors are combined with machine learning and artificial intelligence, they can access remote locations and analyze the data, immediately sending out alerts if any of the ship's parts need maintenance.

The use of robots in every sector has become quite common in the past few years. In the shipping industry, robots are gradually being used to aid all the tasks. Activities like packing, delivering, inspection, firefighting, etc. can be carried out by robots effortlessly. Since robots work more effectively and without any breaks, the shipping industry is anticipated to come to rely heavily on the use of robots for every function.

Autonomous systems in shipping are gaining immense popularity on account of their capability to deliver goods without any interference. These systems operate at peak efficiency for a significantly longer duration that is needed in the shipping industry. Leading technology companies have invested in the research and development of these autonomous systems. Surface, underwater, and air-based vehicles are being used to monitor activity, tap desirable locations for oil and natural gas, and other such activities. These autonomous systems are equipped with the latest, advanced heat mapping and material detection technology, which eliminates the human effort involved. For example, a Transportation Management System (TMS) is a system designed to manage the supply of goods efficiently. It enables the company to keep a proper track record of their shipments and whether or not they are being delivered to the correct destination.

IoT primarily consists of a GPS and a cloud-based database which stores all the data collected by devices on the ship. IoT also connects the sensors, robots and other devices through a wireless network. The advantage of using IoT is that, since it keeps track of all devices and shipments, the shipping industry will be able to provide better customer service. It can provide customers with information about the location, time of arrival and delay in the shipment. IoT is, hence, a highly anticipated technological solution to management problems on the ship.

Increasing trade in the shipping industry has caused a lot of pollution and environmental damage. Waste effluents, fuel from ships, oil spills, and other shipping-related issues have made it necessary to adopt a greener approach in the maritime industry. Megaships are being designed with more sustainable materials, like fibre-reinforced plastic, to carry a large quantity of cargo at a time, thus reducing traffic. The reducing traffic will also ensure reduced carbon footprint of the ships.

Optimization of operating procedures at the harbor with the help of technology can reduce the time the ships have to wait at the port. The reduced waiting time will guarantee less carbon emission from ships at the docks. To make the unloading of the ship faster, it is important to make use of robots and other machinery to lift heavy cargo.

Technology and shipping are no longer strangers but neither has technology replaced manual involvement in shipping. It is important that technology be seen as a valuable tool to assist shipping operations and used accordingly. All the available technology, if put to proper use and frequently updated, can ensure a much more competent shipping industry in the near future. What are your thoughts on the trends in shipping? Let us know in the comments section below!

Recently, critical factors that affect shipping industry according to Lloyd's list are the following:

- Fuels

The price and emerge of new fuels will largely determine how the shipping industry transitions into a more sustainable and efficient future. On January 1, 2020, the International Maritime Organization (IMO) will enforce new emissions standards designed to significantly curb pollution produced by the world's ships. Under this international shipping rule, the big ships that travel the world's oceans must switch from high sulfur sludge-like fuels to lower sulfur fuel or find a technological solution. That means ships, burning an estimated 3 million barrels a day, and all the shipowners have to take a huge decision and need to move to a different fuel type, putting them in direct competition for fuel with truckers, owners of heavy equipment, railroads and airlines. While huge investments have already been made, the change on Jan. 1 could send ripples through the transportation industry, causing estimated price spikes of 20 percent or more for fuel of all sorts. As a result, cargo prices, airline tickets and the cost of sending a package could rise. Some analyst say there could even be temporary fuel shortages, as refiners and transport companies scramble to meet the needs of the shipping industry. Shipowners have to choose between using the new fuel or equipping themselves with multi-million dollar scrubbers to limit sulfur emissions from the current fuel, which will be less





expensive, but only a limited amount of ships can make those changes because it is costly and it may not be worthwhile on an older vessel.

- Consolidation

From containers to tankers, from ship owning to ship management, market forces continue to incentivize mergers and acquisitions. Recently, a wave of market consolidation has transformed the global container shipping industry, leading to mergers and acquisitions between container lines, a reshuffling of shipping alliances and the expansion of shipping companies into port operations. There is potential for more consolidation, which raises the question as to the implications for market concentration levels, and whether the industry is becoming an oligopoly on certain routes.

- Brexit

For the maritime industry Brexit raises questions over the new relationship between the UK and EU, how goods and passengers will be handled at the new border, the future status of employees currently in the UK, the effect on future recruitment into the UK and the ability of insurance and financial institutions to carry out their business in Europe to name but a few.

- Digital Disruption

All around the maritime industry businesses are on the lookout for the digital disruptor. The threat of a tech-led business overturning the industry, rewriting its rules and shifting its balance of power cloud come from within, or from one of the established tech giants with sprawling logistics business. The maritime industry will look and feel very different in ten years' time, thanks to new technologies and new ways of working.

- Emerging Markets

As global shipping struggles through a never-ending trough, canny operators are looking to new markets for growth including: dry bulk opportunities from US moves to renegotiate the 23-year-old North American Free Trade Agreement; China's entry into the offshore wind farm industry; and the growth of liquefied natural gas trades enabled by floating storage and regasification units.

- Shipbuilding and scrapping

Industry-watchers like to use a number of metrics to gauge the health of shipping. The Baltic Dry Index is one; the world idle fleet another. Here we take a look at another indicator: the orderbook- or, more precisely, shipyards, which are in the frontline of any improvements or declines in industry health. Shipyards are in a precarious position. A strong orderbook should be good for



business; more ships mean more work. But too many orders can tip the fleet balance into a glut and, as we have seen for the past seven years at least, that can lead to a prolonged curtailment of orders. It is a vicious cycle that gets repeated again and again.

- **Maritime Clusters**

Cities the world over are polishing their offerings to the maritime sector in a bid to attract the industry's cash, jobs and expertise. Companies have an unprecedented choice of viable locations for their offices, and maritime cities are going their utmost to alter policy and market their strengths to attract business.

- **Maritime Trade in Transition**

Trade patterns will be redefined over the next decade as the combined effects of the fourth industrial revolution (artificial intelligence, robotics, the internet of things, 3D printing and digitalization), shifting global demographics, emerging non- OECD middle class, decarbonization of industry, climate change and many other factors disrupt everything we know about economic growth, from labor market to trade relations.

- In the end, to accomplish the best outcome and to manage all those factors that affect the shipping industry you must develop a management style suitable to control and measures all the necessary decisions and position a success shipping company must have to be competitive among others in this global industry. As the shipping industry is a very complex industry and the industry companies cannot influence developments but only observe the signs and trends and implement a management style that will lead them to achieve and ensure sustainability, their performance and their profitability.

## **Management Styles**

Management of Shipping Companies aims to facilitate the learning and understanding all those factors that affect shipping industry and control to succeed a good combination and the best performance of the company.

To begin with the most critical factors for a shipping company is the organization and organizing. Organization is the process by which the relations between activities, resources, and employees are determined. Organizing is the process of structuring both human and physical resources to accomplish organizational objectives. A common shipping organizational structure separates business functions by type, such as administrative, accounting, technical, legal, operation, chartering departments among others depending on the company's size. Publicly held companies will have a board of



directors as their top management level. An organizational structure creates a system for individuals to observe and follow when making decisions, allocating resources or adding new shipments to their operations. International shipping companies may also have an international division in the structure to run these operations.

## Chapter 2

### 2.1 Organizational design

Organizational design is a process in which managers develop or change their organization's structure. Especially, making decisions about how specialized jobs should be allocated, the rules to guide employees' behaviors and at what level the decisions are to be made.

As Goulielmos(1996) said, the flexibility that a shipping company can display at times with regard to its organizational structure affects its overall effectiveness. This flexibility connects with the size of the company as he claims. Only one year later, Theotokas (1997, p. 62) supports that “size is one of the factors that connect with defining the organization and how to run a company.”

The most critical factors according to Theotokas (2018) that affect structural dimensions are formalization, complexity, centralization, specialization and standardization.

- Formalization

Is the degree to which jobs are standardized and behavior is guided (expectations regarding the means and ends of work are specified, written and enforced). It also, influences the organization and manner of operation of the organization at many levels, since it is linked with control, the approach to the human resources, knowledge and its handling. The degree of formalization of an organizational structure has a significant relation with its organizational structure, it also provides the scope to manage knowledge, particularly the explicit, more effectively in the interior of the organization. This determines all the rules, procedures, policies and manuals of the company such as ISM Code, ISO 9000, and ISO 14001.

The recording of explicit knowledge in handbooks and the standardization of rules and processes contribute to the minimizing of influence from changes in personnel and economizing on resources. Each shipping enterprise develops systems in which the jobs, competences and responsibilities of each employee, the policies, rules, and the processes which determine the manner of action of the individuals and narrow the margins for any arbitrary behavior on their part are explicitly described.

The degree of formalization of the jobs carried out by the personnel of the offices on land and by the crews of the vessels has increased. A high level of formalization in



certain cases acts as a discouragement to the taking of initiatives, particularly among the crews, also a series of factors has contributed to the criminalization of the seafaring profession as a consequence of the way in which the authorities deal with seamen in the event of accidents and other occurrences.

Formalization reduces the impacts from the frequent alternation of individuals in the organizational structure of the vessel, permits the smooth transmission to new arrivals on the vessel of the explicit knowledge which has been acquired from its operation in the past and last but not least it increases the control range.

We can find a combination of knowledge management and formalization. Two types of knowledge are known, the first one is explicit knowledge which can be formulated in language, and can be rendered in grammatical terms, mathematical formulae, in handbooks, and by other means, in such a way that it can easily be communicated from employee to employee. Explicit knowledge can be standardized, codified, and conveyed. The other is tacit knowledge, which is difficult to formulate in language. It is personal knowledge, rooted in personal experience, and includes undefinable items, such as personal convictions, a specific point of view, and systems of values. Tacit knowledge resides in experience and is difficult to express, manifests itself only now when it is applied, and provides the basis for the development of a competitive advantage.

Tacit knowledge, because of its subjective and intuitive nature, is not amenable to processing and is not easy to communicate. A condition for its communication and diffusion is its conversion into words and numbers which can be understood. What results from the conversion of tacit into explicit knowledge is organization knowledge (Nonaka and Takeuchi, 2001). Tacit knowledge is conveyed through action, often requiring an extended period of social interaction. On board ships, the process of the communication of knowledge, particularly of tacit knowledge, encounters limitations which have to do with the suspension of the employment of seamen for a certain period and the alteration in the composition of the teams on each vessel. Thus, a factor that can facilitate the dissemination of knowledge is the strong ties between the employees and the organizational systems. If the seafarers are employed by crewing agencies and not by the shipping companies which operate the ships and if they know they will not continue employment on the same ship or even with the same company in their next sea service, it is possible that their engagement will not be the proper one. Thus, in case of minimum commitment and loyalty of employees, the dissemination and integration of the knowledge they possess encounter difficulties.

- Centralization

Centralization is all about sharing out in the interior of the organization of power and the right of decision making. The ability of who has the the right to take decisions and the nature of those decisions. There are also factors contributing to the definition of the degree of centralization/ decentralization. Those factors are: formalization, cost of decisions, culture of the organization, skills of personnel, and conditions of the business



environment and of course the policies and mechanisms of control applied in the organization.

A series of decisions are taken by personnel at the lower levels of hierarchy, but these are in essence, in normal conditions, strictly scheduled, and the scope for initiative on the part of the personnel is predetermined by the rules, processes, policies, and handbooks of the enterprise. The characteristic also applies to the company's ships. In the past, when the technologies and communications systems did not favor constant office-ship communication, the degree of decentralization of decisions to captains was greater than today.

- Complexity

Complexity is about the existence of different kinds of work and of composite organizational and management problems. Influence on the behavior of its members, structural conditions, processes which are carried out in its interior and relations in its environment. The criteria we need to measure the degree of complexity of an organization are the horizontal complexity, vertical complexity and geographical distribution or spatial dispersion.

- Specialization

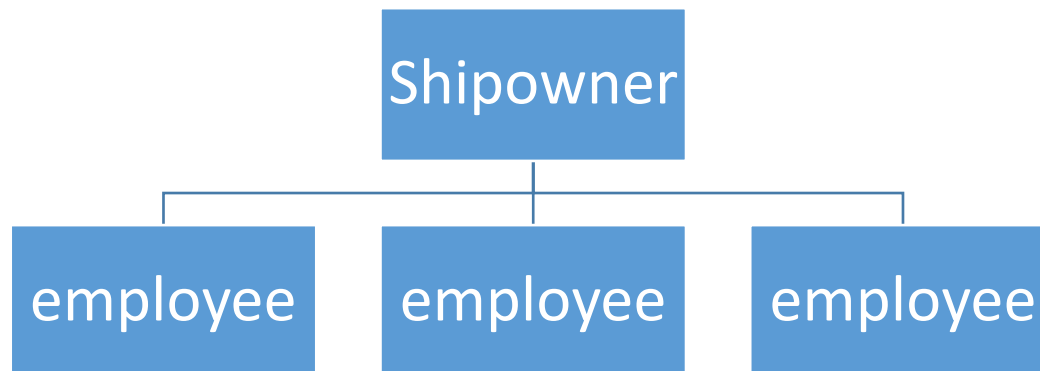
As a criterion of specialization for a shipping company we can set the size and the capacity of their fleet. Also, important factor for their specialization is the type of cargo they transfer. According to their fleet size, shipping companies are divided into small, medium and large. In the first category are those which manages vessels up to 50.000 gross. In the second category belong shipping companies with vessels from 50.001-200.000 gross and in the third category, those who manage vessels with capacity up to 200.001 gross.

Also, the specialization a shipping company can have is in the cargo she transfer. There companies where are into dry cargo, wet cargo, dangerous goods, containers, LNG ships, and cruise vessels too. Some of them decide to have a mix fleet.

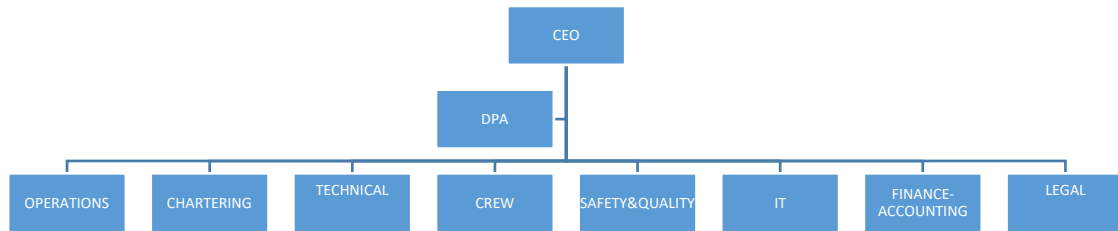
## **2.2 Organizational structure of a shipping company**

The organizational structure of a shipping company depends on the kind of service which the company provides and it is defined by the type of its vessels and the markets in which it is active. Also, the degree of ownership of the vessels possessed by the company is important. For example, are the vessels owned and managed or they only do the management. The technology which the shipping company incorporates in its operation. The factors in the external environment which make specific demands or impose certain restrictions are also important. One of the most important factor is the method of management the shipping company implements.

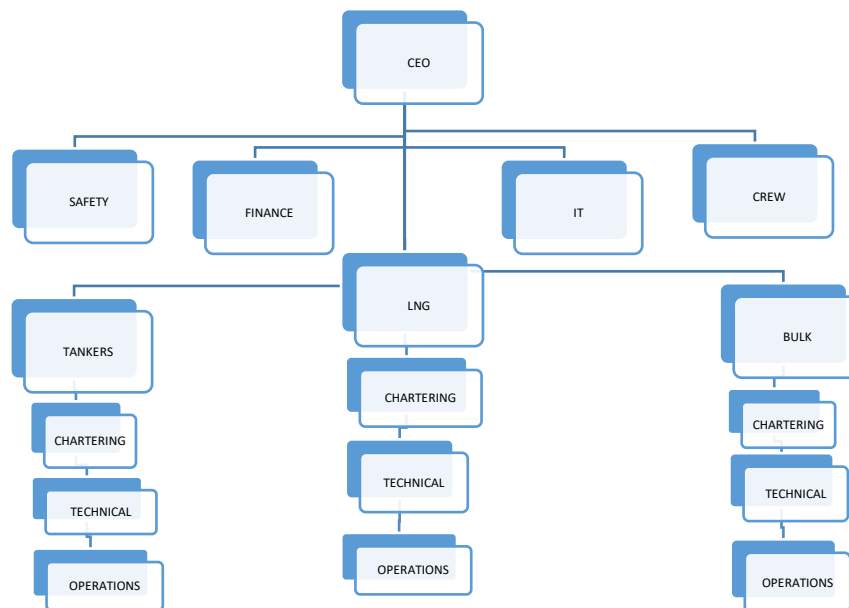
There are several types of structures that shipping companies use. First of all, there is simple structure, which does not include departmentalization. It is mostly adopted by small firms at the early stage of their establishment. It's the structure that exist before the existence of directors and it is one step before the adoption of functional structure. The crucial factor for efficient operation for this structure is the number of employees. When the number increases, the need for employment of supervisors and the grouping of tasks/activities become apparent. It has the positive that there is close supervision and control of the business by the shipowner, but the negative is that the owners focus on less important issues to the expense of strategic ones.



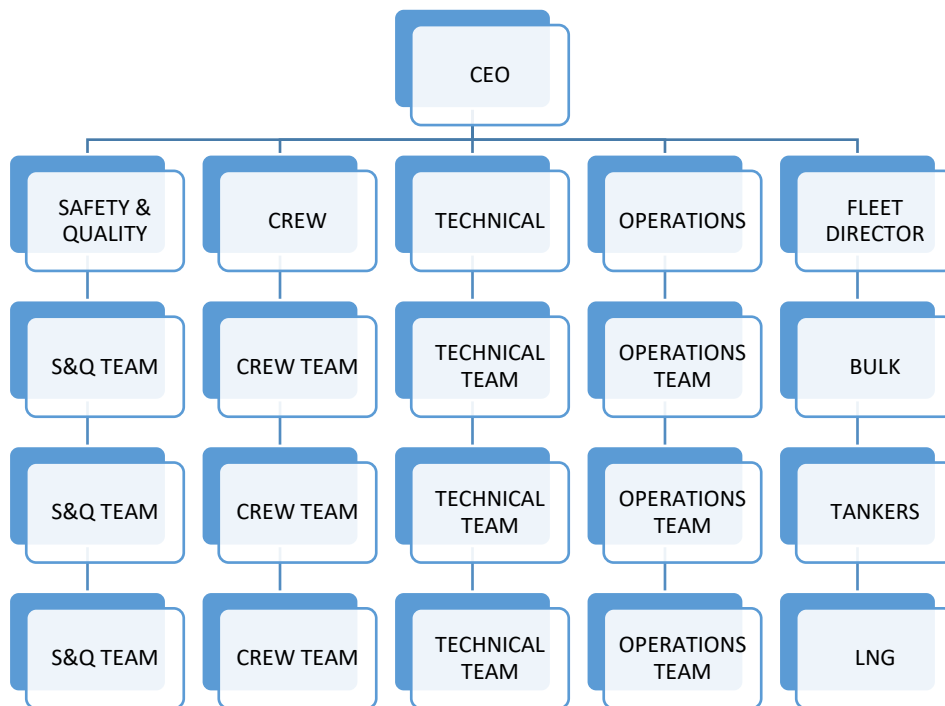
Then there is functional structure, where activities are grouped on basis of their functional specialization and jobs that are related to the same process are located in the same department. It is implemented by companies which take part in markets with a stable operating environment and develop a few services which do not change over time. Also, the extent of departmentalization depends upon the size, the volume of work and the personnel of the company. In the case of large-size companies, each function is organized in an independent department. On the other hand, companies with smaller fleets, combine some functions within the same department. It is the traditional form of organization in shipping companies and it is possible that it deprives the company of the necessary dynamism and pursuit of change. This structure can be effective because it brings together personnel with the same specialization, ensuring at the same time their unification at the top level of hierarchy. The positive effects are that there is a central control, a clear definition of competences and in-depth approach to operational issues. Also, there is a development of specialization in the personnel and increased effectiveness of companies. But as all structures this one has some negatives effects too. There is a hindrances to horizontal communication, focus of the personnel on the department's aims at the expense of the overall objectives, there are employees with high specialization who cannot have overall supervision of the company's processes and there is also difficulty in adaptation to changes in the environment.



Another structure is divisional structure, when the fleet is divided into groups, depending upon the specialization of the vessels, and each group constitutes a division. Each division is organized in the light of its needs, using entrepreneurial resources in common with other divisions. Within each division, those processes which involve the management of the ship and require specialization in relation to each type, are organized in a department, while the support or executive processes are organized in independent departments which serve all the division of activity. This type of structure has many positive effects, such as making possible rapid changes and permits each division to adjust to these changes. It also facilitates co-ordination between the various processes within each division, contributes to personnel development by overall supervision, promotes control, reinforces the concentration of management on strategic issues and encourages initiative and autonomy in employees. But to achieve all those positive effects, some problems arise like the increase of cost of implementation as it abrogates economies of scale in the operational departments and the existence of large number of employees with the same duties is a negative impact. There is also probability of poor co-ordination and conflict between the divisions over claims on the entrepreneurial resources and the addition of a further level of management. In the end there is also the elimination of in-depth knowledge and technical specialization on the part of employees.



A combination of the forms of functional and divisional structures is the matrix structure. This structure includes vertical and horizontal lines simultaneously. A system of dual command and responsibility is created and each employee reports to two superiors at the same time, to the head of the division of his specialization and to person responsible for the function at which he works. This structure is suitable for innovative companies which offer a wide range of services and change over time. It increases their flexibility and permits their adaptation to any rapid changes in the conditions in their operating environment. The positive effects are that it has a good use which is made of specialized personnel and equipment, motivation, flexibility, and adaptability, encouragement of co-operation and the exchange of ideas and knowledge. Also, there is limited need for hierarchical control, personnel development, the creation and diffusion of knowledge, and the encouragement of innovations. Negative effects are the existence of a system of double command and responsibility, the possible causing of confusion among employees, the time-consuming procedures in the taking of decisions and in the resolution of disputes, and the effort which is called for to retain a balance of power. The implementation of matrix organization internationally by companies which manage a diversified fleet is extensive by companies which operate large and diversified fleet and seek for greater efficiency in terms of costs and quality.



Last but not least, there is the network structure, which extends the importance of co-ordination and collaborating beyond the boundaries of the company. It is implemented by companies which entrust to other companies in the same group or to external associates many of their management processes and retain a small-size structure which has a coordinating role and provides the company with the maximum flexibility and makes it possible for it to concentrate more effectively on the processes and functions



which it considers crucial for its competitiveness. It is likely to lead to a reduction of the control over the processes which it commits to external associates. We have to admit that crucial factor for the effectiveness of network is the electronic interconnection between the partners. The positive effect of this structure is the cost reduction, the flexibility and the innovation. The two negative things are the difficulties incoordination and control.



### 2.3 Organization & management

As we have briefly discussed about organizations and their structures, we must connect them with the proper management. An organization is a set of people that work for the materialism of the common goal or goals and is a technical and social entity aiming at company's objectives. The vessel is a sub-system of the shipping company that must follow the objectives of the head office. The ship has the same goals as the head office or has no own goals and objectives other than those of the head office. A ship's goals should never contradict the company's interests, and the Captain is, of course responsible for this rule.

Management is a more delicate process in the direction of coordinating people with their own intentions and interpretations about what is happening in the world, with their potential ability for self-action in a creative way. Management should seek to transform the potential ability to real ability and then to skill! This last process is far more essential for shipping. As argued by Morgan (1998), a new consent has emerged that faces organizations as living systems, where the relationships and communications are more important than the processes and structures. The basic thing to accomplish is to shift commitment to responsibility. This principle is a fatal strike to the foundations of the ISM Code based on commitment on top. Reality changes form and meaning as a result of one's own actions and this is continuously new.

## 2.4 Theories of management

The theories of management were based on the limitations of the positive sciences, including the theories of Newton (1642-1727) and Descartes (1596-1650). The natural situation of a system is equilibrium and deviations are eliminated. The systems could be approached through simplicity and autocracy. The effort was to understand the constituent parts and the way that these parts self-effect each other so as to predict the future situation of a system in a theoretical way. In management, again, efforts were paid to simplify, to use autocracy and equilibrium. Fayol (1916) and others invented management mechanisms of control based on the idea of the company as a machine. The old approach was for a company to be directed to targets derived from planning, finance and the operational system through objectives. Here exists a central bureaucratic structure for the statement of the instructions of the type: 'I command and I control'. Money rewards and penalties are used for the motivation of people. There is a division of labor, the concept of work duty, the standardized spare parts, the standard processes, quality control, cost calculations, time study and movements of labor and organizational charts.

Adam Smith (1723-1790) was, too, a victim of the above philosophy, believing in natural law. Indeed, Smith, as argued by Raphael (1991) used the pattern of movements to display equilibrium, reminiscent of those to be found in physics, for instance in the solar system. There is a good deal of this kind of analogy with the natural sciences in Smith's account of the workings of the economy. Taylor (1911), also believed in the autocracy of the social system and that management, if it was correctly understood, could enable one to predict the management of an organization. Management uses controls like budgets, evaluations of effectiveness, and financial standards as mechanisms of negative feedback with a view to attain and maintain equilibrium.

## 2.5 Management in a shipping company

As Goulielmos (2002) said first of all we have to accept that there is a system. The various departments in a shipping company and in a vessel are systems. They maybe small or big but in the end they all fit together. Every system has its own characteristics and takes its name from them. Influencing parts make up a system, the behavior of the system is not the same as the behavior of the parts. Indeed, it may be very different. When we study a system, in effect the study is of a sub-sub system. As for example, the department of a shipping company for the management of human resources and education of crew (manning department or sea personnel department) is such a sub-sub system. Managers of shipping companies should not pretend that they are far from interacting with what takes place inside their teams or their own departments, commitment is not adequate, and responsibility is required as a part of the system. If trying to introduce changes into a shipping company, one needs concession as to what are the system and its limits, the feedback process, the relationships between people, and the adoption of a common approach. The practical advice here is that a system should be taken as a small part of a larger total. A good manager has to develop the the appropriate management style for his company/department so that he can be effective and efficient, taking into consideration all the above and of course with a goal of success in all sectors and to achieve the best performance for the shipping company.



## 2.6 Management styles

A management style is the particular way managers go about accomplishing these objectives, it includes functions of planning, organizing, staffing, directing and controlling, in view of accomplishing a target, objective or goal. In carrying out these functions, it taps into the available resources of the organization, such as human resources, financial resources, technological resources, and even natural resources, if any. Management styles vary by company, level of management, and even from person to person. A good manager is one that can adjust their management style to suit different environments and employees and of course different department in a shipping company. An individual's management style is shaped by many different factors including internal and external business environment, and how one views the role of work in the lives of employees.

Internal company factors that affect and determine a management style are usually policies, priorities, corporate culture, staff skill levels, motivation and management structures. In order to be effective a manager's style and outlook must fit into the business's organizational structure and culture. Their style must adhere to the policies and procedures set by the organization, and they must be able to achieve company objectives. They are responsible for controlling an effective work team and must uphold organizational beliefs within that team. A manager who cannot do this will probably called ineffective and will be removed from the position of management. Staff skill levels and motivation greatly affect management style as it is necessary for a manager to accomplish objectives while maintaining a content and effective work team. Less skilled or motivated employees would require a style that is more controlling and fosters consistent supervision to ensure productivity. Highly motivated or skilled employees require less supervision and direction as they are typically more technically skilled than management and have the ability and desire to make more autonomous decisions. Hierarchical management structures call for decision to be made solely by upper management and within the scope of a manager's position in the hierarchy. These types of organizations require more controlling management styles in order to meet objectives and get things done as specified. Fatter structures with more decentralized decision-making benefit from management styles that encourage team communication and employee's contribution regarding decision-making.

External factors affecting management styles are those that are outside of the control of the organization. These include, but are not limited to consumers, suppliers, competitors, the world economy as the shipping industry is a worldwide industry and of course the law and the strict industrial framework, especially for environmental protection issues and security and the economic prospects or the forecasts. The market they are operating, the freight rate and what phase of the market they must face.

According to the factors (internal and external) that affect a management style, Consulting firm Hay/McBer identified the following management styles.



## 2.6.a Directive management style

Other terms for this management style are Coercive and Autocratic. This is characterized by a top-down decision-making process, where the decision is made from the top, and all the others below are expected to fall in line and follow. This management style it is not usually recommended, although there are times when using this style may be needed. Thus, this style must be used with extreme caution, and only when absolutely necessary, or as a last resort. The primary objective of this management style, which is no different to the concept of micromanagement, is to obtain immediate compliance of employees or subordinates.

### The directive manager

The manager takes on the “do as I say” approach. It’s “my way or the highway” for this type of manager. He directs, or even dictates, what is to be done, and the employees are expected to follow along, with no questions. Also, the manager keeps a close eye on the employees and their every move. Control is very important for this type of manager, which is why she must know what each employee is doing at all times. This is where the definition of micromanagement applies. The manager in this style motivates employees by delivering threats, basically the manager will tend to order the members of the team around. He usually places a high value on discipline, giving punishments to those who are not able to meet the standards that she has set previously and demands immediate compliance from the employees without asking questions.

### Advantages

1. The manager is in full control of the direction that the work is taking. For example, conflicts and differences in opinion are avoided, since it is the manager that solely decides what to do and how to go about performing the tasks.
2. There is more focus and order in how things are done.
3. The manager is always kept in loop, fully aware of the progress of the project and fully apprised of the status of the work of employees

### Disadvantages

1. This style promotes very little learning, and even none at all. Employees are merely told what to do and how to do it. This means that they are not given any room to exercise their judgment and, in the process, learn. It also gives very little room for mistakes, since all actions are dictated by the manager, and as a result employees are also deprived of the benefit of learning from mistakes.
2. The possibility of employee morale being high is very low. Employees will easily feel stifled by the amount of control they are subjected to, and frustrations are bound to boil to the surface. As a result, employee dissatisfaction is likely to be very high.
3. Employee enthusiasm tends to sink very low and they will lose initiative to perform their assigned tasks. This will ultimately result to low productivity and poor performance.



4. Managers may find this to be exhausting since they have to be everywhere at all times, keeping an eye on everyone.

When we should use Directive style?

The directive style becomes an effective management style when the business or company is suddenly faced with a crisis. For example, if a company is suddenly faced with the threat of a hostile takeover, managers will simply come up with split-second decisions and tell the employees what to do in order to deal with the threat. Also, in cases of emergencies, manager can take on a directive style to handle the situation.

When we should not use directive style?

Managers should avoid using this style if the employees are still new or underdeveloped. As mentioned earlier, this style does not allow employees to learn, which means their professional and personal growth may be hindered. The automatic conclusion that most people would arrive at would be underdeveloped employees are the best fit for the directive style. After all, they are new, they do not know much, so they should be able to follow orders well. Even if the employees are not new, and they are already highly skilled and quantified this style must be avoided because these types of employees become easily resentful when they are being micromanaged. They tend to feel easily suffocated by too much control, and the idea that their actions are dictated by someone else goes against their concept of self-worth and self-belief.

### **2.6.b Authoritative management style**

Authoritative management style, also known as the Visionary style of management, is often touted as the most effective out of all the management styles, although it is not without its disadvantages. This style has one goal to provide a long-term vision and direction for employees and subordinates.

#### **The Authoritative manager**

The manager sets the vision of the company, makes it clear to employees and provides clear direction towards achieving that vision. The leader sets the vision, and takes a step back, allowing the employees to get to work. From time to time, she steps in to share some input and reiterate the vision, when necessary. She does not tell them how to do things. The manager takes on a firm but fair stance when dealing with employees and subordinates, he also motivates subordinates by using persuasion and providing feedback on their performance on the job. Finally, the manager should have a high level of credibility in order to command the respect and cooperation of employees in following him and his vision.



## Advantages

1. This style gives employees a sense of freedom. They are free to perform in a way that is most comfortable to them, if they make sure that the vision is achieved. This allows them to strategize and even innovate.
2. Since feedback is provided, the employees are aware at all times of their performance and the progress of work, hence the manager does not have to be with the employees every step of the way.
3. Ensures focus and a clear direction, since standards must be adhered to, and the vision is there as a constant reminder of what they are working towards.
4. Lifts employees' pride and self-esteem, especially when they turn in good performance and get praises or recognitions for it.

## Disadvantages

1. Sometimes there are some employees that become complacent, going about their own way, even outside the bounds of what is legal and proper, if they arrive at the same result.
2. This may give the impression of a manager that does not care about how the employees are working, since it is far from being hands on.

### When we should use the Authoritative style?

This management style is needed by a business or company that does not have a clear direction and needs a manager with this style since he will be the one to set the vision and steer the business towards it. Also, this style works best in cases where we have a manager who has a lot of credibility and commands great respect from employees.

### When we should not use Authoritative style?

This management style will not be effective when the employees are undertrained or undeveloped, this mean they will need more guidance as usual. This will be a problem when they are dealing with time-bound undertakings, because the manager cannot waste time assisting and guiding the underdeveloped employees every step of the way. Also, when the manager does not have enough credibility you should avoid using this style, because a leader that lacks credibility will not be able to convince subordinates and employees to follow the organization's vision, which means that it will be difficult to attain the set goals and objectives.

## **2.6.c Affiliative management style**

This management style is the “people-come-first” style, meaning that people are more important than their functions. This management style is aimed at creating a harmonious relationship in the workplace, particularly between the manager and the employees, and among the employees.



## The affiliative manager

This type of manager puts the people first, and the task that needs to be accomplished second, he focuses on avoiding conflicts and works at encouraging a good personal and professional relationship among employees. This type of manager motivates by seeing to it that everyone is happy and satisfied.

### Advantages

1. Employees will be happy, and their relationships strong, since that is the focus of the manager.
2. This management style shows enough flexibility, allowing it to be used alongside other management styles
3. Since the emphasis of this management style is not on performance, the employees and the manager are not subjected to a lot of pressure.
4. This style emphasizes conflict management, which ensures that conflicts are kept at a minimum, promoting harmony in the workplace.
5. Employees' self-worth and self-esteem will be high, with the knowledge that their manager values them personally and professionally.

### Disadvantages

1. There is a great likelihood that performance of employees would be mediocre, at best. This is because performance is not the primary focus. There is a risk that, as employees work on getting to know each other and growing closer, they may end up not accomplishing anything.
2. Employees may have the tendency to be complacent about their performance and output, since these are not top in the management's list of priorities.
3. Requires more time, since the manager may have to spend some time with the employees in order to bond with them, and to create a bond among them.
4. Employees who are performance-focused and task-oriented may feel dispirited, thinking they are wasting time focusing on things other than the job at hand.
5. This also puts the manager at risk, when top management puts performance and results as priority in evaluating them.

### When should we use the Affiliative Style?

This management style is best to be used by companies that do not have the spirit of teamwork in place and will get a boost. In the same vein, a company that suffers from divisions and dissensions may have its problems fixed by a manager that exercises an affiliative management style. It is also good when used with other management styles, since it may be used as a balance against the coercive style or the authoritative style. This management style is also preferable if the tasks performed by employees are routine and do not require top-notch performance.



When we should not use Affiliative style?

This management style should be avoided in organizations or businesses that are output-driven, where the future of the company solely depends on the performance of the employees. Otherwise, the business cannot grow as expected or hoped for. Also, this style will not work during times of crisis, where quick decisions must be made and immediate directions given to subordinates.

#### **2.6.d. Participative management style**

This management style is also known as the Democratic style. This management style is more than just promoting harmony among employees, the participative management style aims at establishing consensus and building commitment among employees.

#### **The Participative- Democratic manager**

This type of manager is inclined to have a willingness to listen to everyone, recognizing that everyone has ideas that should be considered in the company's decisions. They ask the employees what they would like to do and opens the floor for voting. The manager also encourages employee participation in decision-making and other important aspects of management. He motivates by recognizing team effort and rewarding the employees and the team for it.

#### **Advantages**

1. In democratic style of management it is possible to build and maintain trust in relationships, although it is difficult.
2. This style encourages cooperation among employees, so they are willing to work together. They will be better coordinated when it comes to their tasks.
3. With this style employees will feel more important and morale will be high, especially when they are consulted or asked for their opinions, and made to take part in the decision-making processes.
4. On the part of the manager, this takes a big burden from her shoulders, since she does not have to make the tough decisions by herself.

#### **Disadvantages**

1. In this style progress is often slow, since the opinion or input of the employees is going to be asked at every turn.
2. This will demand a lot from the manager, since close supervision will be required. The manager has to keep his pulse on everything, on the employees, the tasks at hand, the vision of the organization, and its goals and objectives.





When should we use the Participative-Democratic management style?

In an environment that requires brainstorming or input of ideas to arrive at solutions to problems. This definitely comes in handy when managers are at a loss on how to go about a project, or how to solve a problem, since they can seek employee input. If the working environment is steady and not subject to upheavals or uncertainties, participative management will be appropriate. This style applies best if the employees or subordinates are experienced, qualified and have credibility to carry out their tasks.

When we should not use the Participative-Democratic style?

We should avoid use this management style if the employees do not have enough training and experience, or if they are not competent enough in doing their jobs because this management will not work. These employees are likely to require a lot of close supervision, which will take a lot from the manager's schedule. We should also avoid using this management style during times of business crisis, this style will not be applicable. Participative management style often entails conducting a lot of meetings among the managers and the employees to obtain their input, and these meetings will take time. Situations where decisions must be made quickly are not open for this style of management.

### **2.6.e. Pacesetting Management Style**

Pacesetting style is a style which can be applied in different working environment. Organizations have goals and objectives that they are working to achieve. With this management style, the manager aims to accomplish these tasks to a high standard of excellence.

#### **The Pacesetting Manager**

Manager sets the pace in this management style and often it is at a fast and cracking pace. Manager with this style often prefer to personally do many things himself, as a way to set an example for subordinates and employees below. He also expects the employees to be able to pick up where they left off, and believes that by showing how it's done, self-direction will be possible. He prefers to motivate by setting high standards of excellence.

Advantages

1. Gives employees more freedom to put their skills and competence to good use. It is also a good way for employees to hone their skills.



2. Employees perform their tasks with high energy and engagement. They tend to be highly motivated in performing their assigned tasks because there is a target to beat.
3. Employees will feel more inclined to face up to the challenge.

#### Disadvantages

1. Managers often set impossibly high standards and has an effect that some employees may give up before they have even started.
2. Employees may be put under too much pressure to meet the high standards of excellence in the organization.
3. This can be exhausting for some employees, especially if the pace is so fast and high-speed, they have trouble keeping up. The manager basically expects employees to be on the same wavelength, and operate with the same level of energy, which can put a lot of strain on the employees.
4. Employees may feel like they are working for slave drivers which, in a sense, this type of manager is. He usually obsesses over the smallest of details and he is too focused on the work, without caring for the personal welfare and well-being of the employees.

#### When should we use the Pacesetting Style?

We should use this style when employees are experts who can easily follow the lead and keep up with the expectations of the manager. It is most effective when the employees are highly motivated and have the competence to accomplish tasks according to the high standards set by management. Also, if the manager is an expert in the specific area or field, they will have a lot of credibility and this management style will definitely apply in this case because employees will generally want to become like them. In the end this style will work in organizations where the work force needs very little direction and coordination, where the manager needs only to show the ropes and the employees will do the rest.

#### When should we not use the Pacesetting style?

We should not use Pacesetting style if the nature of the work requires development and coaching. Also, if the workload is too heavy as to require assistance from others, this style may not work well, since it will need a lot of coordination between managers and employees and among employees.

### **2.6.f. Coaching Management Style**

This style involves a lot of coaching and mentoring. This management style aims to contribute to the long-term professional development of employees.

#### **The coaching manager**

This type of manager is also known as the “developmental” manager, since he focus on the professional development of the subordinates and has great willingness to help employees and encourage them to further develop their strengths and improve on their



weaknesses and increase their performance levels. He motivates by providing employees and subordinates with opportunities for professional growth and development. He usually is expected to be an expert and highly experienced in order to be credible in performing coaching.

#### Advantages

1. It is a great way to develop a strong bond or a relationship of respect and cooperation between the manager and the subordinates. Employees and subordinates will tend to look at managers as coaches or teachers, and respect them as such.
2. The learning experience that comes with this management style further encourages a thirst for learning and development among employees. They will actively seek personal and professional development while improving on their performance to the benefit of the company.
3. They also have a greater tendency to feel proud of their achievements, knowing that they learned it and will grow from it.

#### Disadvantages

1. This style creates a high demand for highly skilled and expert managers. Only a manager with a high level of expertise will have enough credibility to perform coaching.
2. This may promote unhealthy competition among the employees, given that they are presented with opportunities for professional development.

#### When we should use the Coaching Style?

It is best to use this management style in settings where the employees are in need of instruction and training. It is also good to apply this management style when the employees are motivated and are keen on developing and improving their skills and competence levels.

#### When we should not use the Coaching Style?

We should avoid using this management style if the manager himself lacks experience and expertise, specifically in the tasks to be performed. We should also avoid this style when the business is facing a crisis. There is no time to coach and train subordinates and employees when there is a problem that needs a quick resolution.

### **Results**

Depending on the organizational structure the type of the company, the market they operate and the available resources of the organization there is no right or wrong management style. You have to adjust your management style according to the needs and the performance you want to achieve. Usually the most important factor that is being under consideration in companies and especially on shipping companies that they trade worldwide and have bigger risk is the financial performance of their company and how to accomplish the best results.



## Chapter 3

### 3.1 Performance

The concept of performance, which can be considered the degree to which organizations reach success, can be briefly defined as the contributions made to the objectives of the organizations (Bass, 1985). Organizational performance is the “transformation of inputs into outputs by achieving certain outcomes. With regard to its content, performance informs about the relation between minimal and effective cost (economy), between effective cost and realized output (efficiency) and between output and achieved outcome (effectiveness)’ (Chen, 2002, as cited in Karamat, 2013). Daft and Marcic (2009) define organizational performance as the measure of when and how an organization determines its own objectives. The way an organization performs to reach these objectives is a determinant of the important role of managers in their display of leadership behaviors (Bass, 1995). According to the management style a manager adopts and the way he sets his priorities and how he manage each circumstance are very important to reach a good performance of the company.

According to Lumen management is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively. Since organizations can be viewed as systems, management can also be defined as human action, including design, to facilitate the production of useful outcomes from a system.

Management is one of the most important factors that affect performance of the organization. Some studies have shown that an effective management and the proper management style, according to the organization and the market you are dealing, can facilitate performance development. The improvement of organizational performance requires the development of management (Avolio, 1999)

Recently, companies aim at not just earnings but also profitability, and not just winning but retaining customers as well. In order to do that, they must perform satisfactory, making the product or service available on the right place, right time, and right quantity for the right customer.

One of the five management functions, is leading and according to some scientists also the most important one , because it is focused on working with people, harmonizing their relationships and encouraging them to work and perform tasks more efficiently. Leading consists of a set of processes that direct employees towards achieving goals more efficiently (Pejic Bach et al., 2006; 2013). Adopting the correct management style and achieve leading correct your employees you will definitely have what it needs to accomplish a financial success.

For an effective performance measurement and effective system, managers need a balanced set of performance indicators. Performance indicators are compilations of information that are used to measure and assess performance (Edwards and Thomas, 2005). Also, they indicate the final mark of a company’s efficiency and effectiveness. KPIs represent the basis for measuring business and project success. Their purpose is to enable the measurement of performance within companies and the industry. KPIs are



also used as means of communication within stakeholders to inform them about constant improvement endeavors (Vukomanovic et al., 2010).

There are seven reasons why performance measurement is used in the management world: i) the changing nature of work, ii) increasing competition, iii) specific improvement initiatives, iv) national and international quality awards, v) changing organizational roles, vi) changing external demands, vii) and the power of information technology (Neely, 1998). Some other reasons are to increase focus on strategy and results, to measure what matters and improve performance, set a strategy on what human resources can do, improve communication and put in priority projects.

Maskell, suggests that performance measurement systems must have the following characteristics (Maskell, 1991; University of Warwick, 2006):

- They are directly linked to overall business strategy and the company's critical success factors
- They combine both financial and non-financial measures
- They use different measurements for different areas of the company
- They are changed over time to reflect changes in strategy and operation
- They are simple and easy to use
- They give fast feedback to operators and managers
- They are intended to teach rather than monitor & control
- They use benchmarking to set target characteristics of performance measurement systems found in world class companies.

Research has shown that the frameworks in performance measurement systems refer to: quality, customer service, delivery, process time, dependability, speed, cost, flexibility and resource utilization. The company and the manager, according to their management style, will decide which and how many different measures are needed.

Throughout the last twenty years various models have been developed to measure the performance of organizations, such as the BSC, the BEM, the KPI, the Capability Maturity Model (CMM), and the Six Sigma. All models have achieved considerable success with regard to the improvement of different sectors organizations' performance (Meng & Minoque, 2011), but the KPI model is more popular with financial management practitioners and organizations. In addition to the selection of effective performance models, the proper selection of performance indicators is also important to the measurement and improvement performance (Meng & Minoque, 2011).

The European Foundation for Quality Management (e.g. EFQM excellence model), have divided performance indicators on leading, lagging and perceptive measures (Plomaritou et al. 2006). Leading measures are indicative performance measures that assess unfinished processes. Lagging measures are those measures that report accomplished performance and final outcomes and as such they are not able to change the future outcome. Perceptive measures are those measures that report stakeholders' perception in projects and can be lagging or leading (Vukomanovic et al., 2010).

One of the most successful measurement technique is Key performance Indicator. KPI's is a measure of performance that focus on critical aspects of outputs or outcomes.



Time, cost and quality were three primary indicators and it works in many different sectors.

### **3.2 Performance of Shipping Companies**

Shipping being characterized as a highly competitive industry makes the use of performance indicators extremely important. It is very important to monitor the performance implications in a shipping company, because it is a very competitive industry and you must be competitive, you have to keep your shareholders happy and remain in the game in top position by proper management.

The boards of directors will make the decision and the senior managers will determine the performance management and information systems (Burgelman, 1991). Thus they must initiate the need and development of performance indicators in order to evaluate and get feedback of their performance, compare it against goals, and benchmark it against competitors.

Performance measurement especially in shipping is multi-dimension, it is very difficult to choose only some indicators to measure performance. The best value performance indicators can be used for five dimension performance: (Işoraitea, 2010)

- Strategic objectives: why the service exists and what it seeks to achieve
- Costs/efficiency – the resources committed to a service: the efficiency with which they are turned into inputs
- Service delivery outcomes – how well the service is being operated in order to achieve the strategic objectives
- Quality – explicitly reflecting user's experience of services
- Fair access – relating to case and equality of access to service

As with any management decision, indicators must be specific, measurable, achievable, relevant and timely.

### **3.3 KPI's for shipping companies**

The primary target in any supply chain is the customer and shipping is a part of the supply chain (Pesmatzoglou & Konsta, 2009). The KPIs must be customer oriented in marketing or logistical terms. The concept of customer orientation in business markets has attracted attention from both academics and managers and it has been widely used in the marketing discipline. The term customer oriented companies is used to describe how knowledgeable the company is about the clients' needs and how responsive the firm is to them in terms of the continuous value creation and delivery (Plomaritou et al. 2010). The logistics science refers to supply chains customers, availability of the product and customers' needs satisfaction. All in all, services must be available at the right time, place, in the right capacity and quality. To achieve that we must set the correct management and management style.

According to BIMCO the Shipping KPI Standard proposes a global shipping industry system for defining, measuring and reporting information on operational performance in order to:

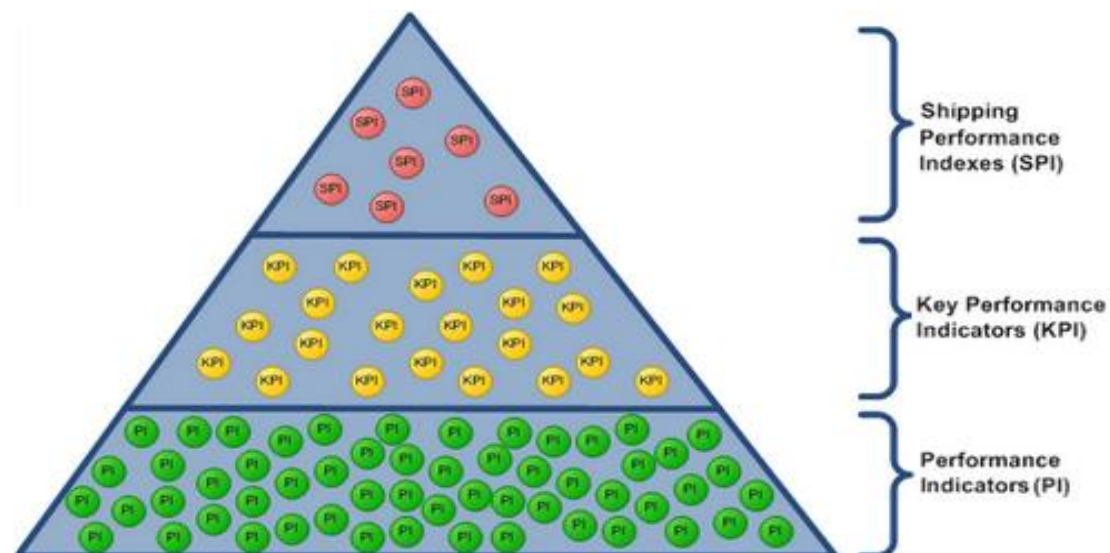
- Boost performance improvements internally in companies engaged in the ship operation activities,
- Provide an efficient communication platform of ship operation performance to internal and external stakeholders.

Bimco in collaboration with more than 20 shipping related companies and interest organizations a tool comprising Shipping Performance Indexes (SPI), Key Performance Indicators (KPI), and Performance Indicators (PI) has been developed.

The Shipping KPI Standard is built up hierarchical with 8 Shipping Performance Indexes (SPIs), 33 Key Performance Indicators and 64 Performance Indicators (PIs).

There is a mathematical relation between SPIs (high level indexes) which are calculated from Key Performance Indicators, and KPIs which are calculated from Performance Indicators (lowest level). On the lowest level you find the PIs, which are based on data capture (measurements or counters) directly from a ship or from the shipping management. Data is collected once and re-used within the Shipping KPI Standard in order to reduce the amount of data. On KPI level a form of normalization take place. The KPI are scaled into a range from 0-100, where zero indicates unacceptable and 100 is outstanding performance. This makes it possible to compare ships with different characteristics or amount of data captured.

Finally, on the highest level the KPIs are combining into Shipping Performance Indexes in order to express performance within specific main areas.



BIMCO, <https://www.shipping-kpi.org/book/pages/concepts#?kpiProfileID=1>

### **3.4 Shipping Performance Indexes**

The Shipping Performance Indexes (SPIs) are aggregated expressions of performance within a particular area. The SPIs are expressed as a weighted average of relevant KPI Ratings on a scale between 0 and 100. The objective of the SPIs is to give external stakeholders information about the overall performance of a ship.

The Shipping Performance Index (SPI) is built combining a set of relevant KPIs best expressing the organizations/vessels ability to perform within the theme of the SPI. In the model 8 SPIs are defined; Environmental Performance, Safety Performance, Security Performance, HR Performance, Technical Performance, Navigational Performance, Operational Performance and Port State Control Performance. The SPI is a high level indicator expressed in the range 0-100 - representing the worst and the best score.

The Shipping Performance Indexes (SPIs) are the following:

- Environmental Performance (Environmental Performance is an expression of the organization's ability to avoid spills and reduce emissions that impact the environment, caused by the ship operations. Recorded for each single ship.)
- Health and Safety Performance (Health and Safety Management Performance is an expression of the organization's ability to effectively manage the health and safety of the personnel onboard.)
- HR Management Performance (HR Management Performance is an expression of the organization's ability to employ, retain, develop and manage personnel with the required competences in order to ensure safe and efficient operations of the ships.)
- Navigational Safety Performance (Navigational Safety Performance is an expression of safe navigation and absence of navigational deficiencies.)
- Operational Performance (Operational Performance is an expression of the operational effectiveness of the ship including passenger care, safe and efficient cargo handling, ship availability and budget management.)
- Security Performance (Security Performance is an expression of the organization's ability to manage ship security.)
- Technical Performance (Technical Performance is an expression based on company's ability to maintain the ship, minimize the number of condition of class and reduce failures of critical equipment and system.)
- Port State Control Performance (This SPI expresses the company's ability to handle ships Port State Control inspections and the associated corrective actions.)

### **3.5 Key Performance Indicators (KPI)**

The Key Performance Indicators (KPIs) are expressions of performance within a specific area. The KPIs ratings will form basis for the Shipping Performance Index





(SPI) score. The KPIs can be expressed in two ways; a KPI Value which is a mathematical combination of relevant Performance Indicators Values and a KPI Rating which is an expression of the KPI Value on scale between 0 and 100 where a high rating (100) is a result of high/excellent performance. Some PI Values can be included in the calculation of more than one KPI Value. Examples of KPIs are: Budget performance, Dry-docking planning performance and Ship availability

The objectives of KPIs are to:

1. measure for continuous improvement
2. measure for internal and external benchmarking
3. measure to set incentives

KPI accepted as part of the Shipping KPI performance hierarchy must be:

- Observable and quantifiable (A KPI is a mathematical formula on basis of unambiguous, observable performance measurements.)
- Valid indicator of performance (A KPI expresses performance within an area which the Ship Manager needs to perform well. Also the Ship Manager needs to have complete control of the factors affecting the performance measured.)
- Robust against manipulation (A KPI must relate to a large extent to unambiguous descriptions of the needed measurements and not leave room for “favorable interpretations”.)
- Sensitive to change (A KPI will reflect actual changes in the Ship Manager’s performance well (by increase/decrease) over time.)
- Transparent and easy to understand (A KPI is interpreted by all users in the same manner.)
- Compatible (A KPI is harmonized with the rest of the performance hierarchy. The KPI must be compatible with other KPIs to prevent the decision-makers receiving contradictory control signals)

The following KPI were defined:

- Ballast water management violations (expresses the company's ability to adhere to applicable rules and regulations related to management of ballast water.)
- Budget performance (expresses the overall budget deviation.)
- Cadets per ship (shows the ratio between the total number of cadets under training with the DOC holder and their total fleet. The result is the average number of cadets per ship)
- Cargo related incidents (expresses the company’s ability to contribute to incidents-free cargo operations and carriage.)
- CO2 efficiency (expresses the energy efficiency of the ship by comparing emitted mass of CO2 to the ship’s total transport work.)
- Condition of class (counts the total number of conditions of class issued by class.)

- Contained spills (expresses the company's ability to avoid spills.)
- Crew disciplinary frequency (counts the total number of breaches of code of conduct made by the ship's crew and the company's reaction. The total exposure hours onboard the ship is used as a denominator to enable benchmarking.)
- Crew planning (counts the number of breaches of regulations or agreements related to STCW and MLC Convention.)
- Dry-docking planning performance (expresses the company's ability to plan the dry-docking operation (e.g. predictable costs, good budgeting and scheduling).)
- Environmental deficiencies (expresses the company's ability to avoid environmental related deficiencies.)
- Failure of critical equipment and systems (expresses the company's ability to maintain critical equipment and systems in good working condition always.)
- Fire and Explosions (expresses the company's ability to avoid fire and explosions onboard the ship.)
- Port state control performance (expresses the company's ability to have flawless Port State Control inspection.)
- Health and Safety deficiencies (expresses the ratio between health and safety related deficiencies (raised during external inspections and audits) and the total number of recorded external inspections and audits. External audits include non-conformities but exclude observations.)
- HR deficiencies (expresses the ratio between HR related deficiencies (raised during external inspections and audits) and the total number of recorded external inspections and audits. External audits include non-conformities but exclude observations.)
- Lost Time Injury Frequency (expresses the number of Lost Time Injuries (LTI) among the crew per million exposure hours.)
- Lost Time Sickness Frequency (expresses the number of cases of sick crew and any fatality due to sickness per million exposure hours.)
- Navigational deficiencies (expresses the company's ability to avoid navigational related deficiencies.)
- Navigational incidents (expresses the company's ability to avoid navigational incidents.)
- NOx efficiency (expresses the amount of NOx emitted relative to the transport work performed.)
- Officer retention rate (expresses the officer retention rate within the company.)
- Officers experience rate (expresses the level of experience with the company's Safety Management System (SMS) of the officers currently onboard the ship.)

- Operational deficiencies (expresses the company's ability to avoid operational related deficiencies.)
- Passenger injury ratio (represents a ratio between the number of injured passengers reported during embarkation, disembarkation and time spent on board, relative to the passenger exposure hours in the reporting period. By defining the KPI as a ratio, benchmarking is feasible even between different ship sizes. Only ships certified to carry passengers should use this KPI. Note that supernumeraries (family members, riding crew, superintendents and stowaways) are not considered as passengers.)
- Port state control deficiency ratio (expresses the company's ability to avoid deficiencies issued during Port State Control Inspections.)
- Port state control detention (expresses the ability to complete PSC inspections without incurring a detention (code 30).)
- Releases of substances (expresses the company's ability to avoid releases of substances as defined by MARPOL (Annex I - V).)
- Security deficiencies (expresses the company's ability to avoid security related deficiencies.)
- SOx efficiency (expresses the energy efficiency of a ship by comparing emitted mass of SOx emitted relative to the transport work performed.)
- Training days per officer (expresses the ratio between the officer training days over the total number of officer working days, basically the average number of training days per officer day at sea.)
- Ship availability (expresses the deviation between the ship's actual unavailability and the planned unavailability. It calculates the ship utilization as a percentage of the total utilization time available during the rolling year (24 x 365). By doing this, the sensitivity of the KPI to small changes in PIs is decreased while at the same time, the case of having zero planned unavailability (PI062) is also covered.)
- Vetting deficiencies (expresses the ship manager's ability to avoid observations during commercial inspections.)

## KPI Profiles

A KPI profile is a subset record of KPIs that is used to store the interested KPIs of the ship operator. Depending on the structure and the company needs, account managers are entitled to select and assign KPI Profiles to ships from a predefined list of built-in KPI profiles. Also, the KPI profile refers to the explicit visual representation of ships performance data.

KPI Profile concept provides a set of benefits such as:



1. Simplifies the way users perceive the KPI Standard
2. Limits the KPI Standard as per the company needs
3. Reduces the data entry volume
4. Customized visual representation of the ship's performance

### **3.6 Performance Indicators**

The Performance Indicators (PIs) are the building blocks giving the basis for KPI Value calculations. PIs are directly observable parameters (measurements) for each ship under management, e.g. Number of dismissed crew, Number of collisions and Number of fire incidents. The Performance Indicators are the only elements that must be reported manually or by means of implemented ICT solutions. Focus has been to provide the hierarchy with unambiguous definitions of measurable low level parameters based on existing measurements in the industry. Each PI may be used in the calculation of several Key Performance Indicators (KPIs). An example is the PI Number of recorded external inspections which is used as a denominator in the calculation of several KPI Values.

The following Performance Indicators were defined:

#### **Personnel**

- Number of officers employed
- Number of absconded crew
- Number of beneficial officer terminations
- Number of cadets under training with the DOC holder
- Number of cases where a crew member is sick for more than 24 hours
- Number of cases where drugs or alcohol is abused
- Number of charges of criminal offences
- Number of seafarers not relieved on time
- Number of dismissals
- Number of fatalities due to work injuries
- Number of fatalities due to sickness
- Number of HR related deficiencies
- Number of logged warnings
- Number of officer days onboard all ships with the DOC holder
- Number of officer experience points
- Number of officer terminations from whatever cause
- Number of officer trainee man days
- Number of officers onboard
- Number of permanent partial disabilities
- Number of permanent total disabilities (PTD)
- Number of unavoidable officer terminations
- Number of violations of rest hours

#### **Technical**



- Actual dry-docking costs
- Actual dry-docking duration
- Actual unavailability
- Agreed dry-docking budget
- Agreed dry-docking duration
- Number of ballast water management violations
- Number of cargo related incidents
- Number of conditions of class
- Number of environmental related deficiencies
- Number of failures of critical equipment and systems
- Number of health and safety related deficiencies
- Number of navigational related deficiencies
- Number of operational related deficiencies
- Number of PSC deficiencies
- Number of PSC inspections
- Number of PSC detentions
- Number of PSC inspections resulting in zero deficiencies
- Number of recorded external inspections
- Number of security related deficiencies
- Number of ships operated under the DOC holder
- Number of observations during commercial inspections
- Number of commercial inspections
- Planned unavailability

## QA

- Emitted mass of CO<sub>2</sub>
- Emitted mass of NO<sub>x</sub>
- Emitted mass of SO<sub>x</sub>
- Number of allisions
- Number of collisions
- Number of contained spills of liquid
- Number of explosion incidents
- Number of fire incidents
- Number of groundings
- Number of lost workday cases
- Number of passengers injured
- Number of releases of substances to the environment
- Number of oil spills
- Passenger exposure hours
- Total exposure hours
- Transport work

## Accounts

- Last year's AAE (Additional Authorized Expenses)
- Last year's actual running costs and accruals
- Last year's running cost budget

To conclude, since KPIs are the tools for improvement of performance, shipping companies implement them systematically and methodologically.

### 3.7 Financial performance

The financial performance is measured by effectiveness and efficiency. Effectiveness is defined as “the degree to which a predetermined objective or target is met” whereas efficiency is given by “the degree to which inputs are used in relation to a given level of outputs” (Foster & Horngren, 1987, p. 184).

Measuring financial performance will show how the implementation of the strategy and the management style of the company contributes to the creation of final results. The objectives of the financial perspective should bring about positive results, which affect the results of other perspectives (Kang et al., 2014). In addition, it is important to keep track of the financial perspectives. The focus of the enterprise on managing relations with employees, with customers, suppliers and partners, or on quality of products, must be aligned with other financial indicators and must impact them positively, which is true for any other business indicator as well (Kovach et al., 2015).

The main goal of the financial perspective is to increase the shareholder value, which can be achieved in two ways. The first way is to increase value, which will be achieved by emergence on new markets, offering new products and attracting new customers. The other way is to increase productivity, which will be achieved by using the proper management style and make your employees more satisfied and they will operate better, also by improving costs structure or by utilizing existing assets better. We should mention that both ways must be carried out actively and simultaneously. That way it is possible to eliminate the risk of endangering the growth of the enterprise.

### 3.8 Financial performance on a shipping company

The value of a shipping company is determined by the size, timing and risk of its expected. The risks that a shipping company faces are i) operational risks like fluctuation in revenue and fluctuation in bunker prices, ii) ownership risks like fluctuations in vessels market value and fluctuation in vessels scrap value, iii) financial risks like fluctuation in interest rates (debt finance) and fluctuation in ForEx ( Revenue vs Obligations) iv) counterparty (credit) risks like charterers financial capacity.

There are three keys variables with which ship-owners can survive in the shipping market:

- The revenue received from chartering/operating the ship



- The cost of running the ship
- The method of financing the business

Let's analyze some corporate fundamentals in the tables below so that we can have a clear financial image of a shipping company.

<b>Fleet Profit &amp; Loss</b>	<b>Associated Risk</b>
<b>Voyage Hire (Revenue)</b>	Freight market volatility
<b>-Voyage Costs</b>	Bunker price volatility
<b>-OpEx</b>	ForEx fluctuation
<b>=OPERATING PROFIT</b>	
<b>-Interest Expense</b>	Interest rate fluctuation
<b>+Profit(loss) of S&amp;PS</b>	Vessels price volatility
<b>=Net Profit</b>	
<b>-Loan Repayment</b>	
<b>=Net Cash Flow</b>	

#### BALANCE SHEET

<b>ASSETS</b>	<b>LIABILITIES &amp; EQUITY</b>
<b>Cash &amp; cash equivalent</b>	Accounts payable
<b>Short term investments</b>	Accruals
<b>Accounts receivable</b>	Short term debt
<b>Inventories</b>	<b>Total current liabilities</b>
<b>Other current assets</b>	Long term debt
<b>Total Current Assets</b>	<b>Total noncurrent liabilities</b>
<b>Vessels</b>	Common stock
<b>Other fixed assets</b>	Retained earnings
<b>Total fixed assets</b>	<b>Total Equity</b>

#### INCOME STATEMENT

Revenues
<b>-Voyage costs</b>
<b>-Operating expenses</b>
=Operating profit
<b>-Interest expense</b>
<b>+Profit (loss) of S&amp;Ps</b>
= Net profit
-Capital payments
-Dividends
=Net cash flow

**+/- Cash Flow from Operating Activities**

**+/- Cash Flow from Investing Activities**

**+/- Cash Flow from Financing Activities**

**Free Cash Flow**

#### CASH FLOW STATEMENT

**Cash at the beginning of the period**



<b>OPERATING AND SHARE DATA</b>	
<b>Time Charter Equivalent Rate (TCE)</b>	
<b>Income days</b>	<b>Fleet Utilization</b>
<b>Available days</b>	
<b>Common stock price</b>	

The way shipping companies manage these cost & revenue variables significantly influence the financial performance of the business:

- The choice of ship influences the running cost: Day to day costs are higher for old ships with ageing machinery requiring constant maintenance.

Important terms of a financial measurement are the following:

- A liquidity ratio (the ability of the company to pay off its debts as they come due over the short term period.)
- Asset Management Ratios (Fleet) (the ability of the company to effectively manage its vessels.)
- Debt Management Ratios (measures the percentage of funds provided by sources other than equity.)
- Profitability Ratios (the combined effects of liquidity, asset management and debt on operating results.)
- The DuPont System (a meaningful link between profitability and efficiency ratios)
- Market Value Ratios (an indication of what investors think of company's past performance and future prospects.)
- Fleet Utilization & TCE

Running a successful shipping operation is not just a matter of costs:

- It also involves squeezing as much revenue as possible out of the ship. Revenue may be steady on a long-time charter or irregular on the spot market.
- It may be increased by careful management, clever chartering and flexible ship design to minimize time ballast and ensure that the vessel is earning revenue for a high proportion of its time at sea.

Financing strategy is crucial: if the vessel is financed with debt, the company is committed to a schedule of capital repayments, regardless of market conditions. If the ship is financed from the owners' cash revenues or outside equity finance there are no fixed payments to capital. In practice if a shipping company has only limited equity capital, the choice is often between an old vessel with high running costs but no debt or a new vessel with low running costs and a mortgage. There is an important decision the manager/ship-owner has to take.

### **3.9 Measuring Financial success**

There is a large number of the financial success measurements and only one measurement cannot lead to a financial result, thus it is important to use multiple





measurements at the same time. The three most commonly used financial measurements are: (i) business growth, (ii) value creation and (iii) business profitability. Business growth includes: revenue to assets ratio, increase in revenue and assets, revenue from new products and services, as well as revenue per employee. Value creation includes: economic value added (EVA), market value added (MVA), stock price and dividends. Business profitability includes: profit margin, return on investment (ROI), return on equity (ROE), return on investment (ROI), and return on capital employed (ROCE) and profit per employee. Financial perspective usually involves indicators that include revenue to costs ratio, return on investment (ROI), return on equity (ROE) and economic value added (EVA). It is possible to use indicators such as risk management or measuring intellectual capital. Indicators from the financial perspective are a prerequisite for selecting other indicators, thus they need to be defined very carefully. There is a large number of financial indicators, and the most commonly used ones are the follows (Niven, 2007): total assets, ratio of profit to assets, return on net assets, gross margin, net operating profit after taxes, and profit per employee, revenue from new products, revenue and revenues per employee, return on equity (ROE), return on capital employee (ROCE), return on investment (ROI), economic value added (EVA), cash flow, debt indicators, interest coverage ratio, accounts receivable collection period, period of obligations to suppliers, current ratio. One of the most commonly used financial indicators are liquidity indicators and indicators of accounts receivable collection period.

Parmenter (2010) states the following measurements in order to manage the financial perspectives successfully: i) total assets and total assets per employee, ii) return on equity (ROE), iii) economic value added (EVA) iv) value added per employee, v) gross margin, vi) growth rate, vii) credit rating, viii) debt, ix) dividends and stock price.

### **Measuring management styles**

Many scientists tried to define the best management style that would be effective in all situations, but there isn't a management style that doesn't have disadvantages. Given all the above analysis about management styles and their advantages and disadvantages, we conclude that there is no single best management style, but the managers must adapt to the situation and their associates in order to achieve the best results.

### **Conclusion**

The present dissertation was a study on shipping firms and their performance according to their management style. Management is an art of getting things done through others by directing their efforts towards achievement of pre-determined goals. It implies measurement of accomplishment against the standards and correction of deviation if any to ensure achievement of organizational goals. It also plays a fundamental role in employees behavior and performance, according to the goals a company wants to achieve and the strategy she wants to follow to expand, they have to adopt a suitable management style so they can have the best outcome of their sources first of all and satisfy their clients. Especially in shipping, which is a worldwide industry, there are many factors that affect and contribute to a shipping companies' performance. The



structure of the organization has a great impact on the management style a shipping company will adopt. Policies, priorities, corporate culture, staff skill levels, motivation and management structures are the most important factors that affect the management style. We have analyzed 6 different management styles and set their positive and negative effects. Especially in shipping we have Key Performance Indicators (KPI) Standard proposes a global shipping industry system for defining, measuring and reporting information on operational performance. The key operational variables for performance evaluation are sales and profitability. To what extent you achieved the sales volume predicted in your planning and how changes in your sales volume compare to the changes at your competitors are accurate measures of company performance. The percent profit margin indicates how much of each dollar earned from sales your company keeps as profit and is a good indicator of overall performance. While overall performance is important, it depends on company performance in particular areas of activity. Performance in the marketplace influences profitability. The key indicators of market performance are market share and market ranking by sales volume. If you have a substantial market share and rank in the top two suppliers, you have market influence on pricing and are more likely to be profitable. Performance in customer satisfaction is a key factor in long-term success. The key performance variables are repeat orders and the rate of customer acquisition. If you have satisfied customers, you retain those you have and get new ones at a rapid rate. Your evaluation of performance in customer satisfaction highlights potential problems for overall performance. Quality products lie at the root of superior company performance. Two variables indicating whether your products are high quality are returns and warranty claims. These product indicators measure company performance on quality but also impact profitability directly. High rates of returns and warranty claims cut into profitability. Two indicators of a company's performance internally are employee job satisfaction and training levels. These impact overall performance through the ability of the company to offer high levels of service to its customers. You can evaluate employee job satisfaction by measuring changes in the average length of service. A measure of training levels is the percent of employees who received training each month. In addition to numerical factors such as profit margin, other indicators allow you to evaluate your company's performance on purely financial terms. Liquidity and solvency ratios evaluate your company's performance with regard to ensuring that it can continue its operations. Liquidity is the ratio of current assets minus current liabilities divided by total assets and measures how quickly a company can raise cash.

Solvency is the ratio of net profit plus depreciation divided by total liabilities and measures your company's ability to continue to service its debt. You can compare these ratios to those of other companies to evaluate performance.

For all the necessary decisions that a company must take to achieve a good performance, managers are responsible for them. There we come across performance management. Performance management is a corporate management tool that helps managers monitor and evaluate employees' work. Performance management's goal is to create an environment where people can perform to the best of their abilities to produce the highest-quality work most efficiently and effectively. A formal performance-management program helps managers and employees see eye-to-eye



about expectations, goals, and career progress, including how individuals' work aligns with the company's overall vision. Generally speaking, performance management views individuals in the context of the broader workplace system. In theory, you seek the absolute performance standard, though that is considered unattainable. Performance-management programs use traditional tools such as creating and measuring goals, objectives, and milestones. They also aim to define what effective performance looks like and develop processes to measure performance. However, instead of using the traditional paradigm of year-end reviews, performance management turns every interaction with an employee into an occasion to learn. Managers can use performance management tools to adjust workflow, recommend new courses of action, and make other decisions that will help employees achieve their objectives. In turn, this helps the company reach its goals and perform optimally. Focusing on continuous accountability creates a healthier, more transparent work environment, and emphasis on regular meetings can improve overall communications. Because performance management establishes concrete rules, everyone has a clearer understanding of the expectations. When expectations are clear, the workplace is less stressful. Employees are not trying to impress a manager by doing some random task, and managers aren't worried about how to tell employees that they are not performing well. If the system is working, they probably know it already.

In shipping is also the same, if a manager performs the correct management style we are going to achieve the goals that the company has set. The wrong management will lead us not only to a bad performance, but will create more and bigger problems inside and outside the organization. So, in my opinion the correct management style is the Alpha and Omega of an organization to succeed.



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