



Co-evolution of the strategic reorientation of port actors: insights from the Port of Rotterdam and the Port of Barcelona



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ARTICLE INFO

Keywords:

Co-evolution
Institutions
Strategy
Interdependency
Port authority
Terminal operators

ABSTRACT

This paper explores changes in the strategic orientation of port authorities and terminal operators towards the hinterland network in the Ports of Rotterdam and Barcelona. Port authorities and terminal operators are economically, institutionally and geographically related organizations. The argument here is that such organizations experience a mutually influential and interactive effect in their strategy over time. The research explores the evolution of the market, institutional and governance forces behind these organizations' strategic orientation, while acknowledging their interdependence and interrelationship. To that end, it builds a conceptual framework analysing these organizations' strategies in different points in time. It draws upon firms and port theories to design a co-evolutionary framework, which is later refined with insights gained from an empirical study of the port context.

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1. Introduction

This paper's goal is to comprehend the evolution of port actors' strategies in the context of pressures for engagement in the port's hinterland network. Port authorities [PAs], who have been traditionally responsible for the port area's development, management and infrastructure, are currently reconsidering their territorial domain beyond the confines of the port area (Notteboom and Winkelmann, 2001; De Langen, 2004; Heaver et al., 2010; Verhoeven, 2010). They are changing their roles and strategic orientation from being merely a regulator and facilitator into becoming an entrepreneurial developer, involved in the development of inland multimodal connections (Van den Berg and De Langen, 2011; Verhoeven, 2010; Song and Panayides, 2008). In parallel, terminal operators [TOCs], who have traditionally focused on the seaside, are also showing awareness of the advantages of looking beyond their traditional geographical domains. These new developments have encouraged a fair amount of research contributions on how ports integrate in hinterland networks from both a geographical and logistic perspective (f.e. Notteboom and Rodrigue, 2005; and see for an overview, Pallis et al., 2011). Questions remain

as to the specific roles actors play within these developments (Heaver et al., 2010) – in particular concerning the functional division between port authorities and terminal operators – and to its impact on the spatial development of economic activities. This is an issue of particular relevance in the hinterland of ports (see also Rodrigue et al., 2010). The development of both port authorities' and terminal operators' strategic reorientation beyond their traditional geographical domains demands, therefore, a deeper analysis. This paper fills this gap by exploring two case studies of two ports and how their key actors evolve in their intent to expand their hinterland networks in distinct institutional and governance contexts. The ports studied are the Port of Rotterdam and the Port of Barcelona, in which both PA and TOC showed reorientation towards a hinterland strategy. The research aims to understand the nature and drivers lying beneath the key actors' strategic reorientation, while specifically addressing the institutional and market relationships between them.

We start from the assumption that port authorities' and terminal operators' strategic reorientation beyond their traditional geographical domain, led on by institutional and market pressures, influences and are influenced by each other's strategic reorientation. This argument builds on one hand on the specific role governance plays in ports (see Brooks and Cullinane, 2006; Baird, 2000; Brooks, 2004; Ng and Pallis, 2010): ports being complexes, integrating into physical transport networks, and in which a multitude of actors – public and private – are located or active, jointly providing services and products.

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The research contributes to ports' governance and strategic management theory by applying a co-evolutionary perspective. This offers the possibility of considering how the two interdependent actors' strategic orientation evolves over time within different institutional and governance settings. By addressing the role of geographic proximity in the process, the paper recognizes geography as a relevant factor in the study of strategic reorientation of port's actors. In order to accomplish this complex task, the paper consists of the following steps. First, it sets out the basis for a conceptual tool to guide case description and analysis. The initial framework draws upon distinctive theoretical strands to explain how market and institutional forces may interplay to facilitate and/or hinder actors' strategic reorientation. Following a research method description and based on the initial framework, we explore the strategic co-evolution between the core port actors – the PA and TOC – in the Ports of Rotterdam and Barcelona. In light of information provided by the case studies, we present a model for the analysis of the co-evolution between port actors in their strategy orientation. Finally, we state this paper's main contributions and lay out lines for future investigation.

2. Building a basis for a conceptual framework

Strategy is one of the most dominant themes in management. The ever-increasing interest in this field has resulted in myriad definitions of strategy and models. This diversity has stimulated attempts to synthesize and to understand the dynamics, which give rise to firms' strategy (e.g. Mintzberg et al., 2005; Pettigrew et al., 2001; De Wit and Meyer, 2010). Since the seventies, when Mintzberg challenged conventional views on strategy making as a rational plan and defined it as a historical and unstructured process (Mintzberg et al., 1976; Mintzberg, 1977), researchers have concerned themselves with strategy's underpinnings. Much debate has developed around the question of whether strategy originates from strict implementation plans, ad hoc managers' actions or a combination of both (Morgan and Strong, 2003). Rather than delving into this debate, our intention is to analyse port actors' at the firm and inter-firm levels. We define strategy in terms of actors' strategic orientation – “a pattern in a stream of decisions” (Mintzberg, 1977: 28) which results from changes in the firm interaction with its environment (Håkansson and Snehota, 1989).

Unravelling such question within the ports' complex environments fits a co-evolutionary approach. As a theoretical device, this approach offers the right tools for identifying the dynamic behind strategic actors' interactions as they unfold under external and internal pressures. As Lewin and Volberda (1999) suggest, this approach considers strategy as a joint outcome of managerial intentionality, environment and institutional effects (Rodrigues and Child, 2003; Lewin and Volberda, 1999). In their view, understanding the complexity of an evolutionary process's requires both multilevel and interdisciplinary analyses. Following Peng (2002), we unpack such complexity by first analysing theories, which explain strategy drivers: market pressures – industry competitive forces and unique competencies of port actors and institutional pressures; changes in regulations and in governance and implications for interdependence between port actors. Accordingly, our framework builds on contributions from organization and port theories, which help to understand market, institutional and governance pressures and how these are likely affect core port actors' strategy and behaviour.

2.1. Market-based theories

The leading theories of organizations – industrial economics, organization economics, and resource-based-view [RBV] – assume

that firms develop strategies in marketplaces rather than within institutions (e.g., Burgelman and Grove, 2002). These market-based theories concern with defining the characteristics of competition in a given industry, levels of competition, how firms can improve their competitive advantage and adjust to variations in market uncertainties. Such theories have a limited scope, but if used in combination, have the potential to explain strategic behaviour for gaining competitive advantage (Foss, 1993; Langlois and Foss, 1999). In general, the literature divides into strands that look at factors external to the firm and those focusing on the firm characteristics as drivers of strategic behaviour. The former concerns with industry attributes such as barriers to entry, degree of product differentiation, demand elasticity, the number and size of firms, and how these constrain strategy through threats and opportunities (Porter, 1985). The latter focuses on how firm are unique resources and capabilities constitute a competitive edge (Barney, 1991; Teece et al., 1997).

Industrial economics suggests that firms' competitive advantage depends on the industry's characteristics. It is relevant to our analysis to the extent to which it draws attention to the characteristics of the competition in the port environment and the movements of actors (firms and other organizations engaged on ports central activities) to gain market power, while other actors, such as port authorities may take initiatives to prevent power concentration (Cardell et al., 1997). Organization economics and transaction cost economics are central to this argument to the extent to which they explain market failures (e.g. voids in the supply-chain connections and hinterland network) that interfere with ports deliveries. It explains the conditions under which institutions might intervene or firms may decide to internalize their activities rather than maintain market or arms-length exchanges (Williamson, 1998). Under this theory, port actors' orientate their strategies motivated by the need to control uncertainties and opportunities found in purely market relations. Port authorities may rely on ownership contracts, which extend geographically into the hinterland when the costs and risks of coordinating infrastructural inland facilities are greater than under integrated ownership (Van der Horst and De Langen, 2008). A reason for TOCs to extend operations inland might be existing operational coordination problems that hamper optimal allocation of resources for an efficient hinterland transport operation (Panayides, 2002).

RBV is relevant to our analysis to the extent to which it explains how factors internal to the firms, such as resources creation and deployment are sources of competitive advantages. RBV, which roots its tenets in Penrose's (1959) work, holds that top management makes strategic choices based on a firm's unique endowments of strategic resources. If firms possess capabilities, which exploit unique, valuable and hard-to-imitate resources (Barney, 1991, 2002), firms may decide to expand and develop new strategic activities (Teece et al., 1997). Thus, companies grow in directions set by their capabilities as these slowly expand and change (Penrose, 1959). As we will argue below, institutional changes that empower a previously high institutionalized organization, such as a port authority, to operate with greater freedom (e.g. to adjust as well as shape markets), are likely to stimulate creation of new competencies which allow them to fill for market voids and also encourage competition in the port (De Langen, 2008). Terminal operators for example, can exploit their container handling and processing capabilities offering customers in their network a unique service (Franc and Van der Horst, 2010).

2.2. Institutional and governance theories

Institutional theory rejects strategy concepts' rational-actor model. Instead, it affirms that strategy is the outcome of institutions' influence upon firms' choice (North, 1991; Williamson,

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