Financial Evaluation of the Greek Port Authorities Operating as GOPC

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ABSTRACT

This article provides a factual perspective on the immediate responses of the port industry to the 2008 economic downturn. Specifically, it investigates the port authorities’ performance located in Greece in relation to the current economic crisis. Firstly, it translates the general theories on organizations that better adapt to crisis conditions into the practical setting of port authorities. Further, based on comprehensive literature, it concludes that several factors positively associate with better response of organizations, in general, and port authorities, in particular, to difficult economic conditions. Focusing on the financial statements of ten Greek ports of national interest, this article finds profitable financial results over a time span, but also raises considerable doubts as to the efficiency of their organizational structures, currently in a transitional phase. In addition, the review of the existing literature allowed formulating the hypotheses basing the application of adaptability of businesses to external economic shock theories to port authorities.

KEYWORDS

Economic Crisis, Financial Analysis, Government Owned Port Corporations, Greece

INTRODUCTION

The “Great Recession” of 2008 “impacted unevenly on industries, regions, countries and firms” (Kitching et al., 2009). In October 2008, the International Monetary Fund (IMF) announced the beginning of a global economy under stress. According to IMF’s World Economic Outlook (WEO) survey published in October 2008, “the world economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s.” Later, in April 2009, the IMF predicted that global activity would contract by 1.3% in 2009 with a recovery projected to re-emerge in 2010, however rather more lethargic than past recoveries (WEO, 2009). The Secretariat of United Nations published in 2010 that, in fact, the world gross domestic product contracted by 1.9% in 2009 (UNCTAD, 2010).

There are lessons learned the hard way during economic disruptions. One of the most significant is that such an economic crisis that becomes a global crisis usually acts as defining moment that “marks the end of particular eras and any attempts to carrying on businesses as usual is nothing more than a wishful thinking” (Slack, 2010). Under such difficult economic conditions, businesses are required to learn the survival lessons and find their own path through breakdown. Some organizations may adopt a strategy of cutting costs to conserve their resources or diversifying their business market to take advantage of their competitors’ weaknesses. Nevertheless, businesses’ performance is greatly
unpredictable under economic crisis conditions and there is neither a specific strategy that can assure endurance and success, nor a “best way” to adjust to recession conditions.

In light of the economic slowdown, the majority of port authorities were forced to re-evaluate their commitments. The decline in their revenues reduced their long-term financial capacity and constrained them to take aggressive action to control operating expenses and prioritize capital spending. Nevertheless, some port authorities managed to turn the crisis into an opportunity by exploiting their capabilities and resources, allowing them to generate economic value and competitive advantage.

Port authorities compete for key factors that are attributable to their success under the economic crisis. Achieving strength and performance through diversity represents a popular ‘excuse’ for a number of port authorities that managed to deliver both great financial and operational results in 2009 despite the external challenges. Alongside business diversification, some port authorities ‘blame’ their positive performance on their geographical setting. Coastal ports, for example, that facilitate seaborne transfers are privileged to act as transshipment hubs that represent a vast interest for major shipping lines (e.g. the Port of Piraeus, which serves the Black Sea countries).

For these reasons, it may be anticipated that port authorities that are able to enhance the survival mode under difficult economic conditions depend on several factors to absorb the impacts of the external economic shocks. Yet, addressing the port performance dependency on specific factors is questionable. Does the size matter for the performance of ports facing tough times? Does diversity limit the impacts of the economic crisis? Does the right to make independent decisions help port authorities fare better? Or does a combination of these and other factors help port authorities find their way through crisis?

In this study we examine the financial performance of the Greek ports over a fourteen-year span, covering the seven years before the economic crisis and the first two years within the economic crisis. In particular, we proceed to an empirical evaluation of the established port entities operated as Government Owned Corporations (GOCs).

The main objective of the research is to evaluate the financial situation of ports through the appraisal of Liquidity, Economic Activity, Financial Structure and Profitability, and to produce findings on how the ports’ efficiency has been affected by the economic crisis. This evaluation examines some basic characteristics of the sector with regard to specific ownership and governing status over the course of its development and evolution, enriching and extending what is currently very limited field research: such financial estimations are “surprisingly lacking from the empirical financial literature, and not least in port studies” (Pallis & Syriopoulos, 2007).

Our research concludes with the financial implications of the applied administrative model in view of the restructuring the national port system.

The paper is developed as follows: Section 2 discusses the literature review. Section 3 presents the subsidies of GOPCs from the government budget. Section 4 discusses the methodology used and the data sources. Section 5 examines the economic performance of GOPCs based on their published financial statements and presents key measurements of their financial performance using financial ratios. Section 6 presents the market share and ranking among all GOPCs and their cumulative financial impact, while Section 7 reports our conclusions and spells out certain policy implications.

LITERATURE REVIEW

More than half of the total port authorities in the world are entities owned and operated by governments with a “municipal, regional, joint or national supervisory body” (Debrée, 2010). The decision-making autonomy of ports that are fully ruled by the government (municipal, regional or national) is usually much less when compared to that of privately managed ports (Verhoeven, 2010).

Port officials of publicly owned and governed ports “are not held accountable for the success or failure of the ports’ investments and operations decisions” (World Bank, 2007) and consequently do not show the required interest in increasing a port’s performance. In ports with mixed ownership
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