

**A CASE STUDY OF PRINCIPAL-AGENT
EMPOWERMENT RELATIONSHIP
AND ORGANIZATIONAL
PERFORMANCE IN THE
OMAN SHIPPING
INDUSTRY**

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BIMAL SILVA**

**ASIA e UNIVERSITY
2023**

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A Thesis Submitted to Asia e University in
Fulfilment of the Requirements for the
Doctor of Business Administration

May 2023

ABSTRACT

The shipping industry in the global context is growing. This fact is further solidified via the exponential growth in the shipping industry in the Gulf region. However, based on a commonly used management tool, the BCG matrix, it has been identified that Gulf Agency Company (GAC) Oman's organizational performance has declined, especially in the area of market share and profitability. Based on the above premise, this study proposal investigates the causal influence of agent empowerment on organizational performance to estimate the degree of the mediation of agent empowerment. Using a deductive research approach with a quantitative quasi-experimental design, this study aims to administer a survey with a sample of 98 respondents selected based on a random sampling method. The population represents senior managers, functional managers, and supervisors randomly chosen from four thousand GAC International Holdings employees. Data will be collected using a structured questionnaire with scales (1-5) to measure each item. Data will be recorded on Microsoft Excel 2019 and eventually uploaded to R-Studio (3.6.2 version) to analyze data to compute correlation, and hierarchical regression. Secondary data will be collected from organizational and industry-related sources about the last two years' annual sales turnover and market shares. The study findings suggest that the current relationship between the agent-principal is positively associated with organizational performance. However, the above relationship does not influence agent empowerment to contribute productively and meaningfully, and finally, agent empowerment does not have a causal effect on organizational performance. A few limitations associated with the study have been preidentified: the number of variables included for the investigation, sample size, and the time availability, as discussed in the antecedent sections.

Keywords: agent-principal relationship, agent empowerment, organizational performance, shipping industry

APPROVAL

This is to certify that this thesis conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Business Administration

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Chairman, Examination Committee

3 May 2023

DECLARATION

I hereby declare that the thesis submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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Signature of Candidate:

Date: 1 May 2023

ACKNOWLEDGEMENTS

First of all, I would like to sincerely thank my supervisor Dr. Mohamad Anwar bin Omar Din for the tremendous support he has given by spending his valuable time and knowledge.

Thank all our Cambridge College of Business Studies lectures, especially Dr. Lewie Diasz. They have made an enormous effort to cover all relevant subjects timely according to the given syllabus and complete this program successfully.

In addition, I am expressing my most profound appreciation for the guidelines they have given us throughout and for the practical application knowledge we gained through their immense experience. Especially for the support Dr. Mohamad Anwar bin Omar Din and Dr. Lewie Diaz have given as supervisors and advisers to complete this business project.

Same time I am thanking Mrs. Jacqueline Diasz and all her office staff at Cambridge College of Business Studies for the support they have extended throughout.

Thank Mr. Johannes Ericson - General Manager Gulf Agency Company Oman LLC. For the support, which he has extended with all the guidance as a mentor while being through his busy schedule.

Same time I would like to thank all GAC Oman and worldwide staff who have given me tremendous support in various ways to wrap up this report in style.

Finally, I would like to extend my sincere thanks to my loving wife, Mrs. Sandamalie De Silva, for the love, understanding, valuable advice, and support she has given me throughout. Without her support, I won't be able to come close to this level.

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LIST OF ABBREVIATION

GAC	Gulf Agency Company
HSSE	Health Safety Security and Environment
LCL	Less Than Container Load
BCG	Boston Consulting Group
OPEC	Organization of the Petroleum Exporting Countries
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LSCI	Liner Shipping Connectivity Index
OSC	Oman Shipping Company
NFC	National Ferries Company
PCA	Principal Component Analysis
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
SEM	Structural Equation Modeling

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

This section of the proposal will discuss the overview of the study, research problem, research objectives, the significance of the study, the scope of the study, and operational definitions, in addition to a breakdown of the chapters that follow.

The global shipping industry size, in terms of US dollar value as of 2019, was US\$ 894.28 and is expected to reach US\$1883.50 million in 2027 with an overall industry growth rate of 10% (worldwide maritime analytics 2020-2027). The above statistics are aligned to similar trends and the growth in the region of the Gulf-Arab region as well. The essential services that constitute the shipping industry are ship agencies that provide comprehensive shipping services, husbandry services that include crew rotation management, owners protecting agency services to monitor port call operations, hub agencies that provide leadership and administrative services to control and reduce expenses, port-on-demand services that provide offshore services, bunker fuels to provide bunker fuel and lubricants, and dry-docking support that provides repair facilities to their customers (GAC Annual Report 2020). The above services are outlined in a table form in the annexure (see annexure 3).

Out of the worldwide GAC establishments, GAC Oman is one of the critical entities established in 1972 under their brand name in the Middle East region. Being GAC Oman, they operate from the headquarters in Muscat and several other branch offices such as Sohar, Salalah, Duqm, and Sur, with an average staff strength of 200 (GAC Annual Report 2020). Their local expertise encompasses fully integrated and independent ship agencies, husbandry, and logistic services in Oman. They attend Ave, 1500 vessels per year, maintaining a strong emphasis on ethics and HSSE practices. In

addition, one of the top LCL and air freight businesses in the Sultanate of Oman. GAC is a well-established shipping company with a lot of infrastructure strength. Their neutral behavior and ethics (GAC policy, strict sanction rules within the group, personal data protection methods, confidentiality, anti-bribery policy, anti-corruption policy, etc.) GAC will be able to keep clear from any political effect.

Like all the industries in the world, the shipping industry in the Gulf-Arab region is also susceptible to risks, such as the ongoing global pandemic, environmental catastrophes, political instabilities, economic downturns, and the trade war, especially between the global leaders, such as the United States of America, Russia, China, and India. Added to the above macro-level risks, and due to eroding the industry player's market share, several challenges have been more impactful to the shipping industry identified recently. These challenges are under-quoting to secure businesses for survival, extending extraordinary credit facilities to customers, offering various other incentives, and using political and other internal connections to ensure volumes (GAC Annual Report 2020). However, on top of all the above challenges, the industry encounters, GAC, as a holding company that operates in the shipping industry, has been facing significant business challenges losing its business, in terms of the market share over the past three years, to its competitors that operate in the same market.

Added to the above company situation discussed, other reasons negatively impact performing organizational goals efficiently. The distance between the operating point and the GAC head office in Oman and the lack of subordinate empowerment to make timely decisions to facilitate stakeholder requirements. The distance to the operating point from the GAC head office is approximately 250-kilo meters. Due to the lack of empowerment used to make decisions, such as changing visas for vessel crew and purchasing operational needs, there has been a slack

identified in the supply chain. The above bottleneck situation has caused serious repercussions, such as process delays, customer dissatisfaction, customer churns, loss of turnover and profits, and dissatisfied employees.

1.2 Global shipping Industry

From mid-20th century, the shipping industry has been significant to people worldwide as a means of transportation. Unlike a few decades back, shipping or the marine industry has become a mode of carrying goods rather than people (Buckley, 2008). Meanwhile, with the emergence of intercontinental air travel, sea travel has become limited to shorter trips (ferry services across the Baltic and North Seas, the Mediterranean, Japan, and Southeast Asia) and recreational cruises (Nakagawa & Yui, 1985). However, the shipping industry has experienced an incredible boom and is characterized as a progressively money-spinning tourist income source. The shipping industry is a helping hand for global trade, and about more than 80% of trade is carried by marine transport. With globalized markets, shipping volumes soared (Winthrop, 1890).

From the 1950s to the present, the growth rate of international trade was almost consistently twice that of economic activity. Due to the spectacular rise of world trade since the 1950s, the need and the demand for global shipping came into the discussion (Paris et al., 2018). As suggested by Fenton (2013), shipping creates many opportunities for a vast majority of international trade, with its share ranging between 80 and 90 percent of trade. This majority is mainly pronounced in developing countries where trade structures counting the low volumes of intraregional trade, leave limited space for land transport and air transport. The shipping share is significantly lower in trade value, with various estimates hovering around 60 to 70 percent of trade.

Meanwhile, air transport, including express carriage, is rising, making considerable inroads in higher valued cargo (UNCTAD, 2018).

In the early 1970s, rapid expansion and high profitability took place in the shipping industry. As a result, many new financial institutions came into the marine transport industry with the confidence that high freights and growing bulk trades will make low risks in shipping (Michael et al., 2000). According to Broeze (1998), the introduction of containerization in the late 1960s further backed the globalization in the shipping industry as the high opening capital investment fortified joint ventures where fleet and acquisition networks of contributing countries were united.

However, with the OPEC oil price hike, and crisis, the world trade began to collapse in the late 1970s, where the new shipping volume created a surplus, and the surplus capacity worsened for the governments that built more ships (Broeze, 1998). Later on, in the 1980s, the shipping industry experienced the worst era globally due to the winter-war depression (Westlake, 1986). As Lane (1997) suggested, removing the restrictions on the movement of capital laid the foundation for the globalization of the shipping industry. Turning another significant episode, third-party ship management came into the world in the 1980s, which became another emerging trend among nations and banks that needed the ship management expertise when they owned ships with mortgage failure. In addition, some companies like P & O got the ownership of managing ships of other owners achieving economies of scale (Goulielmos, 2018).

With the establishment of the United Nations Conference on Trade and Development (UNCTAD) in 1964, a committee was introduced to identify how maritime transport could best contribute to uplifting the foreign trade of developing countries and enhance their development prospects (Slack et al., 2002). According to

Narula (2014), the shipping industry is a salvation for world trade, and based on the research articles, it can be stated that the marine or sea carries an estimated 90% of trade. Further, world seaborne trade showed a vast development over the past decades, employing more than 4.2 million people as seafarers and in related Maritime activities.

Table 1.1: International seaborne trade

Year	Crude oil, Petroleum products & Gas	Main bulks ^a	Dry cargo other than main bulks ^a	Total (all cargoes)
1970	1 440	448	717	2 605
1980	1 871	608	1 225	3 704
1990	1 755	988	1 265	4 008
2000	2 163	1 295	2 526	5 984
2005	2 422	1 711	2 976	7 109
2006	2 698	1 713	3 289	7 701
2007	2 747	1 840	3 447	8 034
2008	2 742	1 946	3 541	8 229
2009	2 642	2 022	3 194	7 858
2010	2 772	2 259	3 378	8 409
2011	2 794	2 392	3 599	8 785
2012	2 841	2 594	3 762	9 197
2013	2 829	2 761	3 924	9 514
2014	2 825	2 988	4 030	9 843
2015	2 932	2 961	4 131	10 024
2016	3 055	3 041	4 193	10 289
2017	3 146	3 196	4 360	10 702

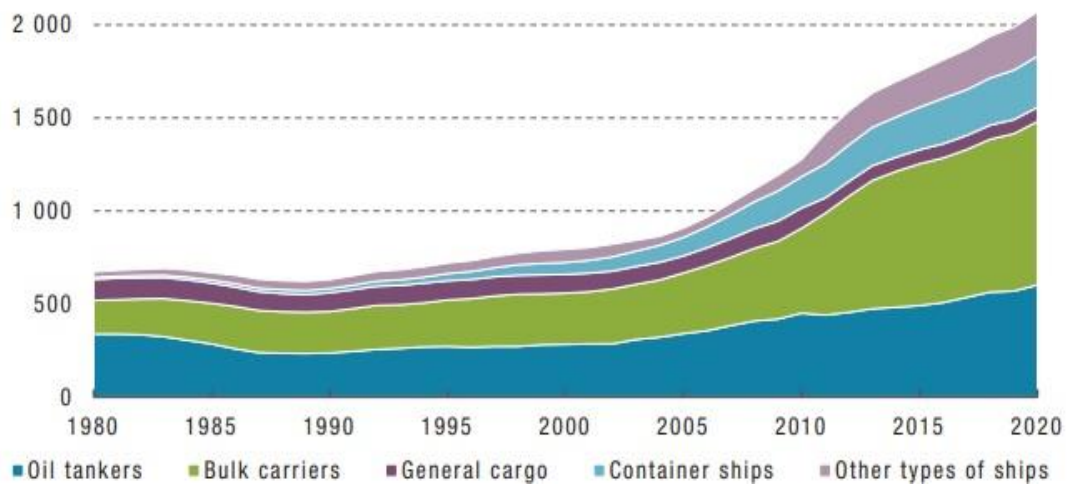
Source: (UNCTAD, 2018)

Table 1.1 features the international seaborne trade development in selected years regarding the volumes loaded since 1970. Data shows a shift from liquid to dry bulk, reflecting a decline in oil and gas trade by about 10 percent, whereas dry bulks such as iron, phosphate rocks coal and grains have increased by around 60 percent.

In addition, as per the recent data in January 2020, the world fleet reached 2.1 billion dwt of carrying capacity. A considerable increase has been shown in the tonnage of all segments except general cargo carriers. In contrast, bulk carriers recorded a remarkable prompt increase. During 2010 and 2020, the share of the total

carrying capacity of bulk carriers rose from 36 to 43 percent. In contrast, the percentage for oil tankers decreased from 35 to 29 percent, and the share for general cargo from 8 to 4 percent.

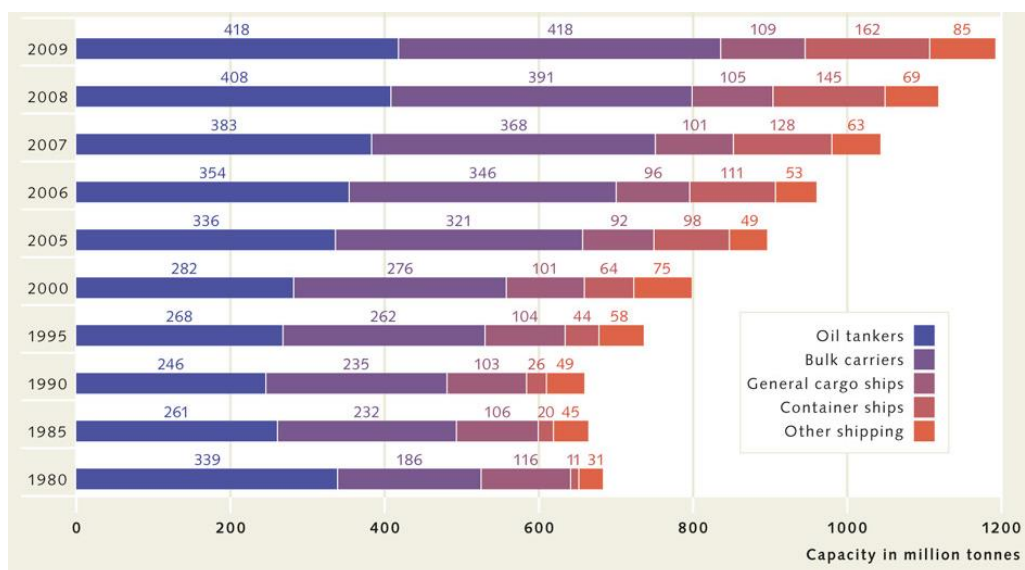
Figure 1.1: world fleet by principal vessel type (Millions of dead-weight tons)



Source: (UNCTAD, 2020)

However, the different ship sizes provide a quite diverse picture of carrying capacity in dead-weight tons (dwt). As per figure 1.1, tankers and bulk carriers account for 35 percent each, while container ships 14 percent, general cargo ships carry 9 percent, and passenger liners take less than 1 percent.

Figure 1.2: The growth of the global merchant fleet according to type of vessel



Source: (World Ocean Review, 2010)

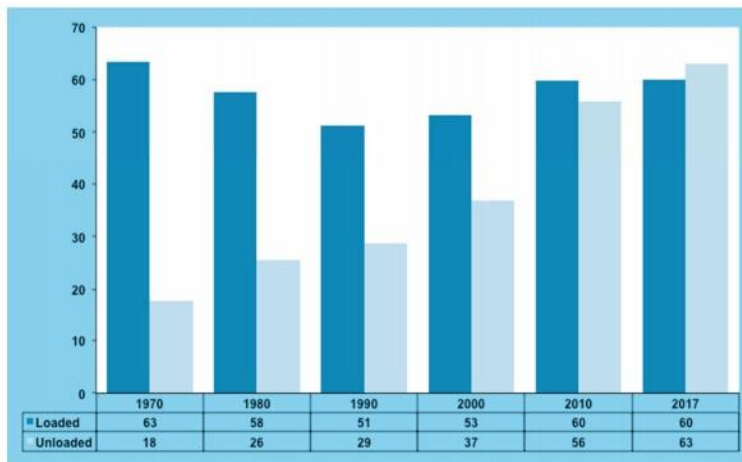
Table 1.2 and figure 1.3 reflect the participation of developing countries in world seaborne trade in selected years with the Percentage share in world trade. It revealed that trade value between developing countries (South-South) exceeded the trade between developed countries (North-North). In terms of share of world trade, South-South trade has increased from less than a tenth in 1980 to almost a third of world trade in 2011, while North-North employment has grown at a lower growth rate. Thus, the significance of North–North trade has dropped over time comparatively, decreasing from almost half of the world trade in 1980 to around one-third in 2011.

Table 1.2: Participation of developing regions in the world seaborne trade

Year	Loaded/ Unloaded	Total developing countries	Africa	Developing America	Developing Asia
1967	Loaded	63	12	19	31
	Unloaded	19	3	7	8
2000	Loaded	53	6	12	31
	Unloaded	37	3	6	21
2017	Loaded	60	7	13	40
	Unloaded	63	5	6	53

Source: (UNCTAD, 2018)

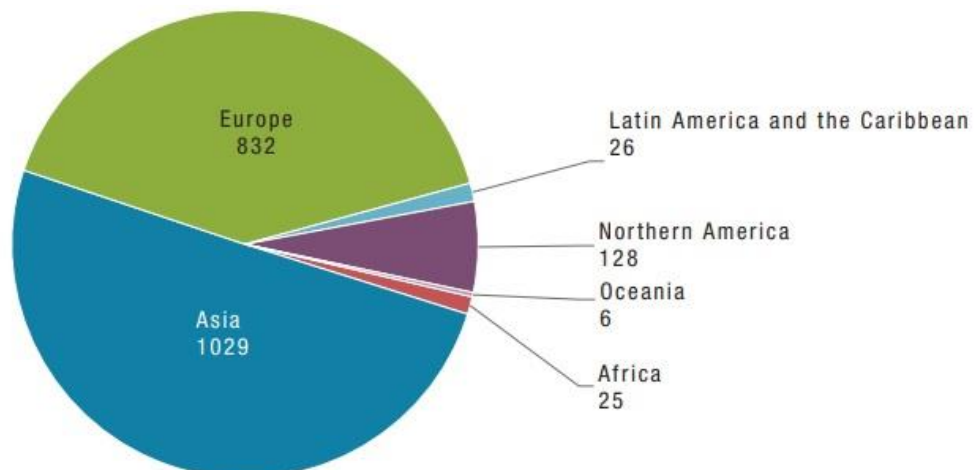
Figure 1.3: Participation of developing countries in world seaborne trade-in



Source: (UNCTAD, 2018)

The integration of digital transformations in the marine industry has made users gather crucial information about the activities undertaken on ports and water bodies. More recent studies on global shipping have found that the top five ship-owning economies combined accounted for 52 percent of world fleet tonnage. In contrast, Greece is the market leader with a market share of 18 percent, followed by Japan and China with 11 percent each, and Singapore with 7 percent. Thus, it is clear that more than half of the world’s cargo is owned by Asian companies. While Europe owns 41 percent and Northern America accounts for 6 percent.

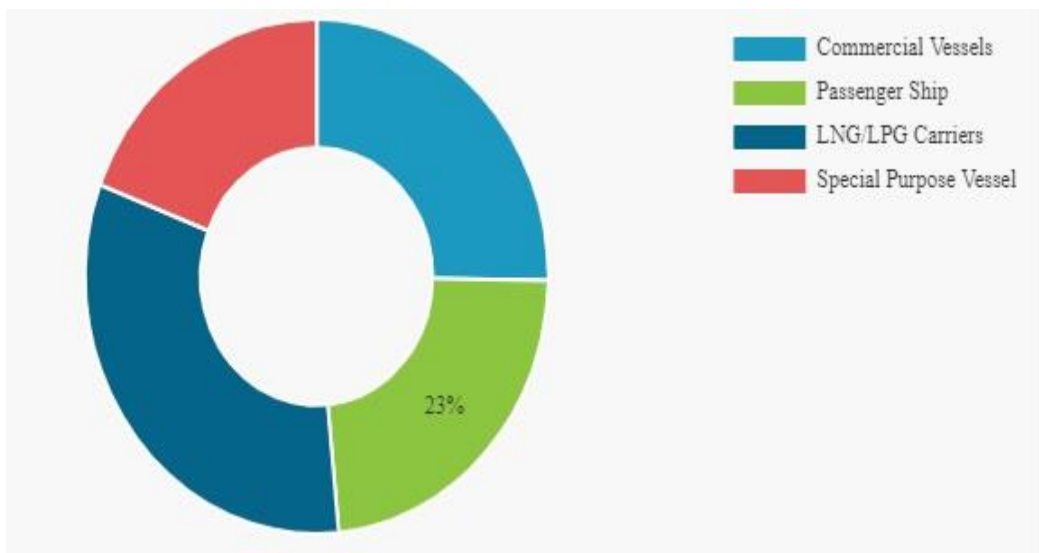
Figure 1.4: Fleet market size by region of beneficial ownership, 2020



Source: (UNCTAD, 2020)

Based on Fortune Business Insights (2019) findings, Figure 1.5 illustrates the expected marine growth of the global marine vessel market from 2019 to 2026. Accordingly, it is believed that the passenger ship segment in the worldwide shipping industry has a more probability of growing during the forecasted period. The increasing demand for public transportation is the fastest-growing segment, with more cruises and ferry boats. Furthermore, the commercial segment is estimated as the largest segment in maritime trade development. At the same time, with increasing the demand for fuel and oil, the LNG/ LPG carrier segment is predicted to grow at a steady pace.

Figure 1.5:Expected Global Marine Market Growth



Source: (Fortune Business Insights, 2019)

1.2.1 Liner shipping connectivity

UNCTAD developed the Liner Shipping Connectivity Index (LSCI) in 2004 to capture the level of incorporation into the current liner shipping network by assessing liner shipping connectivity. LSCI reflects the accessibility to global trade through to proxy of its shipping network. A higher LCCI index implies effective participation in