Container shipping firms and risk management

Identifying the most relevant strategies

Risk types and potential consequences

All business involves risk in some capacity or other. In certain sectors though, the issue is much more profound. Failure to manage it effectively can mean pretty damaging consequences when things go awry.

Such sentiments certainly apply to container shipping companies where risk is part of everyday life. Research has identified the three main categories of logistics-related risks as involving the physical, information and payment flows.

As for the consequences, these risks have scope to cause financial loss, damage to reputation or have a negative impact on safety and security. In respect of efforts to mitigate these outcomes, firms are inclined to have different priorities. For instance, smaller companies are likely to be particularly concerned about financial loss. But for larger operators, it might be the risk to reputation that constitutes their main worry.

When it comes to risk management, evidence suggests that shipping organizations have limited resources at their disposal. Prioritizing certain types of risk thus makes sense from that perspective too.

Scholars and practitioners alike have made strenuous attempts to identify strategies to mitigate risks for those operating in the sector. To date, however, analysis has been rather narrow. The tendency has been to explore a small number of strategies directed at a few risk areas at most.

Given these limitations, additional work is needed to ascertain suitable strategies to meet the needs of container shipping firms. Arguably even more critical is measuring the effectiveness of the identified strategies so that they can be ranked in order of importance. That way, companies will be better positioned to invest their limited resources more wisely.

Main concerns for shipping container companies

Fleet deployment, design of timetables, international regulations and empty container handling are some of the topics investigated in previous studies. Different strategies have emerged as a result. One example proposed combating the impact of scheduling problems through the use of a “time buffer” that can:

- increase flexibility;
- lessen the negative effects of delays;

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- strengthen the shipping network; and
- prevent operational costs spiraling due to uncertainties about port time.

Another strategy aimed at managing costs more effectively involves reduction of sailing speed in order to lower fuel consumption levels. On a different note, increasing the sophistication of information communication technology (ICT) forms the basis of other strategy suggestions.

The intention by and large in this work has been to address specific risks. In reality, a degree of overlap prevails where some shipping risks are concerned. Strategies can therefore be viewed from a more holistic perspective. The need for a comprehensive approach is recognized by Chang et al (2019), who combine an extensive literature survey with interviews with managers of leading shipping organizations for the purpose.

One key indication to emerge from their investigations is the importance of casting the net wider so that effective strategies can be identified. Conducting research solely in the field of container shipping has the potential to limit findings. Instead, general supply chain management is also worthy of consideration. The rationale here is that ideas for risk mitigation in this and similar areas can also be applicable to container shipping. A recommendation for frequent training of employees perfectly illustrates this point.

Also interesting is the fact that firms are able to use international regulations as a means of combating safety and securing issues. Although some of these directives will perhaps be mandatory, the protection afforded in these risk areas is for sure an added bonus.

The study ascertained that most shipping companies are concerned about financial risks. In addition, safety and security are priorities as well. Given the dangerous nature of the work, this finding is predictable. On the other hand, the focus on reputation seems largely minimal. This again is hardly surprising as such firms do not really have brand names to protect in the same way as retail organizations, for example.

A significant number of strategies are identified by Change et al (2019). However, it is not economically viable for most companies to concentrate on more than a handful. For that reason alone, identifying strategies with scope to have the greatest impact might prove most beneficial.

Some effective strategies

The previously-noted flexible timetable design incorporating time buffers and use of more advanced technology infrastructures were found to be among the top six strategies. With the remaining four, the focus is firmly on creating productive relationships. Consequently, organizations should ideally strive to develop strategies relating to the two areas mentioned above alongside ones which address:

1. creating alliances with other shipping firms;
2. careful selection of partners;
3. development of long-term contractual agreements with shippers; and
4. collaborating extensively with partners.

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In the latter example, importance of such cooperation featured prominently in the wider portfolio of strategies identified by the authors.

Relative significance attached to these and other strategies will of course be subject to some degree of variation. Companies will have unique requirements to meet. This scope for differences is apparent in the contrasting perceptions of slower steaming speeds. While lower fuel consumption appeals to some firms, others feel that more costs are incurred because of longer sailing times.

The merit of building alliances is evidenced by survey respondents deeming it the top strategy for reducing risks associated with both financial loss and safety and security-related loss. In relation to the financial risk category, long-term contracts with shippers are likewise important. Minimal difference in the impact of strategies on mitigating reputation loss confirmed the low priority ascribed to that risk type.

Based on indications here, shipping container companies would be well-advised to develop positive associations with other firms. Long-term agreements with shippers is recommended as well, not least since it can help limit the future demand uncertainty that can cause problems in the sector.

Implementing the right strategies is clearly vital if risk management is to prove effective. However, the need for financial viability means that cost benefit analyses should be conducted before any decisions are made.

Comment

The review is based on: ''Selection of effective risk mitigation strategies in container shipping operations,'' by Chia-Hsun Chang, Jingjing Xu, Jingxin Dong and Zaili Yang, published in Maritime Business Review. Effective risk management is vital for shipping container firms to combat different forms of risk. Use of a select number of relevant strategies can enable a cost-effective approach to the mitigation of risks associated with financial loss and issues relating to safety and security.

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Reference

Chang, C-H., Xu, J., Dong, J. and Yang, Z. (2019), "Selection of effective risk mitigation strategies in container shipping operations," *Maritime Business Review*, Vol. 4 No. 4, pp. 413-431, ISSN 2397-3757, doi: 10.1108/MABR-04-2019-0013.