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## **ORGANIZATION OF PORT AUTHORITY AND A STRATEGY FOR PRIVATE INVESTMENT IN PORT DEVELOPMENT**

**Hakkı KIŞI<sup>1</sup>**

### **ABSTRACT**

*The aim of this study is to point out the modern mission of the seaports as logistic centers and distriparks; functions and the structure of the port authority and the extent of the privatization. The impact of the organizational structure on the efficiency and performance' of port administration has been studied and a model for a major port administration and privatization has been developed.*

*The study formulates hypotheses regarding potential problems and opportunities. The design of the study is flexible to discover ideas and insights. Secondary data sources, observations and case studies are used for the exploratory design of the study which can be useful in identifying alternative courses of action.*

**Keywords:** *Port authority, organization, public private partnership, autonomous port, privatization.*

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## **LİMAN OTORİTESİNİN ÖRGÜTLENMESİ VE LİMAN GELİŞİMİNDE ÖZEL YATIRIM İÇİN BİR STRATEJİ**

### **ÖZET**

*Bu çalışmanın amacı, lojistik merkezler ve dağıtım parkları olarak deniz limanlarının modern misyonlarını, fonksiyonlarını ve liman otoritesinin yapısını ve özelleştirme kapsamını ortaya koymaktır. Liman idaresinin etkinliği ve performansının organizasyon yapısına etkisi incelenmiş ve ana liman idaresi ile özelleştirme için bir model geliştirilmiştir.*

*Bu çalışmada potansiyel problemler ve fırsatlar göz önünde bulundurularak hipotezler oluşturulmuştur. Çalışmanın tasarımı, fikirler çıkarma ve kavrayışlar açısından esnek yapıdadır. Alternatif yaklaşımların belirlenebilmesi için faydalı olabilecek ikincil veri kaynakları, gözlemler ve örnek olaylar çalışmanın keşifsel tasarımı için kullanılmıştır.*

***Anahtar Kelimeler:** Liman otoritesi, örgütlenme, kamu özel girişim ortaklığı, otonom liman, özelleştirme.*

### **1. INTRODUCTION**

Maritime transport, which is preferred because of its economical aspects in transporting cargoes in international trade, is a subsystem of logistics and international marketing (Tuna, 1998). Logistics is the planning, practicing and controlling of the flow and storage processes of raw materials, semi-finished and finished products from the production point to consumption sites efficiently and at low costs in line with the customer's needs (Ballou, 1992:4). It is used in order to satisfy the demand as regards time and place utility. The logistics concept includes the activities of customers' service, transportation, inventory management, order processing, warehousing, cargo handling, supply, packaging, and information management (Wood and Johnson, 1996).

In the competitive world, the port administrators should consider users' points of views in respect to their preference criteria where the determinants are number of calls, cost of land transport, proximity of the port, congestion, intermodal links, port equipment, port fees, custom clearance, safety and size of the port, storage facilities, service range and monitoring systems (Peters, 1990).

On the other hand, according to behavioral theory, a firm can survive only if its managers take care of the interest of all stakeholders, not just the shareholders. The firm is a coalition of groups of participants

and that each group of participants has other roles and interest outside the firm. The groups of participants are often referred to as stakeholders (Sytse and Schreuder, 1998: 89). The stakeholders in a port are investors, operators, users, suppliers, employees, creditors, local public, municipalities and governments.

## **2. AIM AND METHODOLOGY OF THE STUDY**

The study aims to find out how a major port administration develops the facilities by private sector involvement. The impact of the autonomous organizational structure of a port authority on the efficiency of a port has been studied, and a model has been developed for a major port administration motivating private sector.

In achieving the matter, together with the literature review, in order to make observations, such ports as Le Havre, Antifer, Saint Nazaire, Nantes, and Rouen were visited. As a case, Port Autonome du Havre (PAH) was studied, and some meetings for the purpose of in-depth-discussions were held with some officials, managers and representatives of some ports of France, Brazil, Uruguay, Croatia, Liberia, Tunisia, and Lebanon in Le Havre, France during September 1 – October 6, 1999 period so as to discover ideas and insights for the exploratory design of the study.

## **3. PORT ORGANIZATION AND ADMINISTRATION**

Various types of administration in ports; such as private, railway, national, municipal, and customs, have some advantages ranging from accessing government funds to self-sufficiency and control, and disadvantages ranging from red tape and political intervention to financial instability and discontinuity.

Although the autonomous port authority is not a new development, it has found more and more acceptance during recent years, particularly in US and in some younger countries (IMO-IPER-PAH, 1999). It is generally considered to be a *quasi-governmental body* independent and free from political pressure and functions on an entrepreneurial basis. Where traffic volume and conditions are in general guarantee it, the establishment of an autonomous port authority is probably the ideal arrangement for development, management and operation of ports (UN, 1969).

Government provided infrastructure services in developing countries are often characterized as costly and inefficient. According to a World Bank report released in 1994, these services have a greater chance for success if they are operated on the same general principles used by private business. Successful providers of infrastructure services usually have three basic characteristics in common;

- Clear goals focused on delivering those services,
- An autonomous organization in which both managers and employees are accountable for results,
- Financial independence.

#### **4. ADMINISTRATIVE BODIES**

For control purposes, planning and development in the best interest of the nation and the community, a board of directors should be designed by the component authorities. This board should be made responsible for carrying out policy as provided for by law, and for the overall conduct of port affairs. Such a board may include a representative of the government, and representatives of such interest groups as banking, insurance, commercial, industrial, agricultural, shipping and labor. The board should select the port director, and should require that its approval be obtained to the appointment of key personnel such as legal representatives, engineers, administrative, financial and accounting officers and terminal superintendents. Board members should serve without compensation.

The French model of such administrative bodies, namely “*le conseil d'administration*” which is composed of 32 members from different interest groups such as city councils, hinterland and adjacent districts, chambers of commerce and industry, municipal councils, and port staff in addition to some ministry representatives including Ministries of Finance, Interior, Industry, Transport and Council of State and ten representatives of principle users may be a good example in constituting a model peculiar to specific needs. It is obvious that there is no standard model fits to every port.

#### **5. PRIVATE SECTOR INVOLVEMENT**

Many authors argue that the poor performance of the public sector means governments should rely instead on the private sector to provide infrastructure services. While this may work in some countries, the public sector will continue to have primary responsibility for infrastructure

services such as ports in most developing countries, and thus taking actions to make the public sector more effective are critical (World Bank, 1994).

A recent study of the privatization of two previously well-run public firms in Chile shows that the improvements from private management yielded a productivity increase of only 2.1% in one and 3.9% in the other. The gains from privatization were 10 to 20 times less than it would have been. Another case is Port of Rio de Janeiro. Privatization of terminals has obviously not made improvements in the productivity of the port (UNCTAD, 1999).

Private firms are forming partnerships with the public sector to develop and manage container handling facilities. Concessions and build-operate-transfer agreements (BOT's) are rapidly growing where public and private investors share financial risks. Labor is an impediment to partnerships because it resists institutional changes, as frequently the new organization requires less staff to operate the concession (UNCTAD, 1999).

IAPH (1998) survey shows private sector's involvement in the port industry. Most assets were owned by the port authority. The exception was for handling equipment. The majority of port authorities were fully responsible for navigational aids, harbor master services, dredging, and warehousing and information services.

## **6. STRATEGY FOR PRIVATE INVESTMENT IN PORT DEVELOPMENT**

Port business cannot only be a field of public issue but also a matter of private investment where the three missions of public sector are Juhel (1997):

- ✓ The catalyst mission:
  - Financing basic public transport infrastructure assets
  - Creating a regulatory enabling environment for private sector participation
- ✓ The statutory mission:
  - Navigation safety
  - Environmental protection
  - Coastal management
  - Consistency in port/town development planning

- ✓ The facilitation mission;
  - Strengthening public governance
  - Helping the trade facilitation process
  - Starting initiatives conducive to trade integration

Besides, public port authority has got continuing roles:

- Own and preserve foreshore and areas for port expansion
- Enforce government regulations affecting port activities
- Provide basic infrastructure including; port wide strategic planning, new port development, engineering design, access to long term public finance
- Provide basic public services
- Advocate trade and transport facilitation
- Promote competition in the provision of port services
- Interface with political stake holders
- Prepare and tender leases and concessions
- Marketing and public relations
- Providing training facilities

Regulatory policy is composed of technical and economic regulations:

- Safety regulation,
- Labor rules,
- Environmental protection,
- Standards,
- Tariff policy as a proxy to competition.

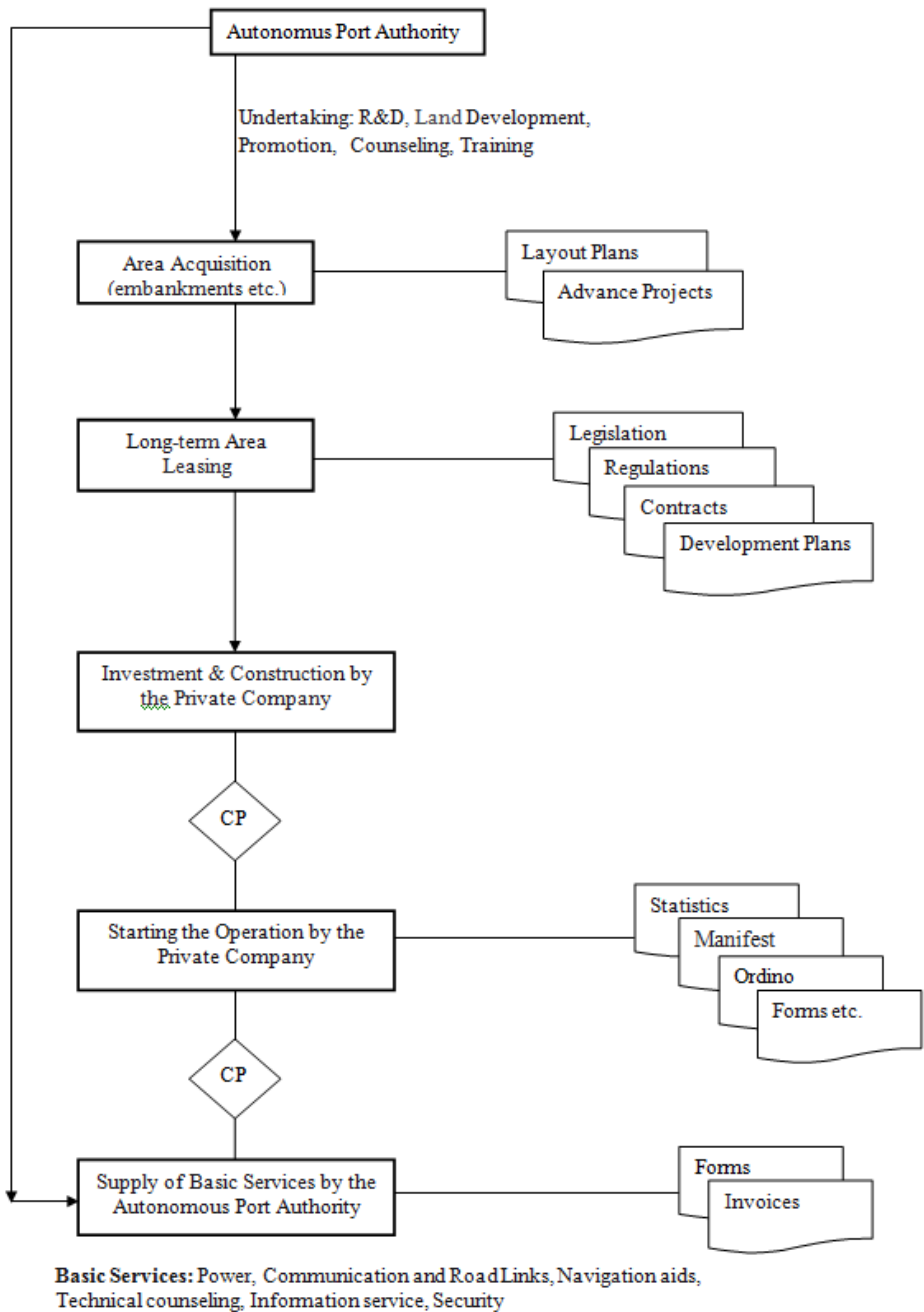
All those regulations are located in the universal administrative regulations and contract-based regulations. Transparency and competition are requisites. According to a widely accepted ownership structure:

- Land is owned by public,
- Basic infra structure is owned by public,
- Operational infrastructure is owned by private,
- Superstructure and equipment are owned by private sectors.
- Cooperate structure of the organization may be a joint-stock company.

Rationales for private sector involvement in the port business are the diversity of the port authority objectives, inadequate operational

performance, and lack of financial resources. Yet, there are some hurdles for private investment in port infrastructure: weak regulatory framework, long term sovereign risk management, conflict between assets' economic depreciation period and short-term financial return objectives, and weak domestic financial markets.

As it is depicted in Figure 1., the role of the autonomous port authority is research and development, promotion, counseling, training, facilitating, informing and coordinating. Port authority behaves as an incubator; help the operators improve their services and productivity while positioning the region as a center of excellence in transport and logistics both on the national and international levels



**Figure 1.** A Model for Privatization in Seaports administered by Autonomous Port Authority



Modes for private sector involvement or privatization in the port are as follows (IMO-IPER-PAH, 1999);

- ✓ Leases of port equipment or premises
- ✓ Management contracts or farming-out
- ✓ Concessions or BOT schemes
- ✓ Joint ventures between private sector and port authorities
- ✓ Ports as public companies (shares are sold to the public through stock exchange market)

## **7. CONCLUSION**

Ports are sites of physical transfer of goods and transfers of responsibility. The organization of vessel calls and of the pre or post transport must be conducted with attention to quality and efficiency. Ports are value added interfaces between the different modes of transport. The added value relies on the quality of systems for processing and transmitting information. The development of technology implies changes in the nature of jobs, and modifications in the organization, management and both job and business qualifications as well as the firm's business environment but also for the collectivity.

Success in public sector management can be achieved by applying four core instruments;

- Corporatization, which provides public entity with a quasi-independence and insulates infrastructure enterprises from noncommercial pressures and constraints.
- Explicit contracts between governments and private entities involved in infrastructure services, which increase autonomy and accountability by specifying performance objectives that embody government-defined goals.
- A pricing strategy designed to ensure cost recovery which creates a desirable form of financial independence.
- A high degree of managerial and organizational autonomy.
- Government sets clear policies and goals while leaving detailed planning and implementation of services to providers.

In conclusion, the functions of a modern port authority would be infrastructure investments, designing, realization and management of projects, research and development of new technologies and their impact on port activities, maintenance of basic infrastructure like dredging and charting data-processing, strategy planning, supervision and consulting, rendering communication services, safety and security, training of both

public workers and private operator workers, promotion and public relations, and environmental considerations.

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