

The Impact of Choice of Flag on Ship Management

1. Introduction

Ship registration, primarily a requirement under international law, evolved especially after the second half of the twentieth century into an important and at times quite complex commercial decision for ship owners. This change of nature of ship registration from a legal condition to a business choice, largely effected by the absence of universally binding provisions to determine the “genuine link” between the flag state and the ship and by successful and quick industry response to market pressures and opportunities, has had a number of consequences at company, industry, national and international level. Ship owners were presented with an array of flag types and actual flags in which freely to register their vessels; the industry found a means to improve its competitiveness but also ended up with increased and serious safety concerns; some nations came up with a way to earn revenue and gain some political significance, while others were confronted with a national threat along these same lines; at an international level, new sources of supply of labour were developed with transfer of expertise and dynamics changed. The major issue has of course been the proliferation of the open registers regime designed and established to provide mainly a cost reduction service to ship operators in relation to the option of traditional national flags. Today the top 35 maritime countries account for 95.35% of the world deadweight tonnage and 67% of this is under a foreign flag, a figure which drops to 53.7% when the number of vessels is considered (UNCTAD, 2008).

Although other types of ship registration have sprung up, like the second or international registers, the main dichotomy has been between flags of convenience and traditional national flags and the choice between the two has constituted a topical subject for research. Various myths and realities have been widely explored. In the course of research and with the passing of time some have been verified, others have failed to point to safe conclusions and yet for others new scope of thought has been triggered. For example, the significant reductions in crew costs advocated by open registers can be said to be an everyday reality felt by ship owners around the world and manifested clearly in relevant research stipulating that crew cost differences between selected EU flags and lower-cost open registry vessels, for instance, range from +22% to +333% (Anon, 1995). Open registers have conventionally been associated with poorer safety performance than traditional flags and some research results have provided support to this assumption (Li and Wonham, 1999; Alderton and Winchester, 2002). Yet, today some of the most important open registries, like Liberia, Malta, Cyprus, and the Bahamas are on the White List of the Paris MOU together with important traditional flags like Greece, USA and the UK, while the most important open registry, Panama, with 22.6% of the world tonnage registered in it is on the former’s Black List (Paris, MOU 2007; UNCTAD, 2008). The unprecedented growth of open registries has alarmed traditional maritime nations which have seen their own flags retrenching with direct and indirect economic, political and national repercussions. A study by Peeters *et al.* (1994), however, exhibited another dimension to the problem concluding that 70% of the value added by the Dutch shipping industry actually came from onshore activities related to shipping, a finding which

was reflected in the new shipping policy introduced in 1996 in the Netherlands. Overall, the examination of the two types of flags has centred on their costs and benefits, their standing in the shipping industry and, in a wider social context, selection criteria, fiscal implications and safety issues.

The two types of flags have been seen to offer two distinct alternatives to ship operators, each with its own advantages and disadvantages and with its own commercial and operational requirements. It is within these realms that the view is taken that flag choice has a bearing also on various management issues in shipping companies. The argument put forward is that opting for a specific type of flag is in fact a strategic business decision with broader consequences for ship management. The aim of this chapter is to address the issue of choice of flag in the context of ship management with the object of assessing its expected impact on management principles and practices. For the purpose of the analysis the traditional, clear-cut distinction between national flags and flags of convenience has been chosen to form the framework of reference. Their noted features and/or requirements are considered in respect of the way they can affect management decisions and the adoption of management approaches. The discussion is based on the case where the flag choice decision is made by the same entity that is both responsible for and also essentially carrying out the management of the vessels. In other words, the analysis relates to the paradigm of the ship owner who is at the same time the ship operator - even if this is concealed by the corporate veil. It does not seek to address the situation where third party ship managers are used and where an association between flag choice and management practice might be differentiated (or not) because of a number of reasons inherent in the characteristics of the service they provide. The subject matter is treated on a theoretical basis developing a rationale founded on critical analysis and appreciating that the influence between the choice of flag and management functions can potentially be twofold and may come from either direction.

Initially, this chapter will set the context of the analysis by looking into the existing literature on ship registration reviewing the different characteristics, conditions, benefits and constraints of the range of ship flags available to ship owners. The authors will then make a case that the choice of flag is a management decision by examining different management dimensions which are related to it. Analytic discussion of the effects of flag preference on managerial aspects will follow; the analysis will focus particularly on the practical impact which the choice between an open register and a national flag is expected to have on management issues relating mainly to strategic management and human resource management. Lastly, an evaluation of the current standing of open and national registries will be presented together with a critical assessment of its effect on contemporary ship management.

2. Literature Review and Background

Since its first significant appearance in the 1950s, flagging out – the change of a vessel's registry from a national flag to a flag of convenience or open registry – has been a topic of interest in the international shipping industry. This now widespread phenomenon has attracted a great deal of attention for a variety of reasons. First, open registry fleets have expanded at a faster rate than any other fleet in the world. Secondly, it has been felt that the expansion of the open registry has limited the growth of the fleets of other countries and has caused the decline of the fleets of the traditional maritime countries with all the related consequences for their maritime clusters, the balance of

payments, and the supply of skilled labour.

According to Boczek (1962) a FoC can be defined as: “the flag of any country allowing the registration of foreign-owned and foreign controlled vessels under conditions which, for whatever reasons, are convenient and opportune for the persons who are registering the vessels”. However, this definition still does not allow the clear identification of an open registry flag. Even the Rochdale Report (1970) did not give a precise definition of flags of convenience but instead suggested a list of criteria which should lead to the classification of these. It defined the FoCs in terms of six common characteristics:

- the country of registry allows ownership and/or control of its merchant vessels by non nationals;
- access to the registry is easy and transfer from the registry at the owner's option is not restricted;
- taxes on the income from the ships are not levied locally or are low. A registration fee and an annual fee, based on tonnage are normally the only charge made;
- the country of registry is a small power with no national requirement under any foreseeable circumstances for all the shipping registered, but receipts from very small charges on large tonnage may produce a substantial effect on its national income and balance of payments;
- manning of ships by non-nationals is freely permitted; and
- the country of registry has neither the power nor the administrative machinery effectively to impose any government or international regulations, nor has the country the wish or the power to control the companies themselves.

The Report continues that although one or more of the above features may be found in the policies of many maritime countries, it is only when *all* of these features exist that a country is characterised as being an open register.

Metaxas and Doganis (1976) identified as a FoC: “the national flags of those states with whom ship owners register their vessels in order to avoid the fiscal obligations and the conditions and the terms of employment of factors of production, that would have been applicable if their ships were registered in their own countries.” While Bergstrand (1983) adopted the following definition: “A flag of convenience is a flag of a state whose government sees registration not as a procedure necessary in order to impose sovereignty and hence control over its shipping but as a service which can be sold to foreign ship owners wishing to escape the fiscal or other consequences of registration under their own flags.”

The United Nations Convention on the Conditions for Registration of Ships (1986), for the first time defined the principles to be followed when granting nationality to a ship. The existence of a genuine link between a vessel and its country of registry must be verified on the basis of the following characteristics:

- the merchant fleet contributes to the national economy of the country;
- revenues and expenditure of shipping, as well as the purchases and sales of vessels, are treated in the national balance of payments accounts;
- the employment of nationals on vessels;
- the beneficial ownership of the vessel.

This chapter will adopt a definition of “open register” which reflects the matters that most concern the

ship owners, such as: costs, accessibility of the register and standards enforced by the state of registry. Therefore, an open registry should be identified as a flag which allows:

1. Lower crewing costs/manning requirements, since registration under a flag of convenience generally means:
 - unrestricted choice of crew in the international market;
 - not being subject to onerous national wage scales; and
 - more relaxed manning rules.
2. Lower operating costs generated by "lighter" maintenance programmes and less stringent enforcement of safety standards imposed by the register.
3. Less regulatory control and avoidance of bureaucracy.
4. The probable avoidance of corporate tax.
5. Anonymity.
6. Easy accessibility/exit to/from the registry.

Nowadays, even though traditional maritime countries continue to dominate the ownership of world shipping, the extent of flagging out to Open Registries is such that they account for a greater proportion of the total world fleet than the traditional maritime countries themselves. The share of world deadweight tonnage registered in the major Open Registries has risen from about 4% in 1950 to over 54% in 2008 (UNCTAD, Review of Maritime Transport 2008). There exists no clear definition of "open and international registries" but UNCTAD has created such a group by including the 10 largest fleets with more than 90% of foreign-controlled tonnage. These fleets are Panama, Liberia, Bahamas, the Marshall Islands, Malta, Cyprus, the Isle of Man, Antigua and Barbuda, Bermuda, and Saint Vincent and the Grenadines.

The motivation for transferring a ship from one registry to another is no different in principle from the motivation behind any other strategic decision on the part of a profit-maximising firm. The basic principles of the theory of the firm can be applied to the economics of this behaviour. Shipping companies are assumed to be profit maximisers which strive to reach their objective by seeking the production input combination which allows them to minimise costs. However, their choice of factors of production is constrained by their operating environment. Institutional factors and the characteristics of the market in which they operate condition their ability to make independent decisions. The selection of factors, their quantities, their costs and quality appear to be regulated in most of the so-called developed countries.

However, the existence of open registries creates a sort of dualism in the international maritime transport sector splitting the industry into two segments distinguished by operating characteristics peculiar to the two different scenarios and by lower break-even points. The ship owner like any other entrepreneur must choose the optimum amount of inputs to obtain the desired service output and strives to have the freedom to do so. Flagging out is primarily caused by the desire to minimise costs under a relatively lower cost regime but, as we shall see, the decision to flag out might have an impact on several ship management functions.

Flag selection is a high-level decision usually made, on a vessel-by-vessel basis, at the time of vessel acquisition and is generally based on experience. Different companies perceive different factors as being important to their decision on flag (Bergantino and Marlow, 1998). A flag might be chosen

for political reasons, to ensure a supply of skilled labour, for public relations reasons, for historical reasons, because of directives from financial institutions, or for reasons related to the trade routes of the vessel or to its characteristics. In the Bergantino and Marlow study companies which had chosen not to use the national flag gave crew costs as the most common reason for their decision. Other factors which had influenced them were: to escape bureaucratic control, high costs of compliance with standards of the national flag, the unavailability of skilled labour (the need to ensure a supply of same), and fiscal reasons.

In particular, operating costs¹ are identified as the ones where significant savings would be achieved by registering the ship in an Open Register. It is in the manning costs area where flagging out policies allow varying degrees of freedom to be obtained from the constraints of Union agreements and national manning regulations. Hence, according to the vast majority of authors,² shipowners, shipowners' associations and trade union representatives, the main reason for flagging out is to reduce manning costs. It has been stated by many authors that the adoption of an open registry flag can lead to savings in the following categories of crew-related costs:

- direct and indirect wages;³
- stores;
- maintenance.

The authors share the belief that crew costs can be considered as the main financial reason behind the ship owner's decision to flag out. The cost of manning a ship can be considered the easiest variable to influence when compared to other ship costs which appear to be mostly fixed internationally, especially in the short run. Stores costs are not as relevant as the other two categories and, furthermore, the adoption of an open register flag does not necessarily imply a decrease in this category of cost. As for the maintenance costs it is argued that while some crews can carry out certain tasks within the vessel, thereby eliminating the use of shore labour, others cannot and the lack of such maintenance and the subsequent neglect may lead to major damage claims and therefore higher insurance costs. Operating efficiency could, therefore, depend on the quality of the crew.

Manning costs have two components which are considered of equal importance: the direct and the indirect wage. The basic wage depends on the standard of living in the country of origin of the seaman, on the current exchange rate of the seaman's currency against the US dollar, and on international regulation and ITF policies framed to avoid the exploitation of the FoC crews. Indirect wage costs are those which do not represent immediate payment to the employed and are set independently by single national governments with regard to national seafarers (i.e. national insurance payment, leave entitlement, pensions, training, employment taxes, medical expenses, and so on). Therefore, the indirect wage is the element of the manning costs where different national policies could have a strong impact on the ship owners' decisions regarding flag.

By adopting a flag of convenience the ship owner gains the ability to offer contracts with gross salaries, transferring the responsibility for pension provision, social security costs and coverage of medical expenses to the employee. At the same time employment conditions such as lengths of duty and leave could be re-negotiated on an individual basis. The governments of most of the traditional maritime countries have modified their policies to move them closer to the situation created by the legislation of the Open Registry countries. This has led to the introduction of second or international

registers but these will not feature as the focus of this chapter.

A group of factors that might influence the shipowner's decision, but which have been partly ignored by the existing literature, are the characteristics of the shipping companies and of the ships. It is observed that only some companies of the same nationality decide to flag out, and that the decision to flag out might concern either all or only part of the fleet of the same shipping company. In the next section flag choice as a management decision will be discussed.

3. Flag Choice as a Management Decision

However straightforward the attribution of nationality to a ship may initially sound, the reality described in the previous section clearly shows the variety of alternatives ship owners have at their disposal and the diversity of parameters that have to be taken into account. It is this absence of externally imposed legal conditions, this aspect of informed and educated choice between alternatives that, first of all, makes the preference for a specific type of registry a management decision. Previous research (Bergantino and Marlow, 1998) showed that ship owners are driven in their choice of flag by certain criteria many of which can be seen to be related to management issues, such as marketing considerations or the decision to reduce input costs, i.e. crew costs. However there seems to be another direction in this relationship; the dimensions along which flags differentiate touch upon management issues and therefore flag choice can have an effect on management practices, too. In fact, the direction of such associations can become quite blurred, especially given that the choice of flag tends to be based on different sets of criteria for individual ship owners and individual ships (Bergantino and Marlow, 1998). Within these realms the focus here will be on identifying general management areas which are expected to be influenced by ship owners' choice of registry for their vessels.

Firstly, the choice of a ship's flag is very likely to affect *the location of the management company* itself. Traditionally, the nationality of a vessel has been connected with the nationality of its owner but well-known developments in the international shipping scene have brought about the evolution of the ship registration system and the plethora of registration schemes, procedures and requirements. Although, as already pointed out, there is no international legal instrument that lays down universally accepted registration provisions, the United Nations Convention on the Conditions for the Registration of Ships, 1986 – which is not in force and possibly never will be – provides some useful guidance. Articles 7–10 (UN 1986) call for participation by nationals of the flag state in the ownership, manning and management of the ships; either the ownership or manning criterion has to be satisfied but the management criterion is to be satisfied in all cases. Many nations appear to have indeed taken up – part of – its content at their discretion and to various degrees and today a number of registries require some form of commercial presence in the country. In some cases, such as Liberia, the requirement for a Liberian shipowning company can be easily satisfied by setting it up there only on paper and so it is not thought to have any significant impact on management. In other cases, like the Dutch registry, ships must be managed in that same country, a condition with important management implications. Such implications relate to the general legal framework of company operation prevalent in the country but also to the wider cultural characteristics which should be taken into account. On the assumption that local management companies will be staffed mostly by indigenous expertise, management action should take into account the special features of its human resource as conditioned by cultural differences. Hofstede's work (1980), on how national cultures can be explained by four key factors,

namely, individualism, power distance, uncertainty avoidance and masculinity, has been most influential in this respect. It has shown how nationality affects human behaviour and consequently how it also constrains management practice. For example, he has found that countries which score highly in power distance and uncertainty avoidance are likely to produce forms of organisation that rely heavily on hierarchy and clear orders from superiors, but those which score low in power distance and high in uncertainty avoidance will produce organisations that rely on rules and procedures (Hofstede, 1991). If to the above, the effect of the company's macro environment is added, i.e. the general national economic situation, the existence of infrastructure and telecommunications etc, the expected impact of management location on management practice becomes even more evident.

Clearly, the legal framework that the different registries offer touches upon a number of dimensions in relation to management. *Company laws* and *financial laws* relating to, for instance, the company's organisation, the disclosure of ownership of shares, or the auditing of the accounts, will obviously be expected to have a bearing on management functions. Open registries are generally believed to encompass more flexible and owner-friendly commercial environments but many shipowning nations, such as Greece and the UK, have also attended to the provision of an attractive commercial context for ship operation. A specific trend between registries may perhaps be difficult to observe but although such items may be rather flag-specific, they nevertheless have important implications for ship management.

The way that open registries and traditional ones have dealt with *tax liabilities* has conventionally been one of the most fundamental differences between the two. Open registries have led the way with the early introduction of advantageous taxation schemes for both ship's tax and company tax. Although indeed a significant parameter in ship owners' choice of flag (Gardner *et al.*, 1984), differing tax systems may be thought to affect management practice to a small and mostly indirect extent. For example, they may necessitate or not the existence of a separate sub-department in the accounts department or require expertise in the form of outside experts or outsourcing. Indirectly they will influence the company's balance sheets, its cash flow and perhaps ultimately and long-term the investment capability/options of the company. But, unless seen from this perspective, diverse tax schemes cannot be seen to have a considerable impact on management practice. In terms of ship's tax, one more exception may apply; when the tax system, such as a tonnage tax system, is tied to a training obligation, as in the case of the UK and other nations, then, more obvious implications are developed for the human resource management exercised by the company.

The issue of flag has mainly been related to cost differences. In other words the main differentiating factor between traditional flags and open registries is cost, translated into total crew costs, tax and high costs of compliance with safety standards of national flags. Tax does not really have a dramatic effect on management practices. Nevertheless, the degree of preoccupation with cost as a formative parameter of strategy and the repercussions for crew employment choices that occur with the preference for a flag are the two issues with the most impact on management decisions and these will be explored in some detail in the following two sections.

4. The Impact of Choice of Flag on Strategic Decisions

The choice of flag also affects a number of *strategic decisions at corporate level*. In the first place, the flag a vessel flies may influence the actual *market sectors* in which a company engages. Decisions

about the fields and industries in which a corporation's Strategic Business Units (SBUs) will pursue commercial activities are among the most significant decisions corporate executives and top management are expected to make for the success and the viability of every firm. Consider the example of countries, Norway for instance, which offer exclusive employment of vessels flying the national flag in certain protected trades, such as coasting, or when there is a preference for the national fleet for government cargoes, like the case of the USA. Clearly, the flying of a foreign flag automatically prevents the company from involvement in specific market segments. Along the same lines, a firm using reputable and highly recognised flags for its vessels may have built up a respectable and dependable profile and may thus enjoy further business opportunities for involvement in higher risk trades, such as the tanker industry, which it could otherwise perhaps not be provided with. Hand in hand with these strategic choices come also management decisions about the firm's assets or features of the firm's fleet especially in terms of ship types and ship sizes, and so the latter can also be seen to potentially be affected by the ship owners' flag choice. In connection with the above, ship management can also be influenced by the choice of flag *at an operational level*. Preference for certain *trade routes* may be effected by a need, for example, to avoid highly regulated geographic regions, such as the USA especially after the introduction of OPA 90, or the EU, or certain countries or strict Port State Control areas if ships are flying a PSC-targeted flag.

Interestingly, and perhaps unexpectedly, flag choice can be seen to have an impact on yet more strategic management issues. The formulation of a corporate strategy can potentially be affected by a specific flag choice when, for instance, flags give attractive incentives for building new ships. Fleet expansion is of course a management decision primarily driven by market conditions, good freight rates, strong cash flows, and optimistic expectations. But more often than not, history in shipping has shown that ship owners in their decision to invest in new ships are also influenced by favourable building incentives, coming either from the yard or the government, to such an extent that this behaviour has been thought to bring ultimately negative results for the freight market (Strandenes, 2002). In other words, although a rational assumption here, the impact of appealing newbuilding support schemes as part of a flag's regime on a ship owners' decision to adopt a *growth strategy* is in fact a noted reality. Growth and fleet expansion can be achieved also through the acquisition of second hand ships. In this case, too, the flag's effect on the decision to expand can be considerable, especially in situations when the flag provides ship owners with access to loans at better rates of interest within the realms of its industry support plan. On the other hand, the choice of flag does not only have a bearing on whether top management takes up a growth corporate strategy or not but also on the ways in which growth is to take place. A straightforward example relates to the manner in which registries deal with the issue of dual registration. If a flag does not allow dual registration, this affects also the fleet expansion policy as ship owners are restricted with regard to bareboat chartering options under this registry system. On top of that, management decisions on *fleet replacement policy* can at times be impacted by the choice of flag. This is so since many registries, both traditional and open registers, have a maximum ship's age restriction which means that if ship owners, for a number of reasons, wish their ships to fly this flag, they must adjust their replacement policy accordingly.

Associations between the choice of flag and the formulation of *business-level strategies* can also be considered. According to Porter (1980), there are three generic strategies that companies can pursue: a differentiation strategy; a cost leadership strategy; and a focus strategy. The differentiation strategy

seeks to distinguish the company's products or services from those of the competitors' in the industry along some dimensions that are valued by clients. Such dimensions may relate to the quality of the product/service, the development of distinctive product features, etc, and receive higher than average prices. With the cost leadership strategy the company attempts to gain competitive advantage by reducing production costs and selling its product/service at lower prices than competitors. The company will still offer comparable quality at these low prices and make a profit. With the focus strategy the company concentrates on a particular market segment, a group of customers or geographical location, and adopts either a differentiation focus or a cost leadership focus. Bearing in mind that the use of open registries has been instigated particularly by the drive for cost-cutting, it can reasonably be assumed that companies opting for them would follow a cost leadership competitive strategy. On the other hand, ship owners who are willing to take on the additional costs of a national flag and invest further in the image of a traditional, quality operator would, in effect, opt for a differentiation strategy for their business ventures.

The strategic decision of the top management concerning the *employment of third party ship managers* does not appear to be directly affected by the choice of flag. Relevant research indicated that flagging out was ranked low down in importance by ship owners as a potential reason for turning to third party ship managers (Mitroussi, 2004). Other assumptions of indirect associations between flag choice and the use of third party ship management can be attempted but seem to be less able to hold up in a critical rationale, especially when additional dimensions are considered. For example, it has been shown, that when ship owners do not use third party ship management it is very much because they want to keep close overall control over vessels, both in terms of cost as well as maintenance levels (Mitroussi, 2004). National flags, on the other hand, are known to administer and therefore require, on the part of their operators, close control in order to keep safety standards high. On these grounds a logical assumption would be that the choice of national flag might deter the loss of absolute control and therefore the use of third party ship management. Nevertheless, market requirements, with charterers often preferring to do business with a recognised ship manager rather than a small operator, especially in trades of high risk, like the tanker sector, point to the idea that third party ship management and control of safety standards might be on the same side of the road. With ship owners generally retaining the decision on the choice of flag even when third party ship managers are used (Mitroussi, 2004), it seems that although overall the choice of flag can influence ship management practice, it does not have an impact on its outsourcing.

Last but not least, management is concerned with *dealing with the external environment* of a company too, and even more so today, given the upsurge of the concept of corporate social responsibility, with its various stakeholders. Although shipping is indeed a truly international business, choice of flag by definition has an effect on this aspect of management as it dictates the micro external environment of a shipping company through the legal framework it provides, such as the national shipping bodies, government agencies, bureaucratic control and other aspects. In the case of traditional flags usually some important work should be expected on the part of the management of the company to achieve and enhance relationship building with unions, flag officials, other contacts and other shipping related associations. This can be both time-consuming and require specific managerial, social and even negotiation skills but it also allows room for lobbying, and gives

opportunities for recognition within the community and for making the company's voice heard. On the other hand, such aspects of management are usually not required – certainly not to a significant extent – when the ship operation concerns vessels registered in flags of convenience, which are generally accepted to encompass lax governmental controls and a minimum shipping infrastructure. Quite clearly, the choice of flag touches upon management issues in this respect, too.

5. The Impact of Choice of Flag on Human Resource Management

Open registries and the process of changing the flag – the flagging out – have been particularly associated with the issue of ship manning. Applying Vernon's dynamic model of location of production (1966), flagging out is regarded as analogous to the establishment of overseas subsidiaries by large production firms and is considered to be the third wave of maritime transport (Sletmo, 1989). Flagging out is seen as part of the shipping industry's effort to develop least cost systems of ship operation by taking advantage of low cost labour. By definition, therefore, the choice of flag has an axiomatic direct impact on the human resource management of a shipping company. This impact, although primarily related to crews, extends to the overall management practice in a company, not least because crew management is an essential part of it, but also due to the inevitable relationships developed between onboard and shore-based human resource management.

"Human resource management involves all management decisions and practices that directly affect or influence the people, or human resources, who work for the organisation" (Torrington *et al.*, 2002). The term has in recent years been more and more used in the place of the term 'personnel management' in order to signify a shift in its importance and in its orientation. Torrington *et al.* (2008) talk about the changing nature of the management of people underlining that personnel management is preoccupied with managing the supply of people to the business, but human resource management with managing the demand for human resources to meet the operational needs of the business. In essence, emphasis on a more strategic approach to people management is given, as human resource management must integrate the firm's goals with the correct approach to managing its human capital (Baron and Kreps, 1999). Effective human resource management has been positively associated with higher employee productivity and better financial results (Delaney and Huselid, 1996; Huselid *et al.*, 1997). The role of human capital and its management in sustaining competitive advantage has been stressed in the general management literature (Pfeffer, 1995) but also more recently in shipping-related literature. Lorange (2005), examining contemporary evolutionary forces in relation to shipping company strategies, talks of company cases in which "the assets are the human capital" and underlines "a strong emphasis on being 'a people make the difference' business, without owning any 'steel' at all."

Human resource management is of particular significance in shipping, which although traditionally capital intensive, particularly relies on its people for successful and profitable ship operation. This is so, not just due to their innate characteristics as service-sector organisations, but particularly due to the unique idiosyncrasies of the shipping business itself (Mitroussi and Chang, 2008). The special features of shipping with regard to its people mainly relate to the distinction between shore-based and ship-based personnel in the companies, the inherent complexity of ship operation which places capital intensive assets in the hands of very few (e.g. 15 to 20) people, the multinational aspect and immensely high turnover of the crew and the social aspect of the staff's time on board.

The scope of human resource management activities is quite broad and could perhaps best be described as the effort to attract effective employees, develop them to their potential and maintain them over the long term (Fisher, 1989). These main areas include a number of activities ranging from human resource planning, recruitment and selection, to training, development and appraisal and yet further to managing employee relations and services, such as welfare. The focus in this chapter is primarily on the first two areas, as these are thought to be more directly affected by the choice of flag.

One of the most important aspects of people management in shipping is its *international dimension*. International human resource management is a term which has only recently appeared in shore industries and has emerged as a consequence mostly of the establishment and expansion of overseas subsidiaries and of course the development of globalised firms. Research suggests that the majority of companies in shore industries have yet to deal with and align their human resource policies and practices with globalisation needs (Wellins and Rioux, 2000). International manning is certainly not a new matter for the shipping business, given its inherently international character; however, as already pointed out, the burst of foreign recruitment on board vessels took place with the third wave of shipping – the flagging out process. In other words, if it is assumed that national flags have traditionally required a full – or an overwhelming majority – of national crew complement, then it can safely be deduced that international human resource management should be expected to be more of a concern for companies opting for flagging out. This clearly indicates a considerable impact of the choice of flag on human resource management of companies, as it points to differences in human resource approaches and procedures for companies registering their vessels in different flags. Ship managers involved in dealing with a diverse pool of seafarers coming from around the world are faced with a number of challenges. Cultural and national differences have to be coordinated and accommodated; policies and practices may have to be adjusted to take into account differences in cultures and social norms; effective communication needs to be maintained in different languages and for different backgrounds and frames of reference. As such, the special concerns of ship operators managing a nationally diverse workforce encompass a number of aspects, such as the organisation culture and the education programmes, and primarily should concentrate on building human resource systems which are bias-free in many respects (Cox and Blake, 1991). Special attention must be paid to the significant issue of successful communication not just from the office to the ship but also most importantly among the crew onboard the vessel, not only because these people will be the direct and first handlers of an emergency situation, but also for the good social and working relations and the efficient execution of duties onboard. As language and cultural barriers are bound to be present in the communication of multi-national crews, the proper mix of crew nationalities and knowledge of such potential barriers play a vital role in effective ship management. For example, research has shown that people of different nationalities pay differing degrees of attention to the social context – nonverbal clues, social status, etc – when they communicate verbally (Kennedy and Everest, 1991). The Chinese, for example, come from a high-context culture and tend to derive meaning from context, whereas Scandinavians come from a low-context culture and derive meaning primarily from words. The implications for effective communication within these realms are quite self-evident as well as the implications for the human resource management of shipping companies involved with the manning of multinational crews.

Appropriate planning is the starting point for successful human resource management. *Human resource planning* is the process for identifying an organisation's current and future requirements, developing plans to meet these requirements and monitoring their effectiveness (Beardwell and Claydon, 2007). It is an integral part of broader company planning as it is connected with the organisation's future development and objectives. Its main stages encompass an assessment of current staffing needs, forecasting the future personnel needs, formulating a staffing strategy and finally evaluating and updating the whole process (Kreitner, 2001). Clearly, every shipping company should engage in human resource planning, but circumstances in the shipping business make this a rather challenging task regardless of the flag the ships fly. Items related to the phase of analysing existing needs constitute in fact and, to a great extent, a requirement for shipping companies under international law (i.e. under the International Ship Management (ISM) Code). The reference is for the process of job analysis which is made up of two parts: the job description – the duties of a job, and the job specification – the skills and qualifications needed for the job. Given the widespread adoption and implementation of the SOLAS Convention important differences with regard to this aspect of human resource planning should not be expected to be observed, at least not in relation to staff positions related to the safe management of the vessels. Difficulties in the human resource planning arise for all shipping companies in respect of the forecast of future supply and demand of labour.

Relevant issues which cause complications in human resource planning and are common for all shipping companies, regardless of the flags they use for their vessels, include the unpredictable fluctuations of the freight rate market and the increased flexibility to trade in and out of market sectors primarily through the sale and purchase (S&P) market activities. Of great importance for the forecasting of projected staff needs is the ability to predict revenues and demand for the service. Such predictions, however, are notoriously hard to attain in the shipping business, where forecasting tools generally fail to reflect and encompass the complexity and volatility of macro and micro realities. The S&P market offers shipping companies increased flexibility to trade in and out of varied market sectors within short periods of time and often even at short notice, which can cause further difficulties in the forecast of demand of future labour needs. Forecasting the supply of labour entails basically two tasks: assessing the internal supply – the number and type of employees expected to remain in the firm – and the external sources generally available in the labour market. Given the discussion above about the international character of the human resource process in shipping, the difficulties and complications of trying to anticipate availability of external sources of labour are quite obvious. Within these realms, the companies which use foreign flags are subject to greater complexities in their human resource planning process, but also greater opportunities as the human resource supply area for their ships becomes effectively the whole world. Another difference between firms using open registries and those flying the national flag relates to the estimation of the likely supply of internal candidates to satisfy future staffing needs. Traditionally, shipping offices have been manned by ex-seafarers; this is still the case today, especially in respect of certain office posts, such as the marine superintendent, for which ex-shipmanship can be a requirement (for a detailed account of such posts see Pettit *et al.* 2005). Shipping companies using national flags tend to have an established pool of seafarers who regularly go on their ships. In order for companies to retain the acquired expertise and be able to install more easily commitment and corporate culture, companies often tend to keep

seafarers on their payroll, even for periods of time when they are not serving onboard the company's vessels. This creates a source of internal supply of qualified employees for projected openings in the company's office. Shipowners taking advantage of open registries cannot easily build up this pool of dedicated skilled labour which can potentially be used at the office due to the high turnover and the practicalities of employing staff of different nationalities. Along the same lines, companies using open registries while at the same time relying for their recruitments on an "as needed" basis cannot plan succession schemes for onboard posts either, that is, relating to officers advancing from lower ranks to becoming masters or chief engineers. Exceptions of companies who customarily use open registries but have developed strong ties with foreign crew supply areas – for example, through the establishment of representative crew offices locally, or supporting marine schools there – do exist. However, it is on these conditions of considerable investment on the part of shipping companies in the crew supply areas that the existence of crew succession schemes can be more readily associated with open registers and only really with regard to onboard posts, leaving succession from the ship to the office to still be a major concern. Given this limited potential application of succession plans as well as the fact that such investment in crew supply areas is usually related to a critical company size, not necessarily satisfied by the majority of deep sea tramp operators, some differences can be considered between shipping companies flying the national flag and those using open registries in the application of the human resource planning process.

The next stage for an organisation, after assessing its future human resource needs, is recruitment and selection. This stage is concerned with attracting and choosing suitable people to meet the company's human resource requirements. The importance of effective *recruitment* is quite straightforward as both the quality as well as the number of the candidates is crucial for the selection of ultimately the most suitable employees. There are a number of recruitment methods ranging from internal searches to advertising in the press and on the internet, formal and informal contacts, such as employee referrals or simple "walk-ins", education liaison and recruitment agencies. The choice of a national or foreign flag can have a bearing on the recruitment techniques adopted by shipping companies. For example, companies with ships registered on the national registry and employing nationals onboard their vessels can take advantage of informal contacts, such as word of mouth and speculative applications or even use their own shore or sea staff to recommend candidates for job openings. Traditional ship owners in maritime nations, like Greece, for instance, are famous for historically building their business relying on a pool of expertise which would come from their own village or island and with whom they shared a common background, culture, aspiration and therefore stronger ties. This is important as managers should consider not just the technical competence but also the sociability of candidates, the degree to which they can fit well into the cultural and social context of the company. This subtle aspect of human resource recruitment is generally lost when the search is only for the least expensive crew complement. In addition, ship owners using the national registry may utilise the method of college recruiting, especially as national flags often require the training of cadets onboard registered vessels, as in the case of the Greek flag.

One very important issue for consideration as an option for the recruitment process in a shipping company is the extent of use of and reliance on crew agencies for the manning of its vessels, in other words, the option and degree of *outsourcing*. Outsourcing is increasingly being used on a global scale for different management functions and human resource is one of them, with the jobs outsourced

mainly being administrative ones, like payroll or recruitment. In fact, research shows that human resource is one of the most commonly outsourced business activities today (Lawler, 2004). Crew agencies have been used in shipping to a great extent and for many decades not least at national level, too, but once again the growth of open registers has brought about an increased reliance on crew agencies. Expanding on the aforementioned argument about the impact of flag choice on the internationalisation of the human resource process, the choice of flag is expected to have an effect also on the degree of HR outsourcing in a shipping company. Ship owners who choose open registries to take advantage of lower crew costs by employing seafarers from third countries, should obviously be expected to make considerably more use – both in terms of general crew as well as officers – of outsourcing to crew agencies as a means of access to distant labour supply areas. Management is thus further affected by the potential advantages and disadvantages of outsourcing. In respect of advantages, ship managers opting for some HR outsourcing are presented with: greater flexibility – an especially good thing when a company's needs can fluctuate quickly with the buying in or selling of vessels; access to expertise that could be hard to find otherwise; greater variety and mix of nationalities; reduced costs, which can relate not only to lower crew wages but to the absence of any need for keeping staff on standby and also to the lack of investment in training. However, disadvantages have also been noted. For instance, recent research revealed that UK companies are reluctant to use outsourcing due to fears of loss of control, loss of personal touch and doubts about the quality and commitment of the relevant staff (Hammond, 2002). Especially at the recruitment process the use of crew agencies in shipping may mean that poor candidates can bypass the initial screening process and enter the company's pool with damaging consequences for the business. Additional potential disadvantages include loss of skill and knowledge, reduction in the quality of service, loss of employee morale, short term disruption and discontinuity and damage to long-term competitiveness (Cooke *et al.*, 2005).

With regard to the *selection process*, shipowners are also presented with a variety of techniques. The choice of flag is thought to have some effect on this dimension of the human resource management, too. Shipping companies, who make use of international crew agencies for the manning of the vessels they have under foreign flags, in reality give up completely the activities connected with the recruitment stage and some – if not all – of the activities connected with the selection phase. The first step in the process of selection is ordinarily the review of application forms followed by interviews, personality/psychometric/ability tests, work simulations, or participation in assessment centres and medical examinations including drug and alcohol tests. The degree to which such activities are carried out by the agencies rather than the shipping company itself varies but it should be expected that shipping companies using open registries will exhibit a less “hands on” approach in respect of many of them. This is in line with the principle of cost-cutting through outsourcing HR activities and it is not rare that newly recruited, especially lower ranked, crew members never actually set foot in the company's office premises. The shrinkage of direct selection costs, which comes with the shrinkage of the human resource selection activities in which a shipping company gets involved should, however, be weighed against the costs of selection failure, as poor recruitment and selection can have obvious detrimental effects for ship operation.

Along the same lines the *training and development* as well as performance appraisal of the human

resource management in shipping companies can be influenced by their choice of flag. Training refers to teaching employees how to do their present jobs, while development focuses on building the knowledge and skills of employees for future responsibilities and challenges. Given the vital role of staff as a crucial and expensive resource, their contribution to effective and efficient organisational performance and the contemporary movement towards more flexible organisational structures and employee empowerment, training and development clearly constitute a critical HRM function. The main difference that should be expected to be observed between companies using open registries and others using national flags is the degree of investment in training and development especially for their seafarers. Such an investment will relate to the allocation of resources, planning, time, money, equipment and should be considered to be less for shipping firms registering their vessels in open registries and far more for those using national registries. The argument here continues from the reasoning discussed above in connection with the earlier stages of human resource management and concerns the extent to which HR functions are outsourced. Companies relying extensively on crew agencies to take advantage of low-cost distant supply areas cannot easily adopt a systematic approach to the management of training. Such a systematic approach entails several steps, from an assessment of training needs to an embedding of commitment and involvement of staff and from a clearly defined policy to a carefully planned training, review and evaluation programme (Mullins, 1991). A shipping company which mans its vessels on an ad hoc, “as needed” basis from crewing agencies around the world and with a high turnover will find it quite difficult, for example, to engage in any objective assessment of training needs. This requires analysis at three distinct levels, the organisation, the task and the person, and at high turnovers and with minimum knowledge of the employees the chain of the assessment is broken at the third tier of the analysis. In the same way, the review and evaluation of training programmes can hardly be effectively carried out when seafarers do not stay with the same company for more than six to eight months. The choice of flag may also affect the types of training that companies may adopt. To begin with, since companies using open registers may not usually invest in any long-term employment relationship with their seafarers, they should be expected to be less concerned with employee development, such as varied work experiences or formal education. They should also be less concerned with sea staff career development or management. Their training programmes may be more oriented towards induction programmes, on-the-job training or simply the training required by national/international regulations, like the ISM or the ISPS Code. In addition, they would not be expected to adopt apprenticeship training, as open registries do not require any form of cadet training obligation on the part of their vessels, unlike some of the tonnage tax regimes adopted by traditional flags.

The choice of flag is also considered to have an impact on the *performance appraisal* function of the human resource management again due to the diverse crew employment conditions connected with different flag types. Performance appraisal is a review and assessment of the behaviour and performance of staff and its systematic nature involves a scheme of regular and continuous judgement and feedback. It is this systematic approach to appraisal and its various implications for several other managerial functions and decisions that give rise to differentiations in respect of this HRM function between companies using open and national registries. First of all, the appraisal system should be designed in accordance with organisational objectives and to fit its organisational culture and policies, while supervisors should undergo relevant training to avoid the costs of poorly administered

appraisals. However, due to the quick pace with which shipping companies using open registries may change officers onboard their vessels, masters cannot receive appropriate appraisal training nor can they readily align their appraisal practice with the goals and culture of the company. Also, the system needs to be evaluated regularly based on feedback from supervisors, but again the frequent change of crew members onboard foreign flagged vessels does not provide the conditions for effective monitoring of the system and reliable, systematic feedback from the appraisers, the masters/officers. In addition, a successful performance appraisal scheme means that results are fed into other HRM activities, for example, for validation of selection techniques, for assessment of the impact of training programmes, for forecasts of staffing needs or as a basis of a review of financial rewards, promotions, etc. It also means that employees are provided with appropriate feedback to reflect on and improve their individual performance, to identify training/development needs and plan career progression. The usually limited time of crew members onboard ships flying flags of convenience and the ad hoc basis of their employment put severe restrictions on the actual and successful application of performance feedback procedures, while they also have an effect on the frequency with which appraisals can be carried out.

All of the above have an impact on the organisation and structure of the office-based staff too. The more human resource activities are outsourced, the less the responsibilities and activities of the office in respect of them and hence the smaller the relevant department in the office and vice-versa. The operation of the office of a shipping company is also affected in other ways, like in respect of the succession planning, mentioned earlier or the effective communication with the vessel, coordination of duties, the provision of quality service, the attraction of business and other indirect ways. Nevertheless, with regard to the shore staff of shipping companies, it must be underlined that some of the HRM functions discussed above, such as the training and development or the performance appraisal, are not considered to be directly influenced by the choice of flag. Shipping companies, for example, can make considerable investments in training and development of shore staff and take advantage of the wide range of training programmes for their office personnel without being restricted by their choice of flag. In addition, given that ship owners may choose different flag regimes for different vessels of the same fleet – research has suggested that the decision to flag out is taken on a ship-basis and not a fleet-basis (Bergantino and Marlow, 1998) – it is possible that many of the issues discussed above cancel each other out when the overall management approach of a shipping company is considered.

6. Flag Regimes in Convergence

The basis for this comparison of the management approach has been the traditionally clear-cut distinction between open registers and national flags. Contemporary developments, however, in the international ship registration regime have brought the features of national flags and open registries much closer. For example, the overwhelming majority of the ocean-going fleet is suspected to be under some form of tonnage tax system, while nationality restrictions for crew complements become more and more lax for traditional flags. The ways in which flag regimes have recently come towards some convergence as well as the potential impact of these developments on expected management approaches by shipping companies in the light of our discussion, will now be examined.

A growing awareness of the importance of the shipping industry to the international and national

economies and an increased interest in supporting it have resulted in measures being taken by governments to foster the competitiveness of their national shipping industries. Within this context and in order to encourage ships not to flag out, the European Union has attempted to secure a level playing field for the shipping industry by introducing a relevant regulatory framework. The 2004 State Aid Guidelines are in force currently and for a time period of seven years, that is until 2011 (Commission of the European Communities, 2004). The 2004 Guidelines regard shipping tonnage tax as a State Aid, a fiscal incentive which can be endorsed to safeguard quality employment and facilitate the development of community shipping in the global market; they make provisions for reduced rates of contributions for social security and reduced rates of income tax for Community seafarers on board ships registered in a Member State; they propose, *inter alia*, other state aid initiatives, which include the reimbursement of repatriation costs of Community seafarers, tax free reserves for capital gains, specific investment aids, some forms of training initiatives, and financial aid to cover up to 30% of operating costs for a new service that will enable road transport cargoes to be diverted to sea.

Indeed most of the traditional shipping nations in the EU have taken advantage of the aid measures allowed since the 1997 guidelines by introducing, for example, tonnage tax systems and/or schemes to reduce crew costs. Tonnage tax entered into force in the Netherlands and Norway in 1996, Germany in 1999, the UK in 2000, Denmark, Spain, Finland, Ireland, Belgium and France in 2002, and Italy in 2005. The current system of tonnage tax in Greece has existed since 1975. At an international level, too, the trend to come up with ways to support the industry through fiscal and financial incentives is also evident. For instance, Singapore operates the Approved Shipping Logistics Enterprise Scheme which offers a 10% concessionary tax rate for a five-year period (recently changed to ten years, 15/02/07); while the Hong Kong Shipping Register introduced a range of schemes to attract quality tonnage, among them a six month annual tonnage charge reduction scheme every two years provided their ships have not been detained (Grinter, 2007).

A re-examination of the definitions of open register existent in the literature (section 2), suggests that the older the definition provided, the more outdated it appears, given the current status of affairs generally in the political and economic environment and in the international shipping industry. Traditional flags have admittedly been adjusting their registration procedures to make them more attractive, more “convenient” and “opportune” for ship owners:

- foreign-owned or foreign controlled vessels can be allowed to register in traditional flags, e.g. the Norwegian Ordinary Ship Register (NOR) accepts EU citizens or companies as equivalent to Norwegian citizens or companies to be registered as owners of vessels flying its flag;
- access to and transfer from national flags is made easy while the cost of registration fees has been brought down, e.g. in the UK flag registration costs are amongst the lowest available in national flags while there are no annual renewal fees;
- taxes on the income of ships are not levied, a tonnage tax system is used instead, e.g. Greece has the longest history in applying a tonnage tax regime that goes back to 1939 (Moraitis, 2003), while the current taxation system applying to the shipping sector was introduced by Law 27 in 1975;
- fiscal obligations can be circumvented usually through the avoidance of corporate tax, e.g. as is the case with the UK and Dutch flag;
- the manning of ships by non nationals is permitted to a smaller or a larger extent, e.g. recently

a softening of Greek flag manning requirements with regard to the complement of Greek nationals has meant that, with the exception of masters, who must remain Greek, shipowners are free to choose whether the Greek contingent (minimum 4-6) consists of officers, lower ranks or a combination of the two.

In the light of these changes to traditional registers, how can our discussion in the previous sections be affected? If the basis of the theoretical rationale we have developed, (i.e. the clear-cut distinction between open registers and traditional flags), is no longer so clear-cut, does this affect, and if so to what extent, the assumptions made about the impact of choice of flag on ship management?

The fundamental distinction between national flags and the flags of convenience has been the absence of a “genuine link” on the part of the latter. This can take the form of a number of attributes and, if the UN relevant instrument on Conditions for Registration of Ships is followed, such attributes can relate mainly to the ownership, the manning and the management criteria as well as the contribution to the national economy and its inclusion in the national balance of payments accounts. With regard then to the actual convergence between flag regimes, the real question is not how close traditional flags have become to the attractive features of open registers but whether, to what extent, and along which dimensions such changes have altered the basic characteristic of national flags, i.e. the genuine link, and so the essence of the nature of national flags.

A detailed reasoning of the potential impact of such developments on ship management choices, in the lines of the discussion in the previous sections, will not of course be attempted at this point, as this would be a valuable exercise in its own right. Rather some basic, underlying principles will be addressed and reviewed in relation to the issue of the recent convergence of traditional and open registers.

The adoption of measures on the part of national flags which relate to the reduction of bureaucracy in registration procedures or the decrease in registration/annual fees is straightforwardly an aspect which should not have an effect on the management behaviour of shipping companies. The much discussed and widely applied tonnage tax scheme, although indeed an important aspect of convergence between the two main flag regimes and with direct consequences to national economies, should not be expected to affect management practice to any significant extent, as argued earlier in this chapter.

Of much greater significance for both the determination of the existence/absence of the genuine link with ships, as well as the management practice is the degree to which national flags nowadays allow for the registration of ships owned by non-nationals. On the one hand the need to enhance competitiveness and, on the other, the political reality of regional unions of sovereign states, like the EU, has meant that traditional flags previously not open to other nationalities, would have to accept foreign shipowners in their register. This development should be expected to affect at a first level the cultural identity of the flag itself and then, as a result of that, to potentially have some impact on a number of elements of ship management for individual shipping companies. Historically, traditional flags have been associated with the maritime nation of their countries, its reputation with regard to ship operation, the way it is thought to conduct business, its know-how and expertise. They have built up a certain image – positive, negative, peculiar, indifferent – based on this. With the participation of foreigners in their registers such identity and consequently image will slowly be infused with elements from the shipping experience and standing of other nations. Initially ships, controlled by

foreign interests, entering a newly opened-to-foreigners traditional flag, should be expected to be drawn to it because they also share some common principles in respect of the business of ship operation. Inevitably, there will be a two-way influence between the two entities affecting the status of the flag itself. The degree to which the traditional flag will sustain its attitude towards the shipping business will largely depend on its desire to treat registration as a procedure necessary to impose sovereignty and hence control over its shipping. In this way, recognising that national flags have the expertise, the infrastructure, the procedures and tools and assuming still also the will, to impose sovereignty then the relaxation of ownership requirements, although bringing them closer to the known attributes of flags of convenience, should not be expected to alter significantly the management choices of the companies who prefer them. However, if a national flag's previous reputation for quality and high safety standards is lost, then this may affect some of the strategic decisions – as discussed in section 4 – of companies registered in it. In respect of the legal framework of company's laws and other laws inherently relevant to every nation, a specific trend between registries may be difficult to observe and such items should be rather flag-specific than flag regime-specific.

The genuine link between registers and their vessels can also be demonstrated by the management criterion, the fact, that is, that nationals must have some presence in the actual management of the vessels. Many traditional flags appear still to adhere to this requirement, despite their opening up to other nationalities or the adoption of favourable tax and registration systems. This issue is of course related to the actual control of and accountability and liability for ship operation but it is also very much connected with the protection of the national maritime cluster and national economy. In recent years the realisation has been that actually 70% of the value added by the shipping industry comes from on-shore activities related to shipping (Peeters *et al.*, 1994). It seems, therefore, that maritime nations wishing to keep the primary source of the industry's contribution to their economy and balance of payments – the valued added, the employment generation, the investment generation, the preservation and enhancement of expertise – are willing to “sacrifice” potential corporate tax income to protect the management dimension of their shipping business. Examples of traditional flags which have resorted to the adoption of tonnage tax but have sheltered their shore-based shipping activity by including the management requirement in their registration include the UK and Dutch flag. Others, like Greece, have for many years provided a favourable tax regime for ship management companies established in the country in order to attract more onshore business activity in it.⁴ Since the location of ship management has important consequences for management practice, as also discussed in section 3, the decision of traditional flags to retain management functions nationally essentially distances the former from what open registers stand for.

National flags generally go down the path of using open registers as a benchmark in order to increase the competitiveness of their own national shipping industry and extended maritime cluster rather than because they wish to provide a service which can be sold to foreign ship owners wishing to escape the fiscal or other consequences of registration under their own flags. It is in this distinctive philosophy that a main difference between traditional and open flags is still to be observed. Shipping is generally thought to be considered by traditional flags as an important industry for their nation, one in which governments should invest and to which private investment should be attracted. This creates

the environment and further encourages the development of shipping related organisations, trade and shipowning associations, seafarers' and workers' unions and other bodies, all of which should be seen to ensure the sustainability of national shipping through promoting quality, safety, training, expertise, fair working conditions and an appealing commercial environment for conducting the business.

The relaxation of national manning requirements should also be viewed within these parameters, although this development should be expected to have significant repercussions for the adoption of ship management practices by shipping firms. It is in this regard that it can be said not only that the two registry regimes are coming very close in disposition, but also that this alters to a significant extent the assumptions made with regard to the impact of the flag choice on human resource management (section 5). The rationale about the human resource management choices of shipping companies was built basically around the principle that its international dimensions (outsourcing, the 'as needed' strategy and high turnovers) were issues primarily connected with the use of flags of convenience. Given the new development of traditional flags now adopting a more laissez-faire approach to the nationality of seafarers onboard their ships, such issues and their consequences could no longer be regarded as more relevant for companies choosing open registers. The difference between shipping companies with regard to their people and their human resource management should then be expected to stem more from the degree of investment made by them in this key management dimension rather than be implied by their flag choice. The requirement for the training of nationals which is built into some traditional flags is expected to bring some differences in management practices, for instance, in relation to recruitment process. Overall, the preoccupation with cost cutting in order to enhance the competitiveness of flags is most vividly exhibited in the softening of national manning requirements, and changes should be expected in the way the business will be conducted.

7. Conclusion

This chapter has been concerned with the impact of the choice of flag on ship management. The basis of the analysis was the conventional distinction between open registers and traditional, national flags. The subject is treated in a theoretical context and the examination reveals a number of management dimensions in a shipping company which can be thought to be influenced by the choice of flag. General management aspects such as the decision on the actual location of the ship management company can be affected, but most importantly it is the strategic management decisions and the human resource management process that are considered to be particularly influenced by the company's flag choice. With regard to strategic management, both corporate strategies and business-level strategies of a shipping firm can be affected as, for example, the use of open registers corresponds to a cost leadership competitive strategy, while the use of national registers corresponds to the differentiation strategy. Human resource planning, the recruitment and selection process, as well as the training and development and performance appraisal programmes are regarded as management functions on which the choice of flag can have a bearing.

As stated earlier, the basis for comparison of the management approach has been the traditionally clear-cut distinction between open registers and national flags. Contemporary developments, however, in the international ship registration regime have brought the features of national flags and open registries much closer. The overwhelming majority of the ocean-going fleet is suspected to be under some form of tonnage tax system, while nationality restrictions for crew complements become more

and more lax for traditional flags, as in the case of the Greek flag. In the light of such developments a re-evaluation of the different management approaches expected by shipping companies using diverse ship registration regimes would be another valuable exercise. This chapter did not attempt to tackle all the issues in an holistic manner and other considerations, such as cultural diversity and associated crew management practices, could usefully be included in future.