

STRATEGIC FLEXIBILITY IN THE IRISH SEA-FERRY INDUSTRY

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Introduction

In response to the turbulence of the current business environment a new direction has evolved in strategic planning based on increased flexibility in resource deployment and in planning. The planning literature prescribes a number of fresh approaches to cope with the effects of environmental discontinuity. These have a number of themes in common:

- they highlight the influence of subjective perception on likely reactions to change,
- they emphasise that both a capacity and a willingness to take appropriate action are vital in coping with change,
- they underline the need to maintain a coherent long-term planning perspective in the face of increased environmental uncertainty and complexity.
- they promote flexibility as the underlying principle of effective strategic planning.

The literature suggests that in the context of environmental turbulence the effectiveness of an organisation's strategies will be determined by its own flexibility. As a way of coping with change the concept of flexibility has the appeal of being intuitively appropriate. Various ways of achieving it are prescribed:

- building it into the organisation [Ansoff, 1968; Scott, 1965];
- using suitable planning techniques which explicitly accommodate uncertainty [Rosenhead, 1980; Taylor, 1984];
- adjusting resource allocations to allow for perceived uncertainty [Menke, 1979].

Although its different facets can be readily described, the achievement of flexibility is not easy. Strategic flexibility does not simply consist of being able to maintain key organisational relationships in the face of environmental change. The concept has a more "active" connection, suggesting

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that flexibility derives more from an organisation's actual capacity to choose between real alternatives [Rosenhead, 1980]. Flexibility is not a free good, and its achievement must therefore be sought deliberately.

This article assesses the capacity of Irish ferry operators to exploit flexibility in responding to change. It is based on a survey, by means of questionnaires and personal interviews, of a panel of experts in the ferry sector, all of whom were concerned with strategic planning in their organisations, and had been involved in the ferry business for at least ten years.

A number of factors suggested that the Irish ferry industry was a suitable focus for an exploratory study of responses to strategic change: the industry operates in an uncertain environment, trading conditions are difficult, and it is very vulnerable to the impact of change in the variables which influence demand for both freight and passenger traffic. It was also recognised that the capacity of the Irish ferry industry to adapt to change is handicapped by particular constraints: the industry suffers from over-capacity, profit margins are generally low, some operators are in a weak financial position, opportunities for redeployment of resources within the sector are limited, and the resale value of assets is low. A feature of the industry which is also relevant in the context of coping with change is the involvement of the State through its ownership of the B & I Line and the Irish Continental Line.

Flexibility in Resource Deployment

To the ferry operator, daily and seasonal changes in the level of mix of traffic are routine, familiar and reasonably predictable. To adjust to these operational changes the resources of ships, service frequency and route alterations can be deployed with some degree of flexibility.

These changes are temporary and do not permanently change the relationship between the firm and its environment. However, limited operational flexibility is unlikely to prove adequate in adapting to strategic changes which are unfamiliar and to which no routine response has been developed.

The modern multi-purpose ferry can simultaneously transport a variety of traffics: passengers, cars, coaches, accompanied and unaccompanied freight vehicles. The level and mix of traffic varies on a daily and seasonal basis, and often there are also imbalances between the outward and inward traffic flows. On some routes traffic, especially passenger traffic, is highly peaked. On the Rosslare-Le Harve route, for example, ICL carries 30 times as many passengers during the peak of the summer season as it does in the winter valley periods. The pattern of seasonality on other

routes is also peaked albeit not as dramatically: for example on the B & I's Dublin-Liverpool route the ratio of high-season to low-season passenger numbers is 6 : 1.

Because of the heterogeneity of the traffic mix and the fluctuations in the level of demand, the task of matching supply to demand is a complex one. An ability to deploy resources with some degree of flexibility would seem vital to the achievement of a close match of supply to demand.

In terms of **coping with the traffic mix** the ferry operator in the long term relies primarily on the ability of the multi-purpose ferry to handle a variety of traffic. But the ferry operator cannot cope with all mixes of traffic because of deck and height restrictions. There is also an economic constraint, in that the economics of ferry operations depend on obtaining the right mix of traffic.

Matching capacity closely to the level of demand also requires flexibility. Reference has been made to the highly seasonal patterns of traffic on many routes. Rather than chartering marginal capacity in and out to cope with the peaks and valleys of traffic, an operator may simply reduce frequency during the winter valley period and increase it during the summer peak. However, here again potential capacity adjustments are limited. Where there is little slack in the schedule, the achievement of an increase in capacity through increased frequency is feasible only on the subset of routes where a marginally faster journey time and turnaround may allow an extra sailing each day. This strategy has, for example, been employed by Townsend Thoresen on the Dover-Calais route where it offers five sailings daily in each direction against Sealink-British Ferries' four, but it is not feasible on various other routes.

In matching capacity to demand, ship configuration and the ability to adjust service frequency therefore yield a limited degree of flexibility. However, in the context of **coping with changes in traffic origin-destination patterns**, on the Irish Sea for example, there is little scope for altering route networks. The lack of suitable existing port facilities and the high capital cost of developing new terminals hinders the provision of efficient alternative itineraries. The only company on Irish ferry routes to alter its network of routes over the last five years has been the B & I Line. Its strategic efforts to discard its long-sea routes in favour of short-sea ones were pursued with considerable trauma.

Faced with **strategic change which undermines the demand for ferry services**, the operator could attempt to charter out capacity. In a market where overcapacity is endemic and where ferries are closely matched to

the constraints of their routes, there are not extensive opportunities for chartering out capacity. Where strategic changes result in **the technical or economical obsolescence of existing ferries**, opportunities to dispose of surplus capacity are likely to be further impaired [Porter, 1979]. Thus the chartering out option is somewhat constrained.

In order to enhance preparedness to deal with strategic change, Ansoff (1976) suggests that organisations should be logically flexible. However, while he gives some indication of the sources of logistic flexibility — including multi-purpose modular capacity, diversified skills, and liquidity of resources — his observations are not sufficiently specific to the topic of this article. Definitions of strategic flexibility emphasise resilience, robustness and the availability of real alternatives. Using these criteria, real logistic flexibility exists only if new activities can be undertaken with existing resources without incurring excessive costs. Thus, while the multi-purpose capacity of ferries is sufficiently flexible to cope with changes in the mix and level of traffic, it cannot easily be redeployed in different markets.

Planning Perspective

Small operational changes are considered part of the ferry operator's normal environment and are dealt with using standard operating procedures. However, strategic change implies a major change in the company's environment and requires a fresh strategic response.

Turbulent environments are characterised by uncertainty and complexity. Firms operating in such environments find it difficult to assess changes and to predict their impact particularly in the long-term. This, combined with a perceived inability to exert control over events, encourages retrenchment [Smart & Vertinsky, 1984]. In such circumstances the long-term corporate planning perspective is often abandoned in favour of "fire-fighting" in the short-term.

In this regard, all but one of the survey participants viewed the adoption of a short-term planning horizon as the appropriate approach in the context of environmental uncertainty. One manager noted that "whether you do long-range planning at all depends on how uncertain and complex the environment is". This manager's firm had in the 70's devoted considerable effort to the development of a formal corporate planning process and the production of five-year rolling plans. Another of that firm's managers noted that today the company would not look beyond the next two years.

Two of the respondents noted that, while their planning was essentially

short-term, it did incorporate assumptions about long-term. This suggested that the long-term perspective had not been totally rejected. However, their descriptions of the planning process did not indicate that any of these long-term assumptions were rigorously tested or that possible alternative scenarios were considered. Instead, they implied that assumptions about the long-term future were “nodded to” en route to developing the short-term response.

The absence of a long-term planning perspective, coupled with a failure to make contingency plans, suggested that the strategic preparedness of Irish ferry operators may be weak. Ironically, a planning approach which explicitly acknowledged uncertainty (e.g. scenario planning) or a process which facilitated the identification and appraisal of underlying assumptions (e.g. SAST developed by Mitroff and Mason (1981)) could prove appropriate under the circumstances of the ferry companies. A number of respondents referred to contingency planning in an operational context, for example allowing for a margin of error in forecasting and having access to alternative berths in the event of emergencies. But flexibility to switch berths even in the case of an emergency is limited. For example, the B & I Line could dock its ships in Dun Laoghaire rather than Dublin but it would be unable to operate a full service because the back-up space is insufficient to accommodate its Roll on/Roll off traffic. The research findings did not indicate evidence of any real contingency plans which could be brought into play in the event of strategic change undermining existing plans or challenging the assumptions on which plans were based.

The Influence of Corporate Values

The literature on strategic flexibility suggests that capacity to cope with change is shaped in part by an organisation's values. These influence its willingness to act, and define which of the potential responses are subjectively acceptable to it.

Variations in the range and character of acceptable responses to change could be expected between ferry companies in the public and private sectors in view of their different priorities, and an analysis of past performance confirmed the existence of differences in approach. But the analysis also indicates more obvious differences *within* the public sector, specifically between B & I and ICL. Both companies are considered to be “commercial State-sponsored bodies”; both operate within the same arena; yet each has responded to the environment quite differently. In B & I the influence of the Government has been obvious from instances of political interference in the commercial operation of the company. The

following B & I decisions have been perceived, both publicly and within the company, as "political" decisions:

- the construction in Verolme Cork Dockyard of ferries which could have been built more cheaply elsewhere,
- the recruitment of additional and unnecessary staff in 1977/78,
- the continued operation of the Cork-Pembroke service after it had ceased to be profitable.

In the case of ICL the Government's presence is much less easy to detect.

The difference in origin and in financial performance may provide clues to the emergence of the contrasting style of each company, but they do not constitute a full explanation. Some account must also be taken of the critical influence of each company's own response to the environment of the State-sponsored sector.

In 1966 B & I defined its objective as follows:

"To provide and develop a modern, efficient, profitable, national and comprehensive surface transport system to and from Ireland" [B & I Line, 1966].

This definition contains a source of potential conflict, in that a national and/or comprehensive service may not necessarily be a profitable one. No effort is made to resolve the conflict either by ranking the criteria or by determining the extent of compatibility between the concepts of comprehensiveness and profitability of service.

"Profitable" implies a commitment by the company to commercial operation. This was confirmed in evidence given to the Joint Oireachtas Committee on State-sponsored Bodies in 1979. Yet at a later stage the company's chairman stated that it had an "overriding social obligation to the community", and cited the shipbuilding orders given to the State-owned Verolme Dockyard in Cork as evidence of this.

A lack of clarity in its objectives seems to have undermined the B & I Line's strategic thrust, and allowed the accommodation of non-specific social obligations. This, combined with a weak financial base and a degree of dependence on State funds, created a corporate climate in which a strong Government influence was tolerated. This affected the values and orientation of the company, and increased the consciousness of the political acceptability criterion in the selection of strategic options, which obviously limited the company's room for strategic manoeuvre.

Notwithstanding the financial problems and subsequent liquidation of its

parent company, Irish Shipping, ICL has remained remarkably free from Government interference. The company's record of profit over the years and its ability to finance its acquisition of ships from its own resources may have, to some degree, been one of the factors protecting it. Although it has not been formally defined, the company's objective, to achieve an adequate return on assets, has been clear from its demonstrated commitment to operation on a commercial basis and the absence of any explicit or implicit acknowledgement of social obligations.

The above comments derive from a review of the strategies employed by both companies in the past and relevant documentary material. These sources indicated that the Government "presence" in B & I and ICL has been determined in part by the companies' own values. These values influenced both the definition of the roles of the companies in the State sector, and in turn the interpretation of the acceptability of the various strategic options faced over the years by the companies.

The values of a company are to a considerable extent, and perhaps in many cases unwittingly, determined by personnel recruitment policy [Eppink, 1978]. A company unwilling and/or unresponsive to change tends not to recruit personnel likely to challenge the status quo. Personnel agreements negotiated with the Irish State sector make the recruitment of outsiders to fill management positions difficult. The same policies discourage the employment of graduates by insisting they enter at a low clerical grade. In addition, Government pay guidelines, restricting the salaries which may be paid to senior management in the public sector, diminish the capacity to attract personnel from the private sector.

Coping with Uncertainty and Change

The focus of this exploratory study was the capacity of the Irish ferry operator to cope with uncertainty and environmental change. The basic conclusion is that while they can cope readily with operational change, the capacity of Irish ferry operators to respond to strategic change is undermined by a number of factors which are summarised below.

- Flexibility in resource deployment is restricted by the nature of the resources employed. Ferries offer some operational flexibility but their strategic flexibility is limited. The route network offers little flexibility as the scarcity of suitable ports prevents the development of alternative itineraries.
- In response to environmental turbulence, long-term strategic planning has been abandoned in favour of a short-term reactive approach. Thus, while immediate problems are solved, there is no long-term horizon which

might give a broader perspective to decisions which have to be made today.

—The repertoire of acceptable responses to change is influenced by prevailing organisational values. In B & I the prevailing corporate values have accommodated and to a degree encouraged Government interference, which has the effect of restricting the range of feasible responses available to the company. ICL, while operating also in the State sector, has developed a different set of values which pays no homage to Government involvement in its internal affairs. The latter company's repertoire of acceptable responses is thus limited only by commercial and corporate considerations.

However, in spite of limited capacity to cope with strategic change, so far Irish ferry operators have survived the challenges posed by a turbulent environment. They must therefore have had a measure of success in coping with uncertainty. However, an appraisal of past behaviour suggests that they have coped with uncertainty largely by avoiding it.

Cyert and March (1973) have defined the symptoms of uncertainty avoidance as follows:—

- the employment of decision rules which emphasise short-term reaction to short-run feedback rather than the anticipation of long-run uncertain events,
- the arrangement of a *negotiated environment* which avoids the need to anticipate competitors' reactions.

Evidence of this is found in the short-term reactive planning style observed in a number of companies. It is also found in the revenue pooling arrangement established in 1985 by B & I and Sealink-British Ferries. This constitutes the establishment of a "negotiated environment", where pricing policies and operational schedules are agreed, and in which potential sources of environmental uncertainty are eliminated and each company's vulnerability to competitive reaction by the other is reduced. In the case of this particular arrangement a pooling of capacity has also eliminated supply slack in the system.

There is also evidence of effective reaction to individual crises. For example, following an incident in Dublin 1973, involving the burning of the British Embassy, the B & I Line in anticipation of a fall in demand promptly revised its schedules and adjusted its strategy to address alternative markets. In 1982 when the French ports were blockaded during a fishermen's strike ICL immediately arranged to berth its ferries in Rotterdam and revised its sailing schedule accordingly. In each case the companies responded quickly and effectively to strategic surprises.

While some strategic responses seem to have been designed to avoid uncertainty, others seemed to court it. Examples of the latter attitude can be found in B & I's Jetfoil project and in ICL's takeover of the Belfast-Liverpool service. Hindsight clarifies the risks involved in the Jetfoil project and the mistakes made. It was a new product, technologically innovative but untested in Western European waters, and the strength of its appeal on the Irish Sea was uncertain. The ICL venture was less risky. However, it did bring the company into a new arena as a third-party operator between two UK ports on a route which had proved unprofitable in the past.

Planning Style

A study by Javidan (1984) postulated that the extent of long-range planning in an uncertain environment is influenced both by management's perception of the need to adapt to the new environment and the perceived value of planning as an adaptation tool. He found that "limited" planners felt that extreme environmental uncertainty made long-range planning a fruitless exercise. They believed that the inability to forecast the future with a reasonable degree of confidence made long-range planning difficult. These limited planners had no written long-term plans, no assumptions about the future, no scenarios and no contingency plans. On the other hand, Javidan found that "extensive" planners thought that, although long-range planning under conditions of uncertainty was difficult, it remained a valuable tool in facilitating adjustment to new environmental demands. Their long-range planning was concerned with the firm's general direction, examination of environmental trends, new products and innovations.

The ferry operators surveyed in this study could be described as "limited" planners. They perceive short-range rather than long-range planning to be appropriate to conditions of environmental turbulence; they have not developed contingency plans and they have no written long-term plans.

Summary

This article has reviewed the role of strategic flexibility in the management of change in the Irish sea ferry industry. The exploratory study on which it is based found that the industry's strategic flexibility was limited by the nature of the resources deployed, by prevailing corporate values and by the poor perceived value of long-range planning. It found that although the perceived level of environmental uncertainty was high, the industry's response consisted largely of short-term reactions rather than long-term planning. This combination of factors suggested that the Irish ferry industry was strategically weak.

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