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## The Contribution of the Human Element in Shipping Companies

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### Abstract

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In the maritime context, the term human element embraces anything that influences the interaction between a human and any other human or system or machine aboard ship. The human element has been with us since time immemorial, but it is the humans, systems and machines that have changed, not only through the increase in technology, but also because of the need for operators to maintain the competitive edge by reducing running costs, which has resulted in a reduction in manning scales and the employment of multi-national, multi-cultural and multi-lingual crews. There is no such thing as 'the perfect ship', because the end product is inevitably a compromise between what is needed to satisfy the regulations, what is absolutely necessary to fulfil the operational role, and what is affordable. But, it must be 'fit for purpose'. However, the global nature of our business is such that not only is the maritime workforce multinational and multicultural, but also there can be differing interpretations of international guidelines and inconsistent standards in lifestyle, training and education.

The aim of the paper is to analyze specific styles of performance management met within the shipping sector, as well as the issues relate to performance management that shipping companies are facing in order to better understand the capabilities and challenges of the sector.

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**Keywords:** Human element; education; competence; human relationships; performance management systems.

## **1. Introduction**

As shipping companies continue to face a difficult economic environment with volatile freight rates, more stringent regulations and increased competition, one cannot overemphasize the important role that the crew on board the vessels plays in meeting the company's business objectives, executing management's strategy and delivering a high quality of service to its customers and charterers. The successful implementation of a crew performance management system can be an invaluable tool in the hands of management to assess the performance of its officers and seafarers, align performance criteria to business strategy and objectives and to identify their training and development needs. With this in mind, we have performed a survey on the current crew performance management systems followed by shipping companies such as to draw conclusions and identify the issues and challenges faced when implementing such systems. The topic of performance management system is relevant for the worldwide shipping industry, and not only, because it reflects a goal-oriented process directed toward ensuring that organizational processes are in place to maximize the productivity of employees, teams, and ultimately, the business. Performance management systems are one of the major focuses in business today and are directly related to achieving organizational goals.

Organizations' successful approach towards excellence is to perceive performance appraisal as a strategic tool and to integrate the company's mission, vision, and values into their performance management systems.

## **2. Performance Management Systems**

Performance management systems are a challenge for the shipping industry, considering the unique attributes and working conditions of the crews.

Performance management systems provide valuable information for corporate management. Their purpose is to align the performance of every employee with the corporate strategy and objectives. They can facilitate decisions for Human Resource issues such as rewards (fixed or variable pay), training and development, career planning and promotions. In order to achieve this alignment of employee performance and corporate strategy, performance management systems apply criteria relevant to the corporate strategy. These criteria define the following key areas of performance management systems for every employee: performance goals, skills and competencies required to successfully perform duties and responsibilities, corporate values and behaviour they are expected to demonstrate to fit within the corporate culture.

As the shipping industry seeks to meet the challenges of the current economic environment, volatile freight rates and increased competition, a well implemented crew performance management system can be an invaluable tool for management and, therefore it remains at the spot light of this survey which focuses at the following areas: scope of the crew performance management systems; evaluation criteria; performance appraisal procedures; challenges of the crew performance management systems. Following are presented the outcomes of a study made on performance management systems met at several international shipping companies.

### **3. Performance Management Systems Literature Review**

While there is a consistent scientific literature on performance management, the topic applied to the shipping sector is seldom analyzed and discussed. Chubb, Reilly & Brown (2011) made a consistent literature review on performance management, emphasizing the role of critiques of performance appraisal, methods of improving the effectiveness of performance appraisals and performance management and reward. In opinion of Armstrong & Baron (2004) the focus of performance management is on elements such as recognition, constructive feedback, personal development and career opportunities. Elbanna (2009) explored the influence of two aspects of firm performance: financial and business performance and organizational effectiveness, on three dimensions of the strategic decision-making process, rationality, intuition, and political behaviour. In shipping, the topic of performance management is approached by shipping companies and by authors as Lorange (2009) who presents the context of world shipping and the drivers of change in the shipping industry, as well as the management capabilities. Earthy & Sherwood Jones B.M. (2006), who discuss a number of possible structures for the inclusion of the human element and approaches to the development of appropriate material and considers that “the move to goal-based regulation provides both a challenge and an opportunity to the human element community (seafarers and specialists). The challenge is to find an appropriate structure for the consideration of the human element within the new framework for rules and regulations.” From other perspective, Gregory & Shanahan (2010) explains fundamental aspects of human behaviour, which together constitute what the commercial maritime sector calls ‘the human element’ which is at the centre of the enterprise. Sillitoe (2008) made a reference of best practice for addressing human element issues across a range of operational and management practice areas.

### **4. Methodology of Research**

Performance management systems for seafarers are different than the ones used for the performance appraisal of shore-based personnel. Performance appraisal can be used only for employee development and feedback purposes solely, but many organizations wish to link the appraisal process to specific reward and incentive outcomes. Studies indicate that employees find the process of appraisal more satisfying and credible when it is linked to reward outcomes ([www.marine-marketing.gr](http://www.marine-marketing.gr)).

The following study on performance management systems was made with the purpose of establishing the differences between on-shore and offshore performance management systems. The objectives of the study were to analyze and to establish differences and similitude between performance management systems for seafarers used by shipping companies, and to identify performance management issues that shipping companies are facing in order to better understand the capabilities and challenges within the sector.

The methodology of the study consisted in establishing semi-structured interviews with general managers, fleet personnel managers and human resources managers. The semi-structured interview method and the collection of qualitative data were considered as the most appropriate, considering the

nature of the performance management systems. The same questionnaire was applied in all interviews in order to receive comparable results.

The survey took place from January to April 2015. There were analyzed qualitative data collected from twelve leading shipping companies based in Greece, Cyprus, Denmark and Sweden. The shipping companies surveyed totalized a number of 875 seafarers and 21 ships (container, tanker, reefer, carrier, cruise ships, yachts).

In addition, a broader discussion took place on performance management issues that each company is facing in order to better understand the capabilities and challenges within the shipping sector.

The study is important and relevant for the domain of management, and the outcomes and discussions have the role of making a step further in improving the performance management implementation in shipping.

#### *4.1. Scope of performance management systems*

All companies that participated in the survey have developed a performance management system for seafarers, mostly called "Appraisal", "Evaluation", "Performance Management and Development System" or "Performance Evaluation and Development Programme".

Performance management systems for seafarers are different than the ones used for the performance appraisal of shore-based personnel. Usually, there is no connection between the two systems but in some cases both systems are based on the same corporate values. In many cases, the systems were originally designed in order to comply with the international regulatory frameworks and specifications (such as International Safety Management, ISO, Tanker Management and Self Assessment).

##### *4.1.1. Rewards*

According to the survey, most shipping companies based in Greece and Cyprus do not usually link the crew performance appraisals when taking decisions on salary increases (fixed or variable pay). To the contrary, this is a usual practice in most other industry sectors and is considered as a prerequisite for the successful implementation of performance management systems. On the other hand, some shipping companies based in other locations directly link performance appraisals to the annual increases in salaries as well as to bonuses. And there are others that at the time of the survey were in the process of examining how to link performance appraisals with salaries, benefits or other incentives.

##### *4.1.2. Empowerment & Performance Improvement*

Although it is not explicitly stated, in most cases, the objective of performance management systems is to encourage employees to improve their performance and enhance their efforts for better cooperation, communication and teamwork.

The most advanced systems of those examined in this survey included a brief description of their purpose, methodology and the benefits they bring both to the employees and the company. They also provide a user manual. But in some cases the systems are viewed as "unavoidable procedures" or are used only for rehiring seafarers based on their performance and potential.

##### *4.1.3. Re-hire/ Human Resource Planning*

Most survey participants stated that they check the performance appraisal results when they intend to staff ships crews.

Ten out of the twelve companies which participated in the survey use the data from their performance management systems to design crew manning in order to achieve team collaboration and avoid conflicts during trips. In addition, decisions for re-hiring seafarers are taken based on their performance appraisals.

The performance appraisal of every employee is the main criterion to determine if they are suitable for rehiring. Continuous low ratings may lead to non-rehiring. And on many appraisal forms, the appraiser clearly states whether the seafarer is proposed for rehiring.

#### *4.1.4. Training & Development*

The performance management system is also linked to the training and development of the crews. Through the appraisal forms, the personal training and development needs of the crews are identified and the proposed actions for meeting these needs are recorded. This data is used to organize relevant trainings and action plans are set to constantly improve and develop the skills and competencies of crews.

#### *4.1.5. Career & Succession Planning/ Internal Transfer*

A large number of the companies participating in the survey stated that they link performance appraisal results to career development and succession planning. Through the data collected from the performance appraisal system, the management decides if an employee is suitable for promotion or for transferring to an internal position on shore. In addition, in some cases the appraiser defines the necessary actions that the appraisee should take in order for a promotion (such as professional training) and the time period required.

Performance appraisal is a key criterion for officers' career planning and development.

## **5. Content of performance management systems**

More than 150 different appraisal criteria have been identified which we allocated to 3 categories:

- Personal Competencies
- Technical & Job-Related Skills
- Leadership & Management skills

Performance appraisals are based on specific criteria. These are formed with regards the business needs as well as the regulatory framework or requirements to comply with (such as TMSA, ISO etc).

From the twelve shipping companies that participated in the survey we identified more than 150 different appraisal criteria, but almost every one of these companies had different categories of appraisal criteria.

In this survey we have formed three key categories that include indicative appraisal criteria that apply to the majority of survey participants. Our objective was to present a complete picture of our findings and protect the confidentiality of each participant's responses at the same time.

The following conclusions are drawn regarding the content of performance appraisal systems:

- Appraisal forms vary depending on the hierarchical level, more often in two or three levels (senior officers - junior officers - seafarers) or on the nature of the work (deck-engineers).

- In most cases, there are no specific individual or group goals for appraising crew members performance.

## 6. Performance appraisal procedures

All companies participating in the survey said that they use a downward appraisal method. The appraisal method used in most cases is downward, i.e. subordinate officers are appraised by the head officer. Regarding the crew appraisal method, the following standard rules have been observed:

### *Officers' appraisal:*

- The Captain is appraised by the Operations Manager, the General Manager and/or the Ship owner.
- The Chief Engineer is appraised by the Captain and by the Technical Manager.
- The Engine Officers are appraised by the Captain or the Chief Engineer.
- Other officers are appraised by the Captain.

### *Seafarers' appraisal:*

- The deck crew is appraised by the Captain or the Deck Officers.
- The engine crew is appraised by the Chief Engineer.

In most cases, all appraisals should be signed off by the Captain. In addition, there are many managers who participate in the appraisal of crews and officers, such as the Crew/Personnel Manager, the Superintendent, the Purchasing Manager and the Quality Manager.

### 6.1. Communication of appraisal results

The communication of the appraisal results is one of the most interesting and unexpected findings of the survey. Specifically, some Greek companies which participated in the survey neither share the appraisal results with the appraisees nor discuss their performance.

The reason lies in the risk of negatively affecting relations of the parties involved in case the appraisal results are not positive or pleasantly perceived, and it is therefore not easy to communicate them. This is related to the fact that officers are not willing to handle such situations partly because of:

- limited willingness and time to deal with this procedure
- lack of managerial skills and ability to provide constructive feedback
- ignorance/underestimation of the relevant benefits.

However, the non-communication of the appraisal results limits the ability of crew members to improve.

## 7. Challenges in implementing crew performance appraisal systems

Based on our findings, the following challenges are considered to be critical for the successful implementation and continuous improvement of the crew performance appraisal systems.

### 7.1. Setting Goals and Targets

Target setting for crews is a great challenge for shipping companies. These objectives must be measurable and realistic. They must be linked to the corporate strategy in order to lead the crews into actions and behaviors that are beneficial, not only to the company but also to themselves. Setting specific goals motivates the crew members and is a significant information management tool.

Attention must be put into setting individual and team objectives, as well as in managing crew relations to avoid conflicts.

### *7.2. Linking Performance to Rewards*

Most industry sectors consider the relationship between rewards and performance appraisal obvious. On the other hand, a performance appraisal without positive or negative consequences makes the system weak and eventually obsolete. Rewards and recognition are important incentives for high performing seafarers and officers in order to retain them within the company.

### *7.3. Appraisal Discussion – Sharing the results the appraises*

Discussion and feedback between appraiser and appraisee is necessary for their professional development.

The discussion between the appraiser and the appraisee is a prerequisite for the improvement of human resources. The aim of the discussion is for the parties involved to exchange views on issues of group and individual performance, target achievement, skills and competences.

### *7.4. 360° Feedback Appraisal Method*

360° feedback consists of self-appraisal as well as appraisal from supervisors, equal level and lower level colleagues. This method has a positive effect in the development and improvement of staff performance and is a usual practice in other industry sectors.

Unfortunately, a limited number of shipping companies apply this practice - usually for officers' appraisals in order to encourage self-appraisal as well as to support their career development.

The benefit of using this method could be important for the shipping companies, in order to achieve better crew selection and create a conflict-free working environment during trips.

## **8. Other Type of Human Resource Management in Greece and Abroad**

Many of the survey participants claim that the number of officers and seafarers available in the Greek market has decreased considerably the last few years. A possible reason is that this profession is no longer attractive to young generations. In the long run, this situation is becoming a risk factor for the Greek companies, considering that they tend to trust Greek officers more.

On the contrary, there seems to be no lack of staffing for the remaining posts on ships although qualifications/skills and experience can be an issue. Most shipping companies have manning offices in countries of Eastern Asia and Eastern Europe with the aim of hiring cheaper labor force.

### *8.1. Variety of Benefits*

Another key finding is that in addition to the annual salary, there are many incentives and benefits that are provided to the officers in order to retain them. This is due to a general lack of officers in the shipping sector.

## 9. Conclusions

In conclusion, when working with multi-national crews, officers have to develop their leadership skills to communicate and manage people of different cultures, work mentality and beliefs.

Consequently, an effective human resources management is a key criterion for officers' performance appraisals.

Taking into account that the shipping profession is becoming less and less attractive to younger generations, it seems that diversity management will continue to present a challenge for the shipping companies.

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