



Evolution of national port governance and interport competition in Chile



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ABSTRACT

This paper analyses the evolution of port development and port governance in Chile since the 1990s. Current port development is not only challenged by a volatile and slowed down economic environment, but also by changing industry and sclerotic institutional conditions. Applying the matching framework in combination with the life cycle theory, aims to identify how the institutional structures created by port reform evolved and whether these are suitable to manage current and future devolution and changes in the Chilean port system.

The paper describes the gains of technical efficiency in the early years after the reform in a decentralised governance structure and asks whether this governance structure is still congruent in the current environment. Some recent attempts to regain national influence have been inhibited by the institutional setting implemented by port reform. The asymmetries of the institutional capacity local and national level become more evident as the life-cycle of the current concession contracts reaches its end, and the existing institutional structure itself might evolve to be the impediment to change.

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1. Context

Currently container ports are confronted with reduced growth in container throughput, and significant restructuring in the liner shipping and port industry. This paper analyses the outcome and current challenges of the Chilean port reform, by the example of San Antonio and Valparaíso since the 1990s.

The authors discuss the *Matching Framework* (Baltazar & Brooks, 2001) in combination with the lifecycle perspective (Schaetzl, 1996; Cullinane & Wilmsmeier, 2011) assuming that a governance model has a certain life-time, characterised by a set of common phases (Cullinane & Wilmsmeier, 2011). A governance model is exposed to changes in its environment (market conditions), strategy (conditions of production) and structure (product design) over time and these changes might lead to a situation where an existing governance model becomes obsolete or requires innovation and reform. The combination of applying the product life cycle theory and the Matching Framework will thus allow us to interpret the fit of the configuration and that fit in a temporal perspective. Linking the different phases of the life cycle theory to the fit of a governance model can provide insight whether a model might have reached maturity or has entered in decline. The combination of these two theoretical frameworks thus allows governments

to evaluate appropriate and necessary new policy decisions from a temporal perspective.

The paper is structured as follows. Section 2 introduces the theoretical framework, Section 3 discusses the evolution of two main Chilean container ports over the last two decades under changing environments, Section 4 applies the matching framework to draw conclusions on the current and future challenges in the Chilean port system in the final section.

Organisations in the port industry tend to be complex, involving different mixes of public and private sector stakeholders at varying levels of geographical scale that reach from the local (port authority) to the global (global terminal operator).

The port devolution processes starting in the 1990s have significantly altered the strategies and structures in the Chilean and South American port sector (Sánchez & Navarro, 1998; Sepúlveda, 2000; Hoffmann, 2001a, 2001b; Carrillo & Santander, 2005; Wilmsmeier, 2006). The intention of these reforms was to “secure the benefits for commercially driven decision making organisation previously run by government” (Baltazar & Brooks, 2007, p 380) and to solve existing problems in ports such as excess of work force and regulation, inefficiency of port operations and deficits in the provision and maintenance of port infra- and superstructure investment, and security challenges (cf. Wilmsmeier & Monios, 2015; Sánchez & Wilmsmeier, 2006; ECLAC, 1992). Since then, container port operations have been exposed to significant alterations in the economic, social and environmental spheres, requiring almost constant adjustment of all actors, whether public or private (Wilmsmeier, Monios, & Pérez-Salas, 2014), which

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significantly changed the port system in South America and particularly in Chile (Wilmsmeier et al., 2014; Wilmsmeier & Monios, 2015).

The devolution processes shifted the responsibility and management of port performance, in the dimensions of financing productivity, efficiency effectiveness of port infra- and superstructure development towards the private sector. Quay productivity of main container terminals in the region underwent an intensive catching up process driven by superstructure investment and terminals are now delivering quay productivity levels comparable to those in developed regions (Wilmsmeier, Tovar, & Sanchez, 2013; Wilmsmeier & Monios, 2015; Serebrisky et al., 2016; Suárez-Alemán, Sarriera, Serebrisky, & Trujillo, 2016). Sustained positive market development in the past decade has made efficiency and productivity gains in ports relatively easy to achieve as demand was continuously outgrowing supply (Wilmsmeier & Monios, 2015; Wilmsmeier et al., 2014). By 2005 it became obvious that the infrastructure development gap, a condition that, among others, triggered port devolution processes in the 1990s, was rather increasing than decreasing (Sánchez & Wilmsmeier, 2005; Perrotti & Sánchez, 2011; Sánchez & Perrotti, 2012).

Port reform beyond its initial objectives to devolve power, and to improve competitiveness and technological efficiency (Sepúlveda, 2000), has facilitated the corporatization of the port system as well as horizontal and vertical integration in the port and maritime sector (Sánchez & Wilmsmeier, 2006) as evidenced by the influx of international and global terminal operators (Drewry, 2016; Drewry, 2012). In 2015, international terminal operators controlled over 80% of South American container port throughput (Drewry, 2016). The presence of global companies has converted ports from isolated localized devolved entities to being parts of global corporate strategies and container terminals are now integrated elements in globally spanning network strategies that reach far beyond the local embeddedness of the “governing” local and national public entities. Thus, as in other regions the results of port reform are mixed and substantially weak in governance (Gong, Cullinane, & Firth, 2012).

As the first life-cycle of concessions matures, the governments in Chile and other countries in the region are beginning to realise that the “simple presence of private port operators is not a guarantor of success and panacea to solve port development challenges, and to deploy new technology.” (Wilmsmeier & Monios, 2015). Additionally, the emerging level of network and intra- and interport competition is conveying new complexities to the governance of the port sector (Wilmsmeier & Monios, 2015; Wilmsmeier & Sánchez, 2008; Wilmsmeier, Martínez-Zarzoso, & Fiess, 2011; Wilmsmeier et al., 2014) and has spurred new strategies that require, at least on behalf of the successful ports, an identifiable process of institutional adaptation. Consequently, a question that emerges is whether the devolution was not an actual transfer of power but rather a qualitative restructuring (Brenner, 2004), characterised as uneven processes of hollowing out (Rhodes, 1994) and filling in (Jones, Goodwin, Jones, & Simpson, 2004; Goodwin, Jones, & Jones, 2005), often resulting in asymmetrical acting capacity.

Therefore, the paper discusses if the implemented governance model in Chile has actually been successful, and if it is appropriate to future development of the port sector in the current challenging and volatile economic environment.

2. Theoretical frameworks

2.1. Matching framework

This paper presents a continuation of the analysis and theoretical discussions on port governance (Brooks & Cullinane, 2007) and analysis of case studies in South America (Sánchez & Wilmsmeier, 2006; Sánchez, Wilmsmeier, & Doerr, 2008). To maintain congruency and comparability of the analysis and the derived conclusions in the previous works, this paper applies the matching framework based on the

environment-strategy-structure relationship triangle, which considers the degree of adjustment among these three features of the organisation. The greater the congruency or fit among these items, the greater the expected performance of the organisation.¹ The *Matching Framework* originates in the literature on the theory of organisation and strategic management. In the case of the organisational analysis, the starting point of the theory is the environment within which the company carries out its business, including those sectors with a direct impact on the likelihood of the company achieving its goals. A key variable is uncertainty, which includes environmental complexity and dynamics (complexity is the number of different items making up the environment, and dynamics refers to how much those variables change). The more complex and dynamic is the environment, the greater its uncertainty. The greater the adjustment or fit among these items, the greater the expected performance of the organisation. However, there exists a contradiction between the theory of organisation and the theory of strategic management. While organisation theorists assume the environment and its characteristics to be given, strategic management researchers do not (Baltazar & Brooks, 2001). Instead, they assume that, within limits imposed by environmental characteristics, the organisation may choose to operate within alternative environments. Porter (1980) states that companies may choose to adopt a cost strategy or a differentiation strategy. In the first case, the organisation engages in rendering a basic service (port service in this case), seeking to reduce costs and, possibly, offering lower prices. On the other hand, in the differentiation strategy the focus is on providing “peripheral” services, which are defined as those going beyond basic services (yet including them), for which the market is willing to pay an additional premium. Transshipment can be considered as a peripheral service, creating an added value to the cargo and additional traffic to the private terminal operator. However, the success of this last factor is not only determined by the fit, but also from the intermediacy of a port within the shipping network (For further discussion on value added services see Van de Voorde & Winkelmann, 2002; Wilmsmeier & Notteboom, 2011).

The theory of configuration focuses on the match between environment, strategy and structure that influences organisational performance, integrating the findings from the two theories mentioned earlier. Baltazar and Brooks (2001) argue that the organisation's performance is viewed as being contingent on the match between the characteristics of the organisation's environment, strategy and structure. They define two configurations (see Table 1), which are considered “superior” in their triangle relationships. When applying the *Matching Framework* for the ports of San Antonio and Valparaíso in three different periods, the configurations cannot be clearly categorized as one implying a superior fit as defined by Baltazar and Brooks (2001), since different levels of uncertainty, complexity and dynamics exist between the absolute values of high and low. This differentiation is especially relevant in the context of a temporal perspective in the analysis to document the changes with better precision. Therefore, the authors identify hybrid configurations in either case. In the case of the environment, the authors introduce, a slight variation to Baltazar and Brooks (2001), changing the “high” and “low” uncertainty concepts to a relative uncertainty by using the terms “more” or “less” uncertainty, understanding that this better describes the situation of the environment in the different time periods (Sánchez & Wilmsmeier, 2006).

Further, considering the port industry, the configurations can be analysed from the public (port authority) and private sector (terminal operator perspective). The results and interpretations of the same configurations thus might be quite different. This paper takes the

¹ Following Baltazar and Brooks (2001), the authors understand that the environment consists of the various sectors outside the company, such as the industry, raw material markets, human resources, financial resources, technology, economic conditions, governance, the social-cultural environment and the international markets. The strategy relates to the pattern of decision-making and actions taken by the organisation. The structure deals with methods for creating and implementing strategies, including hierarchical order, operating procedures and control and information systems.

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