

Chapter 10

Resilience of Small and Medium-Sized Shipping Companies in Turbulent Times: A Resource-Based Perspective

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ABSTRACT

The ability of companies in the shipping industry, which is subject to ups and downs throughout history, to survive and continue their activities depends on applying the right response strategies at the right time especially during periods of economic recession. This study aims to determine which strategies small and medium-sized enterprises in the dry cargo shipping industry use the most in such turbulent times in the light of a resource-based perspective. The current study identifies response strategies through literature review and interviews with subject experts. Afterward, an integrated AHP and TOPSIS approach is used. Strategies such as debt restructuring, reducing fuel consumption and procurement costs, focusing on marketing activities, and reducing crewing costs have been highlighted as the most used response strategies. Sub-strategies were determined within the scope of each strategy and ranked according to their importance. This study mainly contributes to resilience literature by identifying and ranking response strategies in dry bulk shipping to make accurate decisions.

INTRODUCTION

Managing the risks is essential since shipping has cyclical nature. Specifically, demand is closely correlated with changes in international trade patterns that may generate dramatic swings in their cash flows (Bendall & Stent 2003; 2007; Chistè & van Vuuren 2014). Especially in the era of prolonged effects of the 2008 financial crisis, freight rates that fall below expectations led to financial losses and both the key players in the market and small and medium enterprises (SMEs) in the dry cargo shipping industry faced unexpected results. For instance, Maersk Line, one of the largest container shipping companies, reported a loss of \$2.1 billion in 2009 and \$1.9 billion in 2016 (Maersk 2009; 2016). Besides, some could not handle the situation and filed for bankruptcy such as Hanjin Shipping, the biggest container shipping company in Korea (Lee & Yip 2018). In addition, dry bulk shipping firms faced an unprecedented crisis in 2015 and 2016 due to the weak demand of China. Baltic Dry Index (BDI) reached the historical lowest level in February 2016 at 290 points. Many market players were in financial difficulty, as they could not find business opportunities to continue their activities (Wall Street Journal 2016; Reuters 2016). The situation might be worse for SMEs in the industry, whose financial structure is more fragile. China's Winland Ocean Shipping filed for Chapter 11 bankruptcy protection due to the company's inability to adapt to changing economic conditions (Reuters 2015). Additionally, Murmansk Shipping Company operating small bulk carriers mainly in the Arctic region went bankrupt since the company has had difficulty finding business in recent years (Hellenic Shipping News Worldwide 2020).

Permanent changes have occurred in the macroeconomic outlook with the impact of the Coronavirus Disease (COVID-19) pandemic, and there has been great uncertainty for market players (Michail & Melas 2020), especially for decision-makers in shipping companies (Kotcharin & Maneenop 2020). As indicated in UNCTAD (2020) report, the current structure of global supply chains began to be questioned with the COVID-19 pandemic, and permanent changes in consumption and spending habits emerged. Developments in trade protectionism policies, regulations on low carbon emissions, trade agreements between countries and regions, and the revision of logistics networks are undoubtedly the issues that directly concern maritime trade in the long run and make it necessary to review existing business models and develop strategies accordingly. Disruptions are inevitable in the shipping industry and disruptive events are most likely to be encountered in the future. Therefore, shipping companies need to show organizational resilience which means "the ability of organizations to anticipate, avoid, and adjust to shocks in their environment" (Ortiz-de-Mandojana & Bansal 2016).

Ensuring survival in this dynamic and turbulent environment makes response strategies an important method (Tansey et al. 2014). Response in turbulent times is not a simple issue for most firms (Latham 2009); especially SME's are highly vulnerable in turbulent times. In this volatile, complex, and uncertain shipping environment, shipowners should be flexible to survive in the long run by making quick adjustments to seize opportunities and avoid dramatic consequences by exercising proper strategy from different options.

Since turbulent times have been harsh for the shipping industry, especially in the last decade, this has drawn much attention from the scholars to give implications for developing response strategies (Hoffmann 2010; Georgios 2010; Kalgora & Christian 2016; Lee et al. 2012; Samaras & Papadopoulou 2010; Gong et al. 2013). However, the implications either contain general perspectives over the shipping industry or appeal to the leading market players. As asserted by Iborra (2020), although SMEs' ambidexterity capabilities are an important weapon to fight against external shocks, what kind of strategies are applied and the effectiveness of these strategies are extremely important. Although external shocks

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