

TURNAROUND OPPORTUNITIES IN A DEREGULATED AND CORPORATISED
NEW ZEALAND PORT SCENE

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ABSTRACT: *The New Zealand Government's port reforming activities will culminate in appropriate legislation during the first half of 1988*

Port operating companies are expected to take over the commercial function of New Zealand ports from October 1988. The first major task confronting most operating company boards should be that of performing a "turnaround operation" from an historical functionally structured local body type culture (containing a large cost plus approach to business) into truly commercial and market led companies seeking a competitive advantage. The great majority of New Zealand ports currently either operate in a loss situation or at the best achieve very low rates of return on the public investment in port operations

The paper will analyse pre-conditions and methods of implementing successful turnarounds and will compare such pre-requisites and guidelines with the current port organisation framework in New Zealand. The conclusions of this analysis are expected to show firstly that there are many opportunities to undertake turnaround operations in the New Zealand port industry. Secondly, that successful turnarounds are an essential and integral part of achieving significant improvement in port productivity and efficiency.

Finally, the overall conclusion is that, unless port authorities change their direction, the mis-match between reactive port management and an increasingly turbulent external environment will be a major impediment to New Zealand's international trade.

1.0 INTRODUCTION

Corporate recovery is about the management of organisations in crisis, firms that will become insolvent unless appropriate management actions are taken to effect a turnaround in their financial performance.

In the world of business many dream about turnarounds, not enough achieve them. One of the most distressing and dangerous phenomenon in the business world is the unrecognised turnaround situation.

There are no hard and fast definitions of what constitutes a turnaround situation. The term is generally used to refer to those organisations and companies whose financial performance indicates that the company will fail in the foreseeable future unless short term corrective action is taken (Slatter 1984).

This paper takes a broader definition by recognising that companies often exhibit symptoms of failure long before any crisis begins eg. companies with stagnant growth, under-utilised assets and inefficient management. Such organisations often survive in a protected environment in spite of poor management. However, if they are not turned around a crisis situation will eventually develop because the management of such a company is unlikely to be taking the necessary steps to adapt to the changing external business environment in which it operates.

"By adopting turnaround strategies early enough recovery can take place without the traumas usually associated with a crisis situation (Slatter 1984).

The Ports Reform Act will lay the legislative basis for significant reform in the administration of ports in New Zealand, principally through the requirement that Harbour Boards transfer control of their commercial activities to a port company. The scope and effectiveness of reforms to the operation of ports are of great importance to the success of New Zealand firms that are increasingly being exposed to international market forces. The high share of port related costs in overall shipping costs suggests that the potential benefits from increases in efficiency in port operations could be considerable.

The following table gives a breakdown of Trans-Tasman Lines costs:

Crew Costs	8.9%
Bunkers	8.5%
R & M & Others	9.2%
Capital	16.7%
Containers	6.4%
Land Transport	5.5%
Stevedoring	29.7%
Wharfage	7.0%
Administration	8.1%

(Source - Tasman Shipping Review Report 1987)

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Port and Stevedoring charges together at 36.7% constitute the largest single group of costs in Trans-Tasman shipping.

Four years ago New Zealand was one of the most regulated and distorted economies outside the Communist block. The government has been, in a short period of time, trying to change the economy into one of the most market led. The pace of change has been great and so have the opportunities. New Zealand Managers raised to side step bureaucracy and work their way around government controls are putting their talents, where they exist, to new use. The ports of this country are about to move out of a historical protected situation into a cold and competitive market. There is therefore a need for greater emphasis on proper management development and training methods.

Total transportation systems planning, modern management strategic methods, training and organisation development are now the primary routes to greater efficiencies in most ports.

Opportunities to improve what are abysmal financial performances will become evident as long as management becomes self critical rather than self indulgent, and recognises that the criteria for a turnaround situation exists. The prizes for the bold and far sighted are very significant.

".....the single most important area of reform now needed in New Zealand is in our ports. Our ports are the nation's lifeline. New Zealand ports are too expensive, too slow, badly managed, over capitalised, inefficient and overmanned (Prebble 1986).

"Ports are a vital link in the New Zealand transport system. The On-Shore Costs Study has revealed serious operating inefficiencies and unproductive work practices.

Many port investments have been wasteful and are yielding poor returns. There is widespread acceptance that changes are needed in line with adjustments occurring elsewhere in the economy (Business Roundtable 1986).

2.0 PRE-CONDITIONS AND METHODS OF IMPLEMENTING SUCCESSFUL TURNAROUNDS

This paper is aimed at assisting management to achieve sustainable recovery in a turnaround situation. Sustainable recovery requires the firm to develop sustainable competitive advantage. This is an important concept and is the basis of developing a viable and defensible business strategy.

There are three main sources of competitive advantage for the firm to exploit - economic factors, organisational factors and political/legal factors.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

Economic factors: Provide the firm with three sources of sustainable competitive advantage.

- (a) Absolute cost advantage over competitors.
- (b) Relative cost advantages.
- (c) Product differentiation advantages.

Organisation Factors: Are concerned with quality of corporate and business strategies and their implementation. Needless to say these factors have a direct correlation to the quality and expertise of management.

Political and legal factors: May also give the firm a competitive advantage.

Survival is the key word when considering the various strategies of recovery, companies in trouble are frequently the high cost producer to their customers and their markets are often highly competitive. The survival exercise should force the company to undertake a detailed and exacting analysis of its internal strengths and weaknesses and its external threats and opportunities.

Slatter, in his book "Corporation Recovery" (1984) has identified eleven frequently occurring factors which are the principal causes of corporate decline. These factors are confirmed by a number of other studies on this subject, notably by (Argent 1976, Altman 1971).

Slatter emphasises that his eleven factors are the principal, not the only causes of decline, and it is to be noted that none of the list of causal factors of decline explicitly mention the organisation structure, and yet this is clearly a contributory cause of high overheads, low labour productivity and lack of control.

He lists his causes of corporate decline as follows:-

1. Poor management
The personal characteristics of the Chief Executive and the key management personnel play a major role in causing decline.
2. Inadequate financial control
Apart from poor management, lack of adequate financial control is the most common characteristic of declining firms. Weak control usually means that management is unable to pinpoint the products/services on which it is losing money and those which are using cash and which are generating cash.

3. Competition

Both price competition and product/service competition are common causes of corporate decline.

Product/services eventually become obsolete as new technology is developed or improved. Firms sometimes failed to respond to change in market needs, or that they respond too late to change in needs. The result of such failures are usually catastrophic.

"A firm's success as measured by its profitability is not only a function of the industry (and other external) variables over which the firm has no control, but is also a function of the firm's strategy and the quality of its strategic implementation (Slatter 1984).

4. High cost structure

A firm that has a substantially higher cost structure than that of its major competitors is likely to be at a competitive disadvantage at all times. There are a number of types of cost disadvantages and I will mention but two.

Firstly, cost disadvantage due to management style and organisation structure. The issue of management style is important because it directly affects the overhead structure.

Secondly, operating inefficiencies. Operating inefficiencies are due largely to poor management.

5. Changes in market demand

A reduction in the demand for a product/service or a change in the pattern of demand to which the organisation does not respond can be important causal factors in a firm's decline.

6. Adverse movements in commodity prices

7. Lack of marketing effort

The vast majority of firms that are in a period of profit decline are characterised by management and employee complacency at all levels in the organisation. Such complacency is often most clearly visible to outsiders in the firm's approach to marketing.

8. Big projects

The big project that goes wrong because costs are under estimated and/or revenues are over estimated, is a well known cause of company failure.

9. Acquisitions

As the use of acquisitions has increased so has the incidence of acquisitions being a direct cause of corporate decline. Acquisitions are used primarily by firms either to implement growth strategies in industries in which they already compete, or to implement diversification strategies in both related and unrelated industrial sectors. Studies have shown that the so called synergy benefits of such acquisitions are not always realised (Porter 1985).

10. Financial policy

The three main types of financial policy that tend to cause failure are -

- * high debt/equity ratios
- * conservative financial policy
- * the use of inappropriate financing sources.

11. Overtrading

Overtrading is the process by which a firm's sales grow at a faster rate than the firm is able to finance from internally generated cash flow and bank borrowings. A typical situation is where an organisation pursues sales growth regardless of whether or not it is profitable (profitless volume).

Symptoms of decline

As with most problem solving analysis the symptoms of decline are often easier to detect than the causes, although it is not always easy to differentiate between the two.

The major symptoms (not causes) that the researchers have observed are:

- (a) Decreasing profitability
- (b) Decreasing sales of volume at constant prices
- (c) Increase in debt
- (d) Decrease in liquidity
- (e) Restricted dividend policy
- (f) Accounting practices
- (g) Top management fear
- (h) Decline in market share
- (i) Lack of planning/strategic thinking.

A number of studies have been made on the feasibility of predicting company failures based on financial ratios. Later in this paper I have used a model developed in New Zealand (Ferner, Hamilton 1987), which can predict failure to some degree of accuracy using three variables, i.e. earnings before interest and tax, current liabilities and total assets.

Elements of successful turnaround strategy

The research by Slatter and others has identified ten major generic strategies which organisations commonly use in combination. They are -

- * change of management
- * strong central financial control
- * organisational change and decentralisation
- * product/service market reorientation
- * improved marketing
- * growth via acquisitions
- * asset reduction
- * cost reduction
- * investment
- * debt restructuring and other financial strategies

Change of Management

Most, but not all turnaround situations require new Chief Executives. Inadequate top management is the single most important factor leading to decline and stagnation (Slatter 1984). It may be necessary to change top management even if the need for turnaround was brought about by factors beyond the control of management.

Irrespective of such factors the Chief Executive often becomes the scapegoat for the firm's problems and his removal represents tangible evidence to stakeholders, such as bankers, investors and employees, that something positive is being done to improve the organisation's performance. Most importantly, however, a new Chief Executive is required to provide new perceptions of reality and vision which are essential ingredients towards developing new strategies and revitalising the new organisation.

Strong Central Financial Control

This must be viewed as virtually a law of turnaround situations and basically means cashflow forecasts, budgets, detailed knowledge of operating an overhead cost and control over capital expenditure. Autocratic central control by the Chief Executive is seen to be important because the prevailing management culture of most turnaround situations is not geared towards that strong financial control. In a turnaround situation some form of effective system needs to be operational within a matter of weeks, consequently the use of participative management approach in introducing and using new control systems cannot be recommended in turnaround situations. However, despite tight central financial control there is no reason why a decentralising decision making responsibility cannot be instituted as an organisational strategy.

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Organisational Change in Decentralisation

Organisational restructuring should not be complicated as a short term turnaround in strategy, except under special conditions. It is often said that organisational change is riskier than strategy change (Vylterhoeven, Jackerman, Rosenblum 1973).

The appropriate organisation structure for a firm is determined at least in part by the organisation's objectives and its corporate and business strategies. Until such strategies have been formulated any major organisational change can run into some quite severe implementation problems, particularly related to unnecessary confusion and the possibility of masking the real problems facing the company. In many cases of organisation change it is merely the symptoms that are being attacked and not the base problem and its causes.

New Product (Service + Market) Focus

Often one of the major causes of a firm's decline is lack of competitiveness in one or more of its products/service market segments, it is imperative that the firm refocuses its overall product market strategy if sustainable recovery is to take place.

It is basically the question of finding the best match between the resources of the firm and the opportunities available to it in the external environment.

Improved Marketing

Turnaround firms characterised by poor management seldom have a well executed marketing plan. A well thought out marketing plan which aims at maximising the profit potential within the various market segments in which the organisation competes must be seen as essentially a management tool and not merely a piece of paper that has been prepared and then collects dust in some filing cabinet.

Growth Via Acquisition

This means investigating the possibility of acquisition of firms in the same or related industries. Acquisitions are most commonly used to turnaround stagnate firms, i.e. firms not in a financial crisis but whose financial performance is poor. Naturally such a strategy is not available to firms in a crisis situation because of their lack of financial resources although at a later stage, once survival is assured, acquisition may well be part of the strategy to achieve sustainable recovery.

Asset Reduction

An asset reduction strategy is often an integral part of the product/service market reorientation activity. As organisations cut out product or service lines, customers or all areas of business, assets are liquidated or divested. Indeed in a severe financial crisis the adoption of an asset reduction strategy may be the only viable option left open to the firm if it is to survive.

Since many turnarounds are characterised by severe cash crisis, the generation of positive cash flow is an essential prerequisite of successful recovery and a specific asset reduction strategy is likely to have a more rapid and dramatic effect on the firm's cashflow position.

Cost Reduction Strategies

Such strategies are aimed at increasing the firm's profit margin and as such are indirectly aimed at generating increased cashflow.

In most turnaround situations that are characterised by loss making operations. The adoption of a cost reduction strategy is essential. Such action is not surprising if it is borne in mind that most turnaround situations are also characterised by poor management control.

Debt Restructuring and Other Financial Strategies

No turnaround operation is complete without a degree of attention to the debt/equity ratio levels. The turnaround firm in a cashflow crisis is usually over geared and must therefore work to bring its debt/equity ratio back to acceptable industry levels. This is usually accomplished by cashflow generating strategies such as asset reductions, debt restructuring and raising additional finance.

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Figure 1.1 shows the principal generic strategies connected with each of the major causes of decline. However it should be borne in mind that turnaround crises are brought about by a combination of causes which may all be present in any individual case to a varied degree.

Figure 1.1: Influence of Causes of Decline on Generic Strategies
Source Stuart Slatter, "Corporate Recovery" - 1984

<u>Cause of decline</u>	<u>Principal generic strategies required</u>
Poor management	* New management * Organisational change and decentralisation
Inadequate financial control	* New management * Improved financial control * Decentralisation
High cost structure	* Cost reduction * Product-market
Lack of marketing effort	* Improved marketing
Competitive weakness	* Product-market * Cost reduction * Improved marketing * Asset reduction * Growth via acquisition
Big projects Acquisitions	* Asset reduction
Financial policy	* Asset reduction * New financial strategy

There are substantial differences in recovery strategies adopted by companies that are successful and those that are unsuccessful in achieving corporate recovery. Table 1.1. compares the use of 10 generic strategies in successful and unsuccessful recovery situations, the results of a study of 40 U.K. public companies in the 1970s.

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Table 1.1: Comparison of Successful and Unsuccessful Recovery Strategies

Source Stuart Slatter "Corporate Recovery" - 1984

	Firms using generic turnaround strategy (%)	
	Successful recovery situations ¹	Failed recovery situations
Asset reduction	93	50
Change of management	87	60
Financial control	70	50
Cost reduction	63	90
Debt restructuring/ financial	53	20
Improved marketing	50	50
Organisational changes	47	20
Product-market changes	40	30
Growth via acquisition	30	10

¹ Includes non-crisis situations in both manufacturing and non-manufacturing industries.

Besides differences in the strategies employed, an important difference between recovery situations that are successful and those that fail is the quality of implementation and this in turn relates to the quality of the Chief Executive.

3.0 THE CURRENT NEW ZEALAND PORT SCENE AND THE OPPORTUNITIES FOR SUCCESSFUL TURNAROUND STRATEGIES

This section and its appendices will analyse the key financial ratios over the past seven years in a number of New Zealand ports. At the time of preparing this paper none of the ports appear to be in a crisis situation.

However, most ports to a varied extent appear to fall into one of two non-crisis recovery situations, ie those where turnaround strategies are indicated prior to a serious crisis developing, and those where an entrepreneur management take over could result in a building on and expanding of their operations.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

Virtually all the case histories on this subject conclude that many of the same management actions used in crisis situations are also adopted in non-crisis situations. There is another category where management breaks even on a cashflow basis and therefore survives, but is never able to develop an acceptable return on capital employed. These are the ports that can be termed "mere survivors" and will in the medium to longer term be sources of acquisition take over either by other port companies (which I understand would require formal approval by the Minister) or by straight out privatisation.

Quite clearly the legislative framework through the Ports Reform Act is such that the option of privatisation is a further step in the process should corporatisation with existing Harbour Boards as 100% shareholders not achieve the required end objectives.

The underlying philosophy behind the New Zealand Ports Reform Bill, currently on its way through Parliament is that a saving of say 50 cents a tonne in port costs could mean a difference between securing or losing an export sale.

Basically the legislation requires Harbour Boards to set up port companies to operate their commercial facilities. According to the Government the wharves are a toll bridge - and the toll is too high. The administration must become lean and efficient and bureaucratic control must be eliminated.

A similar situation exists in Australia, in fact the basic problems and associated symptoms are virtually identical on both waterfronts.

In an address delivered to a port engineering conference in Sydney on 29 September 1986, Mr Bolitho, Chairman of the Australian National Line, pointed a damning finger at the owners and managers of Stevedoring companies and Container Terminals for failure to integrate their waterfront activities efficiently with the rest of the transport chain. According to Mr Bolitho, millions of dollars spent by port authorities on modern equipment for mechanised and computerised Container Terminals are wasted because outdated work and management practices prevent them from being used efficiently.

He said there was little point in building better port facilities if they could not be used efficiently. The waterfront's main problem was its social industrial and quasi monopoly structure and the work, management and commercial practices arising from that structure.

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Mr Bolitho concluded his address by saying "The impact on our economy of our waterfront problems is too great to be ignored any longer. As long as the fundamental organisation of the industry continues unaddressed introduction of new capital and new technology would simply increase the industrial leverage through which waterfront labour can pressure employers for less work and more pay and through which the quasi monopoly structure of the industry will enable it to pass on the cost to the users of the industry. Man and his motivation are the problems, not the machines."

I repeat, the problem is the same as far as New Zealand is concerned and so are the symptoms.

At the New Zealand Harbours Association Conference in March 1988 the Minister of Transport, Mr Jeffries, clearly enunciated the Government's continuing view that normal economic pressures, not the Government, would dictate future industrial relations and work productivity on the waterfront and that this view would prevail despite the clamour from some waterfront employer groups that the Ports Reform Bill did not attack employment issues.

Each port enterprise will stand and be measured by its own performance as far as the New Zealand Government is concerned. The New Zealand Business Round Table, in its submission to the Select Committee on the Ports Reform Bill (February 1988) made the following pertinent statements -

"The principal mechanism available for ensuring that the new port companies will be run efficiently (thereby minimising cost savings to shippers) is that of freedom in the ownership and transfer of shares.....by debarring non-Harbour Board shareholders from acquiring a controlling majority of shares in a port company, through the requirement that the Harbour Board hold at least 51% of voting rights, private shareholders incentive to monitor and capacity to re-direct a port's performance will be significantly reduced.....at a more general level the competitive performance of the port companies will depend on the development of a broad policy environment in which they have both the incentive to function efficiently and the freedom to do so (Business Roundtable 1988)."

The submission went on to make the point that in their view the capacity of port companies to improve the efficiency of port operations will be constrained by the rigidity of existing labour relations law e.g. the minimum membership of 1,000 for registered Unions introduced in the 1987 Labour Relations Act virtually means that enterprise Unions would not be feasible at most ports.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

Appendix A gives details of an analysis undertaken into the key performance ratios of seven New Zealand Harbour Boards over the period 1981 to 1987. The results have been taken from the port operating sector of the Boards to the exclusion of any other activities such as property.

My own research has indicated that an industry norm for net profit margin should be between 15% and 20%, and for return on assets 16% to 20%. The overall average actual figures for six New Zealand Ports (excl. Auckland) in 1987 were 0.2% and 3.5% respectively.

Both the tables and the graphs in Appendix A show that with the exception of the Bay of Plenty Harbour Board and also the positive trend achievements by Southland Harbour Board, the general level and trend of key performance factors is very lack lustre. The higher overall figures for Lyttelton reflect the fact that Lyttelton's assets have not been revalued i.e. they remain at historic cost. The bad dip in 1986 for that port reflected the result of its Container Terminal crane collapse and associated high cost short term defensive type acquisitions, i.e. the lease of a Samba crane.

It is of interest that the Z factor (Predictor of Distress) of -.2 in that year was associated with acute cash flow problems. (For details on Z Factor see Appendix A).

In some five of the seven ports reviewed, the performing factors are such as to indicate that a turnaround situation exists. I again say that it is not necessary to have a current cash crisis to qualify for the turnaround definition. Such definition recognises that companies often exhibit symptoms of failure long before any crisis begins, e.g. stagnant businesses with under utilised assets and ineffective management. Many such companies have survived for a long time in spite of their poor management.

However if a stagnant port business is not turned around then a crisis situation will eventually ensue, because the management of such a port is unlikely to be taking the necessary steps to adapt to the changing market environment in which the port is operating.

By adopting turnaround strategies early enough then recovery can take place without the traumas usually associated with a crisis situation. In this respect if the Z factor trend lines on the attached graphs are projected forward, then without turnaround strategies being applied a significant number of New Zealand ports will be in a distressed situation within the next three to four years, i.e. their Z factor score will be zero or less.

It is pertinent to refer to the causes of decline summarised in Figure 1.1. of this paper to endeavour to ascertain if any of the factors listed there are applicable to the New Zealand port scene.

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Poor management

It is of some relevance that the ports showing the best financial performance, i.e. Bay of Plenty and Southland, also have what is generally recognised as efficient top management together with an efficient port operation. Wellington had a change of top management in 1984/85 and there has not been enough elapsed time since that event for the annual figures to show any real change in direction. Sufficient to say the previous alarming downward trend has at least been corrected and that the beginnings of a turnaround situation does appear to be underway.

The waterfront industry like the freezing industry has a long historic background of a cost plus environment and the ports also have a local body type environment and culture. Both these important historic factors can hardly be considered conducive towards achieving good dynamic and results oriented senior management. It is therefore of significance that in the changeover from Harbour Boards into port operating companies, no port in New Zealand has changed its Chief Executive.

The most generally accepted reason for the no change policy is that the elected Harbour Boards are still 100% shareholders of the new company and appoint the Establishment Unit Directors. They could therefore be expected to exert a considerable degree of influence on the company establishment units to take over the existing Chief Executives. Regretfully the management performance criteria used by most elected bodies does not necessarily include the criteria required for the Chief Executive of a modern day commercial enterprise.

Inadequate financial control

I have already said that financial control means cash flow forecasts and a detailed knowledge of operating and overhead costs together with a control over capital expenditure. If any or all of the above are absent or inadequate then lack of financial control exists.

It has not been possible for me to research the situation in all of the seven ports under review, however I can say that in at least one the current financial control systems are inadequate and furthermore I would be very surprised if that port is alone in such deficiencies in this area.

High cost structure

There can be no argument, as is evidenced by the low net profit margins, that the industry suffers substantially from a high cost structure. Now that the days of "cost plus" are well and truly over this aspect of port operations is becoming increasingly critical as being the only way to improve bottom line results.

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Lack of marketing effort

The great majority of organisations that are in a period of profit decline are characterised by a management/employee complacency at all levels in the organisation. New Zealand ports are no exception to this rule. Typically, efforts are not targeted on key customers and key services.

There is a poor attitude towards customer service, particularly in the four major ports, there is a lack of market research and knowledge of the port users' buying habits and there is a weak or non-existent new service development function. Again the basic problem in this area is usually a management problem.

Competitive weakness

Some ports particularly the secondary ones are in a weak competitive position relative to the major ports. Most of them are well aware of this situation and the more progressive operations have already taken substantial strides in the area of cost reduction, improved market and asset reduction, e.g. Southland Harbour Board. One further avenue open to them that of growth via acquisition raises some interesting possibilities. A good example of that in the South Island of New Zealand would be between Timaru and Lyttelton, also Southland and Otago.

Big projects

Despite the existence of the New Zealand Ports Authority (until recent times) a degree of duplication in terms of capital expenditure has been a feature of the New Zealand ports scene. The New Zealand Ports Authority has on a number of occasions criticised the standard of the applications for capital expenditures and in its 1986 Annual Report, it stated that despite guideline procedures outlined by the Authority some ports "continue to submit deficit applications which inadequately or erroneously outline the proposal being put forward....."

The overall result of past failures in this vital area is that there are a large number of under utilised assets existing in the New Zealand ports structure today.

Financial policy

In terms of New Zealand ports the debt/equity ratio is worthy of comment. As no Port is currently in a costs crisis situation, this aspect of their structure appears to be generally satisfactory. The low debt burden at Timaru is a significant function in that Port's ability to at least survive to date.

In the years 1986 and 1987 the debt ratio varied from a low (Bay of Plenty) of 8.4% to a high (Lyttelton) of 55%.

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The annual report of the New Zealand Ports Authority for 1987 gives further evidence that a turnaround state exists in most New Zealand ports. In an analysis of performance results over the period 1977 to 1986, it found that only two Harbours Boards, Bay of Plenty and Marlborough, made a consistent annual profit on port operations over that period.

It acknowledged that some Harbour Boards had already undertaken major restructuring to improve efficiency and reduce costs. However it noted that a number of Boards would have been in serious financial difficulties from the outcome of port operations alone had it not been for revenue from other sources.

It further noted that "the intended imposition of rates, land tax and corporate income tax will have the effect of increasing expenditure. Consequently unless Harbour Boards are able to make major reductions in port operating expenses, or achieve substantial increases in trade, it can be expected that many will have to increase charges to compensate."

Finally, Appendix B gives an example of an approach that can be used to determine the appropriate strategic posture for an organisation. The name of this particular approach is called "Strategic Position and Action Evaluation (SPACE) (Rowe, Mason and Dickel 1978). If such an approach is used in conjunction with an analysis on the strengths, weaknesses, opportunities and threats of any particular operation then the end effect will be to draw management's attention to possible problem areas, possible changes for growth, and it at least provides a useful starting point for appropriate decision making.

The SPACE approach is an attempt to overcome some of the limitations inherent in previous approaches, and the example shown is one of a typical New Zealand port based upon my own personal experience. This port is in a typical competitive posture reflecting a turnaround situation, i.e. a major change in management direction.

4. CONCLUSIONS

The majority of New Zealand ports are currently in a turnaround situation and it therefore follows that a number of opportunities exist to implement successful turnaround strategies, given that the elements for a successful recovery strategy discussed in this paper also exist.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

The trend graphs detailed in Appendix A clearly show a number of factors in relation to past performance. Timaru is a classic example of an organisation in decline, but so are a number of other ports, with the exception of the Bay of Plenty, Southland and possibly Wellington.

It is of some significance that the deteriorating trend has set in since the 1983/84 period of wage, and therefore costs, freeze. It is also worthy of note that increased competition amongst the port users has been a feature of this period and as a result ports have not been in a position to automatically pass on increased costs. Such a situation must inevitably result in deteriorating performance factors unless positive strategies are implemented to correct the downward trend.

Such strategies appear to have only been implemented in a small number of ports. In the South Island, both Lyttelton and Southland have virtually doubled their revenue over the period under review, however, in the case of Lyttelton the performance factors do not reflect the potential benefits of such a trend. In other words, increased costs have virtually created a profitless volume situation.

In the North Island, both the Bay of Plenty and Auckland have experienced substantial increases in revenue over the period with only the former port achieving correspondingly improved performance factors.

Regretfully, it would appear that in the majority of ports these opportunities are not going to be grasped, and even where they are recognised, the implementation of turnaround strategies will be found wanting simply because the majority of New Zealand ports appear to show the characteristics of under achieving companies.

Goodman calls such characteristics "enemies of a turnaround" and he lists ten of them, most of which apply to New Zealand port organisations.

Rear view mirror

This refers to backward looking management doing things that worked in the past but don't seem to work any more. Not enough use is made of the simple question Why? and a cult has been allowed to develop where probing, questioning, awareness of change, all diminish and as Goodman puts it "The past moves into the driver's seat."

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Enjoying low Executive turnover

In a period of generally increased Executive turnover brought about by the competitive search for managerial talent, New Zealand port authorities in the main "enjoy" low Executive turnover. The sacred cows that inhabit such organisations place a lot of emphasis on length of service and other factors quite unrelated to performance.

Little self criticism

The style of such organisations is self indulgent rather than self critical. There is no internal environment feeling results are demanded and it would appear that everyone would be happy with C Average performances.

Regularly missing plan

This is a situation where budgets and any other plan for that matter are seldom achieved. Certainly there is a plentiful supply of excuses, but the fact remains that such plans are not treated as management working documents. Far too much emphasis is placed upon statutory accounts and historical data to "pad" Board Member reports.

A house divided

A typical example of such a problem is the poor flow of communications between functional divisions of the organisation, i.e. every division blames the others. The combination of hostility and low achievement leads to entrenched management enclaves with little constructive communication between departments. Certainly in the case of Lyttelton, this situation is recognised and efforts are being made to restructure, but even if successfully implemented, such reorganisation cannot take place in isolation to other factors.

Little delegation

Not enough decision making is pushed down through the organisation and what decision making there is takes place in the very top echelon.

When decisions are made they are apt to be cautious and limited by fear of change. The timid philosophy of forever playing it safe or "don't rock the boat" plays a very large role in such organisations.

Meetings as an avoidance technique

This is a classic occurrence where in reality meetings become an avoidance technique through which decision-shy managers, i.e. those characterised by a congenital fear of making a decision, can at the same time put off taking a stand and rationalise any guilt feelings by what they consider to be fair and democratic soundings of their associates' opinions.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

Crying "wolf!" too often

In troubled companies, top management sometimes tend to sound off with dire warnings that are not accompanied by any programme of action. The motivation is to "clear one's yard arm" and in the end management loses credibility.

Government policies may or may not create the economic climate and the legal framework in which enterprises can flourish. In the case of ports, as in any other organisation, it will still take skilled individuals to husband these enterprises through to successful operating entities. Someone must run the ports of New Zealand and run them better than we have in the past.

The Government's work in creating the necessary climate for commercial enterprises to succeed will only be effective if the management competence exists to execute it. The short term prospects are not good.

If the new port companies are to achieve their performance objective then money must be spent on management education, training, information systems and resources. I cannot over emphasise the importance of management training in an industry that has given little more than lip service to training and development for its senior staff.

There will, given the right conditions, be an entry of more qualified management and an exit of the traditional type manager who is unable to be trained to take his place in the future structure.

The New Zealand Business Round Table (1988) makes it clear that although the Ports Reform Act sets out a framework for important improvements in the efficiency of the New Zealand waterfront industry, these reforms fall short in that they do not deal adequately with the incentive and monitoring problems of commercial activities in public control, and in particular they do not address the extent of the problems associated with a highly regulated waterfront labour market.

The current debate on the early moves towards privatisation for state owned corporations has some relevance to the port scene. The complex subject of privatisation, as opposed to state owned corporations will no doubt be covered by other papers in this research forum, but it is pertinent to note that the intended Port Reform Act gives provision for up to 49% of the port company's shares to be sold off to the private sector.

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In other words, the provision is already there for a very significant step towards privatisation of the ports of this country and indeed the final achievement of successful turnarounds in our port structures could well not take place until the ownership totally reflects a truly commercial venture unimpeded by political motivation, in this case local politics.

(Roberts 1987) makes the pertinent comment that if the Executives of state corporations (in this case Harbour Board controlled corporations) discover that they take risks in the form of shareholder displeasure, but their freedom is submerged by a flood of enquiries, local political wrangles, and intrusions on the exercise of their judgement, the galvanising effect of the reform will not be achieved.

Wilenski in his book "The Strategy of Change" (Roberts 1987) says that new people, particularly those who have been associated with the reform process "...bring with them both a commitment to change and a freshness and enthusiasm for being unincumbered either with debts to people already in the organisation or with attachment to existing processes or programmes. Their appointment is also a signal to the system that change is underway."

Wilenski's statement adequately covers the key criteria for change and reform in the port industry.

It is pertinent to close my paper by quoting (G W Jones 1987)

".....the half way house of the public corporation blurs responsibility so that neither the market nor politics provides a discipline. The oddest choice of all was to nationalise enterprises and then expect them to pursue strictly commercial objectives. If commercial goals are to be pre-eminent then the market will suffice and there is no justification for nationalisation."

As Jones distinctly pointed out in other parts of his lecture when all the relevant factors are taken into account, the choice is really between putting the main responsibility for the enterprise either with elected party (whether this is central or local) or with the private sector. Should the latter be chosen, then undoubtedly the market will provide the main discipline and the enterprise will be truly responsible to its customers within the constraints of the normal Government regulations applicable to any private sector enterprise.

TURNAROUND OPPORTUNITIES - N.Z. PORTS

I sincerely hope that the observations made in this paper on the general New Zealand port scene will, where appropriate, be taken as constructive criticism aimed at assisting senior management to achieve efficient and viable Port Company operations

Nevertheless the overriding conclusion must be that unless there is clear and positive change of direction at Board and Chief Executive level at a number of port enterprises then the required climate for reform provided by the new Government legislation will not be adequately exploited by industry management with disastrous consequences for the exporters/importers of New Zealand and ultimately the country's economy. The industry is certainly heading into an interesting period.

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APPENDIX A

KEY PERFORMANCE FACTORS (TABLES)

N.Z. PORTS : 1981 - 1987/88

Revenue
Total Assets
Current Liabilities (CL)
Earnings before Tax (EBT)
Return on Total Assets (R.O.A.)
Net Profit Margin (Net Margin)
EBT/
/Revenue

Z Factor

NOTES

1. Sources - Annual Reports (In Lyttelton's case the 1987/88 Budget estimates have also been included)
2. All figures relate to port operations only i.e. non-port activities e.g. property have been excluded.
3. Most ports are at different stages in asset valuation e.g. Lyttelton figures are purely historical cost. However some other ports have revalued at various stages over the review period.

All ratios (apart from Net Profit Margin) should therefore be interpreted on a trend basis.

Z factor - (Distress Prediction Model, Ferner and Hamilton, May 1987.)

An NZ model has been developed using multiple discriminant analysis applied to the financial ratios of NZ listed companies. The predictive ability of the model performs reasonably well for predictions close to the point of failure.

4. "Z factor" is a three-variable linear model using Earnings Before Interest and Tax (EBIT)
Total Assets (TA) and
Current Liabilities (CL)
i.e.

$$\text{Z factor} = \overset{*}{+0.56} + \overset{*}{12.52} \frac{\overset{*}{\text{EBIT}}}{\text{(TA)}} - 3.82 \frac{\text{(CL)}}{\text{(TA)}}$$

* constants

The critical Z factor value for NZ sample of companies was 0.15 i.e. scores below this level indicate imminent crisis problems.

5. Auckland 1987 financial results not available at the time of completing paper.

1.

APPENDIX A

LYTTLETON Performance Factors Period 1981 to 1987

instant1 0 56
 instant2 12 52
 instant3 3 82

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	2 50	39 20	7 90	0 43	18 80	0 59	6 38%	2 29%
1982	2 60	36 50	2 80	0 65	22 27	1 16	7 12%	2 92%
1983	3 10	37 40	2 00	1 01	23 90	1 39	8 29%	4 23%
1984	5 30	41 00	5 40	2 98	27 10	1 68	12 93%	11 00%
1985	4 01	44 50	5 80	-1 00	26 90	1 19	9 01%	-3 72%
1986	-1 10	45 30	6 00	-3 50	29 20	-0 25	-2 43%	-11 99%
1987	4 50	53 00	6 70	0 23	35 40	1 14	8 49%	0 65%

TIMARU Performance Factors Period 1981 to 1987

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	-0 01	15 50	0 89	-0 35	4 01	0 33	-0 10%	-8 73%
1982	0 40	16 24	0 88	0 05	5 36	0 66	2 46%	0 93%
1983	1 26	17 70	0 57	0 86	6 04	1 33	7 12%	14 24%
1984	0 55	16 70	1 98	0 21	6 68	0 52	3 29%	3 14%
1985	0 58	19 00	1 80	0 05	7 99	0 58	3 05%	0 63%
1986	0 08	22 50	1 27	-0 41	8 19	0 39	0 36%	-5 01%
1987	-0 45	25 06	1 35	-1 02	5 74	0 13	-1 80%	-17 77%

SOUTHLAND Performance Factors Period 1981 to 1987

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	0 49	61 90	2 88	-1 25	5 17	0 48	0 79%	-24 18%
1982	1 83	61 50	3 60	-0 35	7 27	0 71	2 98%	-4 81%
1983	2 29	63 10	2 10	-0 05	8 87	0 89	3 63%	-0 56%
1984	3 00	62 10	4 30	0 82	10 44	0 90	4 83%	7 85%
1985	0 92	58 70	5 30	-1 27	9 33	0 41	1 57%	-13 61%
1986	2 46	61 69	7 59	0 13	10 40	0 59	3 99%	1 25%
1987	2 79	57 02	5 46	0 36	10 71	0 81	4 89%	3 36%

WELLINGTON Performance Factors Period 1981 to 1987

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	2 82	54 10	10 98	0 01	20 50	0 44	5 21%	0 05%
1982	3 87	65 90	2 34	0 87	24 60	1 16	5 87%	3 54%
1983	1 10	64 10	3 10	-2 30	22 40	0 59	1 72%	-10 27%
1984	2 30	66 90	11 30	-1 16	23 80	0 35	3 44%	-4 87%
1985	1 70	68 20	3 72	-2 00	24 50	0 66	2 49%	-8 16%
1986	0 00	71 00	4 70	-4 00	23 50	0 31	0 00%	-17 02%
1987	2 56	71 00	6 40	0 40	26 60	0 67	3 61%	1 50%

AUCKLAND Performance Factors Period 1981 to 1986

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	3 20	195 80	13 70	-1 75	51 77	0 50	1 63%	-3 30%
1982	9 40	206 50	9 46	3 70	66 00	0 95	4 55%	5 61%
1983	8 96	210 70	14 23	3 36	70 30	0 83	4 25%	4 76%
1984	11 10	284 00	31 50	3 90	78 26	0 63	3 91%	4 98%
1985	13 90	299 40	32 20	4 10	87 90	0 73	4 64%	4 66%
1986	6 90	328 10	37 20	-3 10	89 40	0 39	2 10%	-3 47%
1987								

OTAGO Performance Factors Period 1981 to 1987

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	3 70	79 50	10 10	1 20	19 60	0 66	4 65%	6 12%
1982	3 50	88 20	3 35	0 80	21 90	0 91	3 97%	3 65%
1983	3 90	93 00	2 70	1 30	22 98	0 97	4 19%	5 66%
1984	2 30	95 50	5 34	-0 52	20 10	0 65	2 41%	-2 59%
1985	3 27	96 10	3 60	0 38	23 40	0 84	3 40%	1 62%
1986	-0 60	112 90	2 90	-3 30	22 20	0 40	-0 53%	-14 86%
1987	0 90	110 50	2 27	-1 70	23 80	0 58	0 81%	-7 14%

BAY OF PLENTY Performance Factors Period 1981 to 1987

	EBIT	ASSETS	CUR.L	EBT	REVENUE	"Z" Factor	ROA	NETT MARGIN
1981	2 20	50 40	0 82	0 40	9 34	1 04	4 37%	4 28%
1982	3 49	58 90	1 63	1 73	11 20	1 20	5 93%	15 45%
1983	3 05	67 90	2 30	1 25	11 34	0 99	4 49%	11 02%
1984	2 70	79 30	2 05	1 05	12 48	0 89	3 40%	8 41%
1985	3 50	85 90	2 37	2 08	13 84	0 96	4 07%	15 03%
1986	1 95	85 00	1 36	0 73	15 39	0 79	2 29%	4 74%
1987	4 70	93 80	1 50	3 67	17 87	1 13	5 01%	20 54%

NEW ZEALAND PORT ASSESSMENT

APPENDIX B

"SPACE EVALUATIONS" - INDUSTRY ASSESSMENT

ENVIRONMENTAL STABILITY (ES)

- Tech Changes	MANY	0	1	2	(3)	4	5	6	FEW
- Rate of Inflation	HIGH	0	(1)	2	3	4	5	6	LOW
- Demand Variables	LARGE	0	1	2	3	(4)	5	6	SMALL
- Price Range of Competitor products	WIDE	0	1	2	(3)	4	5	6	NARROW
- Barriers to entry to markets	FEW	0	1	2	3	4	(5)	6	MANY
- Competitive Pressure	HIGH	0	1	2	3	(4)	5	6	LOW
- Price Elasticity/Demand	ELASTIC	0	1	2	3	(4)	5	6	INELASTIC
- Rate of industry deregulation	HIGH	0	1	(2)	3	4	5	6	LOW

AVERAGE RANK = -3.25

Critical Factors (ES)

There is a movement towards a more turbulent environment with increasing competitive pressures and deregulation. Technology is becoming increasingly complex and capital intensive which raises the barriers to entry.

Comment -

It is necessary to have a good financial base in the face of this deregulation and competition.

INDUSTRY STRENGTH (IS)

- Growth Potential	LOW	0	1	2	(3)	4	5	6	HIGH
- Profit Potential	LOW	0	1	(2)	3	4	5	6	HIGH
- Financial Stability	LOW	0	1	2	(3)	4	5	6	HIGH
- Technological know how	SIMPLE	0	1	2	3	(4)	5	6	COMPLEX
- Resource Utilisation	INEFFICIENT	0	(1)	2	3	4	5	6	EFFICIENT
- Capital Intensity	HIGH	0	1	(2)	3	4	5	6	LOW
- Ease of Entry	EASY	0	1	2	3	4	(5)	6	HARD
- Productivity	HIGH	0	1	2	3	4	(5)	6	LOW
- Flexibility/Adaptability	HIGH	0	1	2	3	4	(5)	6	LOW

AVERAGE RANK = +3.33

Critical Factors (IS)

There is low growth with a good profit potential. The degree of capital required is increasing with ease of entry becoming increasingly difficult. The resource utilisation is not high with a low degree of flexibility and adaptability

Comment -

The industry potential is still reasonable but, with increased competition and technological barriers to entry in certain markets, financial viability will become more difficult.

COMPANY ASSESSMENT

COMPETITIVE ADVANTAGES

- Market Share	SMALL	0	1	2	3	4	5	6	LARGE
- Product Quality	INFERIOR	0	1	2	3	4	5	6	SUPERIOR
- Product Life Cycle	LATE	0	1	2	3	4	5	6	EARLY
- Replacement cycle	VARIABLE	0	1	2	3	4	5	6	FIXED
- Customer Loyalty	LOW	0	1	2	3	4	5	6	HIGH
- Competition's capital	LOW	0	1	2	3	4	5	6	HIGH
- Technological know how	LOW	0	1	2	3	4	5	6	HIGH
- Vertical Integration	LOW	0	1	2	3	4	5	6	HIGH
- Geographic Location	POOR	0	1	2	3	4	5	6	GOOD
- Management skills	POOR	0	1	2	3	4	5	6	GOOD

AVERAGE RANK = 2.3

Critical Factors (CA)

The product quality is poor and many products are in their latter stages of their life cycles. While there are several cash cows, the high level of overheads prevents profitability. The market share is "middle of the road" with dominance in only one or two sectors. The competition has a good capital base and superior standard of management skills.

Comment -

The company needs to do a full evaluation of both its products and its managers.

FINANCIAL STRENGTH (FS)

- ROI	LOW	0	①	2	3	4	5	6	HIGH
Gearing	IMBALANCE	0	1	2	③	4	5	6	BALANCE
- Liquidity	IMBALANCE	0	①	2	3	4	5	6	BALANCE
- Capital Required	LOW	0	1	②	3	4	5	6	HIGH
- Cashflow	LOW	0	①	2	3	4	5	6	HIGH
- Ease of Exit	DIFFICULT	0	①	2	3	4	5	6	EASY
- Risk	LOW	0	1	2	3	④	5	6	HIGH
- Accounts Receivable	LOW	0	①	2	3	4	5	6	HIGH
- Capital Availabe	LOW	0	①	2	3	4	5	6	HIGH

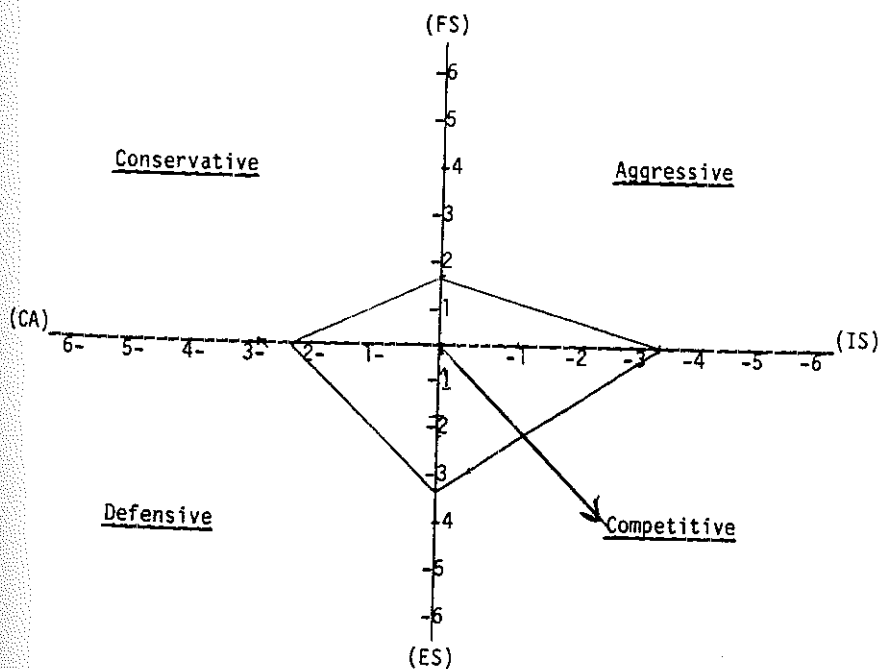
AVERAGE RANK = 1.6

Critical Factors (FS)

Very weak in all financial aspects with the only counterbalancing aspect being a reasonably low risk industry.

Comment -

The financial position is weak and not improving.



Analysis

This company is in a position known as competitive very close to that of defensive. The most important strategy in this segment is that of turnaround - i.e. a major change in management direction. However, in the short term, the financial position is critical and the first action must be to acquire financial resources and the allocation of them in the correct direction. Hand in hand with this of course is a heavy reduction in costs not associated with the main activity of the company transport.

In the longer term actions should be aimed at towards improving the targeting of the product line with better market segmentation. This could well include discontinuing marginally profitable services. The result of these two actions should be improved cashflow which, in the long run, should make the enterprise profitable and financially viable.