

UNIVERSITI TEKNOLOGI MARA

**LINER SHIPPING INDUSTRY:
THE IMPACT OF STRATEGIC
ALLIANCE ON FINANCIAL
PERFORMANCE**

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Thesis submitted in fulfilment
of the requirements for the degree of
Doctor of Business Administration


Arshad Ayub Graduate Business School

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AUTHOR DECLARATION

I declare that the work of this dissertation was carried out in accordance with the regulations of the University of Technology MARA (UiTM). It is original and the result of my own work, unless otherwise indicated or acknowledged as referenced work. This dissertation has not been submitted to any other academic institution or non-academic institution for any other degree or qualification.

I hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

Strategic alliance is one of the earliest forms of business alliances that emerged in modern history. It is formed to generate benefits that would otherwise not be easily achievable independently. The formation of strategic alliances has been seen as a response to globalization and growing uncertainty in the business environment. Through this collaboration, carriers have the opportunity to achieve economies of scale, increase sailing frequency, reduce cost and business risks, offer quality services, increased direct port calls, and a broader range of customer service options. In today's highly competitive environment, it is a requirement for the shipping companies to provide low cost, high quality services to meet more demanding customer needs and respond to expanding world-wide markets. Thus, to stay competitive, carriers need to increase services and capitalise in more cost-effective vessels and equipment and all must be achieved within limited resources. The study examined the impact of strategic alliance on Grand Alliance members, particularly on MISC's financial performance since become a member of the Grand Alliance in 1998. Regression analyses were conducted to test hypotheses on the relationship between vessel utilization and Asia-Europe trade utilization in term of slot capacity with the profit performances of MISC for a period of twenty years from 1990 until 2009. The analyses also conducted on the relationship between vessel utilization, world trade volumes and average bunker price with the revenue of Grand Alliance. The study result shows a significant relationship between MISC's slot capacity and profit. Similar result recorded for the relationship between MISC's slot capacity in the Asia-Europe trade and the profit. Nevertheless, there is no significant relationship between slot capacity, world trade volume and average bunker price with the revenue of Grand Alliance. Notably, all variables recorded a sharp declined in 2008 and 2009 due to severe impact of the global economic downturn. Overall, the study results confirmed that strategic alliance has contributed to the financial performance of MISC, where its revenue and profit have improved significantly in tandem with the increases in slot capacity.

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CHAPTER ONE

INTRODUCTION

1.1 RESEARCH BACKGROUND

This chapter discusses significant changes in the liner shipping industry as an impact to globalization and the need for strategic partnerships. The discussion focuses on the emergence of strategic partnerships in the international liner shipping industry in Malaysia and strategic partnership in liner shipping business, particularly on the development of MISC as a member of the Grand Alliance Shipping Consortium. In details, the discussion touches on the main objective and significance of the study and key elements that form the basis of the problem statement and limitation of the study. The overall contents of the dissertation can be seen at the end of this chapter.

Alliances are viewed as an excellent vehicle to obtain market growth amid market conditions that are rapidly changing worldwide. Globalization always refers as the main reason for the significant changes to the shipping industry. It exemplified by increased competition and pressure by consumers at all levels; whether it is increase in demand, increase purchasing power or pressure by freight forwarders, changes have occurred. According to J. Ryan (2001), such developments have redefined the role played by the transport industry and forcing them to become full-fledged players.

Page (1998) defined globalization as a process of communication and amalgamation among the people, companies, and governments of different nations. It is also referred as a process driven by international trade and investment and aided by information technology. Globalization can be assessed in two ways. Firstly, it can be viewed through its spinal connotation because of increased operations worldwide. Secondly, it relates to intensity and the increased number of levels of interaction between nations, companies, and customers. The market focus of the partners is another important area that calls for a structural fit in a strategic alliance. An untenable competitive position between the partners will be created if both partners in a coalition share the same market focus.