

Growth & Selection Criteria of Ship Management Firms and Its Implications

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Abstract

A shipping operation broadly breaks down into: the acquisition of the ship, securing income from the ships, operating the ships, and running the business. For all ships these functions have to be performed. But most important thing is whether it is a better option for some or all these activities to be undertaken by a third party manager rather than resource them in-house or not. However, the size of ship management market has been increasing continuously over the last decades to achieve cost-savings. The ship management is considered as creating high added value and contributing to national economic growth. This paper will analyzes development trends of ship management and market, and carry out comparative studies with Korean ship management companies and an empirical studies on selection criteria of ship management firms. In doing so, some implications and alternatives will be suggested in order for Korean ship management companies to create high added value and gain international competitive edge.

Key words: Ship Management, Third Party Ship Management, SHIPMAN 98, Selection Criteria

1. Introduction

The origins of the professional ship management companies in their present form can be traced back in the period after the Second World War, when initially such companies came from development of the activities of the old family-owned ship management companies¹. From the time of the signing of the first third-party ship management contract in 1957², professional ship management evolved into an industry in its own right. The demand for ship management services was increased by oil majors who taking advantage of the availability of tax breaks on ship investment and making capital investments on ship purchase in the mid-1960s. In addition, after the crisis in 1973 when the OPEC members increased the price of oil considerably, the third ship management market really took off. This paper is to analyze the growth and trends of major ship management firms in the world and compare services offered by major ship management companies with Korea. A pilot survey suggests the most important factors as selection criteria of ship management firm by management firms and ship owners through comparative studies. In doing so, some implications for Korea are suggested in the part of conclusion.

2. Definition on Ship Management

A shipping operation excluding landside elements broadly breaks down into: a) the acquisition of the ship; b) securing income from the ships; c) operating the ships; d) running the business. An overview of how the main ship management functions and those of administrating the shipping operation might inter-relate is shown in figure.

International ship management is increasingly developing all over the world and becomes an important branch of international shipping industry. The prime example of a standard contribution comes from the Baltic and International Maritime Council (Bimco), which is responsible for the standard ship management agreement codenamed "SHIPMAN 98"

The clauses of "SHIPMAN 98" are shown in Table.

¹ Kyriaki Mitroussi, 2003, Third Party Ship Management: the Case of Separation of Ownership and Management in the Shipping Context, *Maritime Policy and Management*, Vol.30, No.1, p.78. and also Underwood, D., 1989, A Personal Perspective on the Growth of the Ship Management Industry over the Past Thirty Years, *International Ship Management: Profit or Loss from Shipping's Revival*, *Lloyd's Ship Manager and Shipping News International Conference*.

² Kyriaki Mitroussi, 2004, The Ship Owners's Stance on Third Party Ship Management: an Empirical Study, *Maritime Policy and Management*, Vol.31, No.1, pp.31-45.

<Table 1> Details of "SHIPMAN 98"

Area	Components
Crew management	<ul style="list-style-type: none"> - Provision of suitably qualified crew in accordance with STCW 95 requirements - Selecting and engaging the crew - Ensuring legal compliance with the requirements set by the flag state about manning levels, rank, qualification and certification of the crew and employment regulations - Arranging crew transportation and repatriation - Crew training - Negotiating with unions - A drug and alcohol policy
Technical Management	<ul style="list-style-type: none"> - Provision of competent personnel to supervise the maintenance and general efficiency of the ship - Arranging and supervising dry dockings, repairs, alternations and upkeep of the ship to standards - Arranging the supply of stores, spare and lubricating oils - Appointing surveyors and technical consultants - A safety management system in accordance with the ISM code
Commercial Management	<ul style="list-style-type: none"> - Provision of chartering services - Arranging the payment of hire/freight revenues to the owner - Voyage estimation and accounts and calculations of hire/freights, demurrage/dispatch - Issuing voyage instructions - Appointing agents/stevedores - Arranging surveys related to the commercial operations
Insurance arrangements	<ul style="list-style-type: none"> - Arranging insurance in accordance with owner's instruction
Accounting services	<ul style="list-style-type: none"> - Establishing an accounting system - Providing regular accounting services, reports and records
Sale & purchase	<ul style="list-style-type: none"> - Supervising the sale or purchase including the performance of any sale or purchase agreement
Provisions	<ul style="list-style-type: none"> - Arranging the supply of provisions
Bunkering	<ul style="list-style-type: none"> - Arranging for the provision of bunker fuel of the quality specified by the owners

Source: SHIPMAN 98.

Spruyt³ defined ship management as the contracted and professional supply of all on-board services, together with their shore supervision, which would normally enhance a vessel from a bareboat into a time charter description, by a management company usually separate from the vessel's ownership. Furthermore, he noted that in a narrow term, ship management can be defined as the supply only of a victualing service while in a broader term, it can be extended to include the provision of everything required to make a ship profitable. It is very difficult to define in one phrase a definition of ship management which covers at the same time all and separately each variation of ship management because the scope of ship management services have been extending continuously over the last decades to cope with the changes of complex shipping environment & industry and more and more ship management companies expand their service activities to diversified business areas.

In the Code of Ship Management Standards made by ISMA, ship management companies are organizations that accept others' commission, control or undertake international ship/crew, and do as contracts or legal documents say.

According to the Korean Shipping Law, ship management industry is one that accepts ship proprietors or charterers (including foreigners)'s commission, being responsible for ship/crew's management work as well as insurance.

Nevertheless, the central idea of third party ship management is focused on professional, independent organizations which for a negotiated fee and with no shareholding ties with their clients undertake responsibility for the management of vessels in which they have no financial stake⁴.

In summary, Ship management can be broadly into three parts: technical management; crew management; commercial management. The technical management includes; a) periodically checking the condition of ships and crew; b) stores and supplies; c) supervision of repair & maintenance; d) keeping ships in class and in seaworthy condition; e f) managing ships' document; g) arranging docking; h) insurance; i) regulatory and contingency measures.

The crew management contains: a) recruiting and employing qualified and skilled seamen for ship owners; b) managing crew's document; c) providing training.

The commercial management includes: a) voyage management and estimation; b) ship's chartering; c) ships' purchase and sale; d) ship's funding; e) financial control and accounting management; f) appointing on/off hires surveyors; g) voyage planning; h) collection of freight/hire and dealing with demurrage claims. Some other services are also provided: a) building supervision; b) technology advisory; c) marine consultation; d) qualification and warrant investigation.

³ J. Spruyt, 1990, *Ship Management*, Lloyd's of London Press Ltd., pp.1-10.

⁴ Mitroussi, 2003, Third Party Ship Management, *Maritime Policy and Management*, Vol.30, No.1, pp.78-79.

3. Growth & Trend of Ship Management

Generally, among the reasons which have been identified to be largely responsible for the taking off of ship management as a service industry was the owners' need to cut down operating costs and enjoy the fiscal advantages of economies of scale, to flag out to established and new open registers and to get access to new sources of manpower⁵. Kyriaki(2004)⁶ noted a number of specific trends that kept appearing as having a positive effect on the growth of third-party ship management: the globalization of shipping; logistics; the use of information technology; increasingly specialized vessels and markets; the quest for economies of scale; the shortage of manpower; increased liability; provision of a wide range of main and value-added services on part of ship management companies.

The followings are in detail background on the market growth of ship management on the basis of literature review and field survey.

(1) Cost cutting: Intense competition among shipping lines prevails. Strong competition accelerates reforms of shipping industry. In particular, large ship owners strive to reducing costs while small ship owners have difficulty in management quality. Every shipping firm wants to reduce costs as much as possible in order to survive in global competition market. The international shipping environment, together with the technical progress in shipping and commercial disciplines is getting more complex than the past decade. Especially the issue of flagging out as sources of manpower closely is connected to the globalization of shipping and cost cutting. Multiplication and competition among registers is such that appropriate choice needs much more information and evaluation of several different parameters.

(2) Development and use of information technology: the rapid development of information technology with highly sophisticated computerized maintenance or management systems, fuel efficiency measures and the complex interchange of information among dispersed offices enabled shipping firms to pay attention to massive investments in specialized equipment and skilled labor.

(3) Part of logistics chain: shipping is becoming more and more part of a logistics distribution chain and supply chain. The increased modal integration

⁵ J. Spruyt, 1994, *Ship Management*, 2nd edition.

⁶ Kyriaki Mitroussi, 2004, op., cit.

with the shipping venture constitutes a part of a logistics system. The complexity brings about the increased need for involvement and expertise in a wide range of activities⁷.

(4) Expanding safety and environmental legislation: The security and management quality are considered as a very important element to ship owners. There is considerable complexity caused by an increasing volume of national and international regulations. A mounting pressure from expanding international safety and environmental legislation and enhanced quality and increasingly safety standards offer new opportunities for the ship management industry⁸. A competitive international ship management company has professional technology and advantages in managing ship's safety and environmental legislation. In case of disastrous marine accidents and pollution, they can save ship-owning company asset and money.

(5) Effect of economies of scale: ship owners always need to keep costs as low as possible. Ship management companies have experienced knowledge and skill in managing a variety of owner's ships so they can offer more competitive cost reduction to ship-owners.

(6) Shortage of manpower: There is in the contemporary shipping industry a presumption of an impending shortage of seafarers. Discussion with the industry revealed little concern for a shortage of seafarers but a genuine concern for the future number of quality seafarers⁹. Those can drive many ship-owning companies to turn to ship management firms for the timely supply of appropriately qualified crew from distant supply centers¹⁰. Ship management company enables ship-owning company to get access to new sources of manpower.

Sletmo¹¹ noted that the idea that shipping is undergoing a fundamental restructuring and reorganizing with a division of labor taking place not only between countries-as was the case with the process of flagging out-but also

⁷ J. King, 1997, Globalization of Logistics Management: Present Status and Prospects, *Maritime Policy & Management*, Vol.24, No.4, pp.381-387.

⁸ P. Gunton, 1997, Ship Management, *Lloyd's Nautical Yearbook 1996*, pp.25-30.

⁹ H. Leggate, The Future Shortage of Seafarers, *Maritime Policy and Management*, Vol.31, No.1, pp.3-13.

¹⁰ H. Schulte, 1989, Third Party Management Moving Forward and Adapting to Change, *Supplement to Lloyd's Ship Manager and Shipping News International*.

¹¹ G.K. Sletmo, 1986, The Transformation of Shipping and the Role of Ship Management, *Research for Tomorrow's Transport Requirements, Vol.1, World Conference on Transport Research*, edited by T.D. Heaver (Vancouver: Center for Transportation Studies, University of British Columbia), pp.734-746.

between a variety of firms in different aspects of shipping. Professional ship management companies having developed expertise in operating efficiently with low cost labor while drawing on western technology and capital, contribute to the development of new, more efficient factor markets to such a degree that they are instrumental in creating a new form of organization of shipping, its globalization.

The size and statistics of the ship management market cannot precisely be estimated. Furthermore, it is more difficult for any internationally and well-established directories to suggest a precise market size operated by third party ship managers. In September 2001, Lloyd's List reported that the ship management sector was estimated to control 25% of the world fleet-up from 20% in 1990. A prediction of a market share of 33% by 2020 was postulated. Drewry¹² Shipping Consultant Ltd. presumed that estimated market size of the ship management sector was approximately a total of 6,000 -7,200 vessels¹³ even if no reliable statistics was available. Furthermore, it predicted that total growth over the next 10 years approaches about 3,500-4,500 vessels under the full technical management and growth in crew management services would be lower as this part of the business was already more developed. In particular, annual increase (long-term) in number of vessels was estimated larger than increase in fleet of third party ship managers. The former is 2.0% but the latter is 6-8% annually respectively.

<Table 2> presents world fleet by domicile of owner in January 2005. The share of the top 5 countries in the world tonnage is about 38% in January 2005. Japan and Greece controlled the large fleets. The most significant targets for ship managers will be countries that until now have been generally resistant to outsourcing. With Greece, much will depend on the extent to which the 'new generations' move away from any long standing family 'tradition' of being 2-3 ship outfits. Japan is a nation with a high degree of commitment to ship management; however, matters normally remain domestic. The key to gaining business is for managers to be able to win owners' confidence. To do this, they may need to have a physical presence in the region where the owners are located.

¹² Drewry, 2004, *Ship Management*, pp.28-29.

¹³ It is estimated that: for the technical management including crew, 1,500-1,700 vessels, for the crew management including supply, 4,500-5,500 vessels, respectively.

<Table 2> World Fleet - by Domicile of Owner* in January 2005

Rank	Country	Tanker	Bulk	OBO	C.T	G.C	Reefer	Ro/Ro	Gas Carrier	Pass.	Others	Total	Global Share
1	Japan	1,136	916	1	224	978	182	84	304	268	444	4,537	12.7
2	Greece	500	1,059	22	84	435	140	27	34	60	583	2,944	8.3
3	Germany	126	138	2	768	965	32	60	51	9	192	2,343	6.6
4	Norway	338	89	30	15	265	68	237	80	199	501	1,822	5.1
5	U.S	290	119	11	112	60	63	48	19	145	355	1,222	3.4
6	British	161	100	0	95	134	44	51	18	78	123	804	2.3
Total		2,251	2,421	66	1,298	2,837	529	507	506	759	2,198	13,672	38.4
Global Share (%)		41.0	42.8	48.2	45.8	29.8	42.4	31.5	57.2	41.9	38.6	38.4	

Note: 1. Bulk=bulk carriers, C.T=Containerships, G.C=General Cargoships, Pass.=Passengers.

2. * ships of >10,000dwt.

Source: Drewry Technical Services.

<Table 3> Ship Management Service offered by Major Ship Management Firms

Firms	Technical Management	Crew Management	Crew Training	Operation	Commercial	Finance	Insurance	S&P
V.SHIP Group	0	0	0	0	0	0	0	0
The Schulte Group	0	0	0	0	0	0	0	N/A
Barber Ship Management	0	0	0	0	0	N/A	0	N/A
Columbia Ship Management	0	0	0	0	0	0	0	0
Wallem (HK)	0	0	0	0	0	0	0	N/A

Source: Drewry Technical Services.

As shown in <Table 3>, major ship management firms in the world offers various services from technical, crew management and crew training to operation, commercial, finance, insurance and S&P while ship management companies in Korea provide limited services, mainly crew and technical management due to regulation by Korean shipping Law.

Since 1970s, Hong Kong has been considered as international ship management center

in the world. Major ship management firms including Alglo-Eastern, Eurasia, Qallem, Unilvan and Noblet established their agencies there.

Many international ship management companies have a large scale. V.Ships, Wallem, Norway Welsh, Kent are all do well in international ship management. V.Ships has 44 agencies all over the world and is managing 900 ships and 22,500 seamen. Its ship types include all kinds of ships. V.Ship, the biggest international ship management company in the world has set up its first agency in China lately. V.Ship's presence will certainly speed up the development of China's international ship management companies.

<Table 4> List of Major Ship Management Firms in 2005 in terms of Number of Management Ship

Firms	No. of Ships	Crew (No.)	Shore-Based staff	Head-quarter	Foundation year	Branch (No.)	IT system	Main Type of ship
V.SHIP Group	900	22,500	1,145	Monaco	1984	44	0	Full
The Schulte Group (Eurasia / Hanseatic)	434	7,900	470	Hamburg	1981	50	0	1,2,3,4,5, 6,7,8,10
Barber Ship Management (모기업: Wilhelmsen 사)	250	6,400	426	Norway	1975	-	0	1,2,3,4,5, 6,7,8,10
Columbia Ship Management	300	6,000	-	CYPRUS	1978	23	0	1,2,3,4,5 6,8,9,10
Wallem (HK)	240	6,000	600	Hong Kong	1903	39	0	1,2,3,4,5 6,8,10
Temsa Ship management	220	5,900	-	Denmark	1883	13	0	1,4,5,6,10
Thome Ship Management	163	3,000	-	Singapore	1963	11	0	-
Anglo Eastern Group	150	2,000	500	Hong Kong	1974	16	0	1,2,3,4,5 6,7,9,10
Fleet Management co.	130	5,000	160	Hong Kong	1995	14	0	1,2,3,4,5, 6,10

<Table 5> List of Major Ship Management Firms in 2005

Company	Ship management		Korean crew			Foreign crew			Main Business			
	Merchant Ship(No.)	Fishing (No.)	Total (No.)	officer	rating	Total (No.)	officer	rating	Ship management	Crew management	Insurance	Others
Korea Marine Ltd	25		169	128	41				0	0	0	0
Dong Jin Shipping	61		382	293	89	433	72	361		0		0
Haeyoung Maritime	12		53	47	6	153	36	117	0	0	0	0
Pan Asia	27		117	76	41				0	0	0	0
Wooil Marine	52		201	128	73	244	78	166	0	0	0	0
Dong Kook	74		301	236	65				0	0	0	0
SeJin Marine	33		107	102	5	18	6	12	0	0	0	0
KSIM	6		19	19					0	0	0	0
Kyoung Il	20		77	77						0		0
Cho Kwang	17		152	112	40	135	11	124		0		

4. Selection Criteria of Ship Management Firm

The selection criteria of ship management firm in terms of management firms and ship owners are compared as followings. According professional ship management 2001, management firms selected reputation as the most important factor and followed by management capability, accumulated experience, specialization and management fee. However, results of questionnaires distributed to ship management firms and ship owners respectively over the period from 1st April to 30th April, 2006 show that the most important factor selected by ship management firms is the management capability and followed by accumulated experience, reputation, quickness of service, management fee and company's location. Both results also suggest whether ship management firms have their own fleets or not are the least important factor and reputation, management capability and accumulated experience are considered as the most important factors respectively.

<Table 6> Selection Criteria of Ship Management Firm (Management Firm's Viewpoint)

	Professional Ship Management 2001	Korea 2006
Management fee	4.19	4.15
Company's size	3.51	3.81
Reputation	4.70	4.23
Recommendation	4.28	3.61
Management capability	4.66	4.36
Accumulated experience	4.55	4.36
Quickness of service	4.17	4.16
Service scope	3.19	3.96
Company's location	3.15	4.12
Specialty & specialization	4.23	3.88
Size of Management Fleet	3.32	3.52
Its own fleet	2.55	2.61

<Table 7> represents selection criteria of ship management by ship owners. Professional ship management 2001 indicates the management capability as the most important factor and followed by accumulated experience, quickness of service, reputation and specialization while Korea 2006 shows quickness of service as the most important one, and followed by management capability, accumulated experience, specialization and reputation.

<Table 7> Selection Criteria of Ship Management Firm (Ship owner's Viewpoint)

	Professional Ship Management 2001	Korea 2006
Management fee	3.64	3.84
Company's size	2.92	3.84
Reputation	4.33	4.15
Recommendation	3.83	3.23
Management Capability	4.67	4.46
Accumulated experience	4.56	4.37
Quickness of service	4.42	4.77
Service scope	2.94	4.00
Company's location	2.97	3.46
Specialty & specialization	4.15	4.31
Size of Management Fleet	3.14	3.53
Its own fleet	2.44	2.69

5. Conclusions and Summary

The findings drawn from this paper are as follows;

First, service scope offered by major ship management firms in the world is very broad and various including technical, crew, operation, commercial, financial services while that provided by the Korean management firms is very limited due to the regulation by Korean shipping law. Therefore, in order for the Korean ship management companies to expand services' scope and gain the competitive edge, legislative alternation is necessary.

Second, the size of the Korean ship management firms is very small compared to major ship management firms in the world. In order to achieve economies of scale, the Korean ship management firms have to engage in mergers & acquisitions and form strategic alliance.

Third, an empirical study suggests reputation, management capability and accumulated experience are considered as the most important factors in terms of ship management firms while management capability, accumulated experience and quickness of service are selected by ship-owners as the most important ones.

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선박관리업의 성장 및 선택기준과 시사점에 관한 연구

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국문초록

해운업은 일반적으로 선박의 획득, 선박운영 그리고 비즈니스 활동으로 구분할 수 있다. 이러한 기능은 모든 선박이 수행하는 것이나, 중요한 것은 이러한 몇몇 또는 모든 활동이 자사 내에서 수행하는 것보다 제 3 자 관리업체에 의해 수행되는 것이 더 나은 선택인지 아닌지 하는 것이다. 그러나 비용절감을 성취하기 위해 선박관리업의 시장 규모는 지속적으로 지난 몇 십년간에 걸쳐 성장하고 있다. 본 논문은 선박관리와 시장의 발전 추세를 분석하고 우리나라 선박관리 회사와 비교분석을 한 후 선박관리회사의 선택기준에 관한 기초 설문조사를 수행하였다. 결론 부분에 이러한 분석이 갖는 시사점과 우리나라 선박관리회사의 발전 방안에 대해 제시하고자 한다.

주제어: 선박관리, 3자 선박관리, 쉐프먼 98, 선택기준