

***MANAGEMENT OF CHANGE:
HOW SMT CAN IMPROVE THEIR FINANCIAL
ADMINISTRATION***

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EXECUTIVE SUMMARY

SMT is currently under pressure from the Board of Director as they, in the past, have been delivering monthly reports around a month after accounts were closed and the Board of Director meetings were viewed to be of a low standard and not very structured. In order for the company to get the confidence and trust back from the Board of Directors it needed a new CFO that would improve the financial administration. Since the new CFO has been working at SMT changes have been made and are being made and will be made in the future. The main theme of these changes is to improve the financial administration but a simple answer to this is not available and in order for SMT to change successfully the process which these changes are subject to need to be looked at in order to develop the best approach to the changes in hand.

Changing things is not as easy as it seems as people are familiar with the way they were doing things and they generally 'do not mind change but they don't like to lose¹' and if they change things they loose their old way of doing things. The current situation at SMT is that monthly reports are delivered a months after closing of the accounts. The Accounts department relies on a few key people and some of the changes proposed have faced some resistance from members of the management of the Accounts department. In order for SMT to make sure the changes necessary are being implemented they need to make sure they know the people involved in the project and determine possible problems early and by identifying the problems early they can use the possible bottlenecks as sources of opportunity. This identification can be done by drawing up a stakeholder list in which all parties involved are being identified. The changes at SMT will most probably be implemented in phases in which the first phase is the current situation in which the organization is in, the second phase is the first change in which the reports are being prepared in a new way which saves around 10-15 days of the first phase's time and the last phase is after the new SUN implementation when most of the manual work is being replaced by automatic reports (see page 14 for detailed graph of phases).

¹ Quote from Chris Smith, Managing Director of Precision Finance



Resistance and commitment to change are two sources of possible failure of a project but when recognized early these problems could be opportunities for management to make sure the changes are being understood by everyone and get a general goal to which the staff can work. Good change/project management is needed however and this could mean managers and staff need to be educated in order to streamline the change process. The financial administration can be improved by implementing good change management skills and by constantly monitoring the changes necessary by using good change management theory such as Prince2. The great advantage of improving the financial administration using Prince2 methodology is that management has great control over the project whilst not having to be kept up-to-date every second. The key to successful change implementation is the continuous support from upper management and keeping them informed without taking away their valuable time.

In order for SMT to fully make use of all resources available and improve the current financial administration new staff is the first step. At the moment the financial administration is struggling to report on time due to the accounts being closed off a month after the initial month. New projects such as the SMART reports and the new balanced scorecard (which will improve the financial administration considerably) are not being developed due to a lack of resource. Another recommendation to improve the financial administration is by making the current accounting system company wide to allow other departments to directly input data for reporting purposes. Also the data in this way can be updated regularly and the reliance on a few key people to input data is being undone as other people are now also able to input data. In order for SMT to keep the overview of what has been changed or updated it is vital to have a few key people or a key person responsible for the monthly report thus having the control over what is going on in the report ledger.

A project which is being implemented at the moment and will be running all the way through 2008 and the beginning of 2009 is the SUN implementation. This project requires the forming of a project team and to ensure this project team operates to its full potential and with the desired end result it is necessary for SMT to manage this project team to develop synergy that will make the implementation successful. The project team need to go



through 4 stages which will develop the communication, appreciative understanding and the integration of each other's ideas and the understanding that you need someone else's opinion. These measures will ensure that open communication and respect will lead to team synergy which can be utilised to come to the required end goal.

In order for SMT to further improve the financial administration it is necessary to create a clear structure in the Accounts department and make sure there are not a few key people on which they rely and that other people are able to do other people's jobs as well. At the moment the structure is lacking in the Accounts department and this was quite visible when I was making the OPEX reports which I needed to send to at least 2 people before I could send them to the managers that needed them. If there was something wrong with them I would hear this from at least 3 other people who would ask me to correct them. If SMT want to improve this administration they need to determine who is responsible for what and create a clear business process of data delivery and report making.

The last recommendation for SMT to improve the financial administration could be the implementation of a new enterprise wide accounting system enabling all departments to report and administer their figures in the same file format easy for comparison and for report purposes. This option can be costly and time consuming but can provide SMT with the tools necessary to improve not only their financial reporting but also the way in which they report throughout the company. This measure is extreme and a cost indication could not be given as it all depends on the requirements of the system and the user interface requirements but compared to the consultant's costs now being paid for NetU (the firm that is responsible for the SUN implementation) it could be an option to consider. An enterprise wide system could aid the financial administration by ensuring the data is all in the same file format and thus cutting down the time needed for the Accounting department to deliver reports.



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GLOSSARY OF TERMS

- SMT - *Ship Management and Transport Ltd. The company in question, situated in Cyprus and operating ships in the Americas.*
- SMART- *SMT Management Reporting Tool, a term used for a new reporting method in development for SMT to assist management.*
- TB - *Trial Balance, overview of all the transactions that have occurred over a set period (weekly, monthly, quarterly) of a company. The trial balance consists of a debit (+) and a credit (-) amount.*
- BS - *Balance Sheet, a snapshot of a company's assets and liabilities at a certain date.*
- P & L - *Profit and Loss (Account), a report on the company's profit after trading over a period (usually one financial year).*
- KPI's - *Key Performance Indicators, most important figures used by management to determine success and/or feasibility .*
- OPEX - *Operational Expenses, expenses made to keep a ship operating (thus developing revenue for SMT).*
- CFO - *Chief Financial Officer, director of the finance department and responsible for a company's use of financial resources.*
- BoD - *Board of Directors, group of people that have a substantial interest in the company (in the form of shares) and that control and govern where the company goes.*



INTRODUCTION

Companies all around the globe have experienced large growth over the years due to the opening of borders, forming of trade agreements and the strengthening and growth of the European Union. However, for a company to experience continuous growth, administration is very important as management bases their decisions on the data which is extracted from the administration system and if this system is not functioning properly or not used to its full potential the company may find growth falling behind with regards to their competitors.

SMT, Ship Management and Transport Ltd., is a ship management firm founded in 1990 by Dutch, German and Norwegian capital. In their first year of operation they managed only 1 ship from the head office in Hamburg but after one year moved to Limassol, Cyprus. Throughout the years SMT has faced enormous growth and now not only manages but also owns 26 vessels that operate in the Americas. SMT is a truly global firm with offices in Cyprus, Poland, Norway, The Netherlands and the US employing around 75 employees on land and around 1500 on board the ships².

SMT is currently undergoing a period of change and the most important changes needed are in the administrative/financial department³. This period of change incorporates many challenges and, especially on the financial side, needs a lot of attention and accuracy to enable the management to make the right decisions.

This report is about SMT and it describes the change process of the financial administration and how this can be improved. The company has grown substantially over the last 10 years from owning 7 ships to owning 26 ships but the administration side has not enjoyed necessary similar development. This means current reporting takes a lot of time, effort and might not be the most accurate and efficient way of doing things, as I have experienced from first hand.

² Appendix A: Organizational Chart of SMT

³ Appendix B: Organizational Chart of Finance Department, Cyprus



To find out what the exact problem and need of the company is I have conducted field research by observing the current reporting process, discussing the current process compared to future requirements with managers and employees, working on several change projects within SMT and by actually preparing reports 'the old way' myself (as will be explained further in the research findings section).

The main question that will be addressed throughout this report is:

“How can SMT improve their financial administration?”

The report will contain the analysis of the current administration process, the requirements and criteria of management, and finally recommendations on how to manage change as effective as possible. Enjoy reading!



METHODOLOGY

Research Design

SMT is in need of change and to successfully manage this change all across the organization good change management is needed. One of the most important things to an organization such as SMT is the administration and this is exactly what SMT needs to change. In order to develop the best possible solution for SMT a lot of quality research is needed and therefore I have collected most of the data by using documents, presentations from senior management such as the CFO and the Executive Support manager, having meetings and discussions with the employees, shareholders, by observing current administrative systems and processes, informal interviews, first hand experience and extracts from the current accounting system: SUN System.

I have chosen for these resources as I was of the opinion that these would be the most reliable sources for good analysis and give me an objective view on the matter. A disadvantage of using data from meetings and informal interviews could be that it expresses the feelings and opinions of management or individuals only, but in this case all of the opinions and arguments I got from these meetings were supported by facts and acknowledged by multiple (external) sources.

Data Collection

The data collection started prior to the start of the internship in Cyprus as several meetings were held in Rotterdam⁴ in the Netherlands to discuss development and problem areas from where a lot of data was retrieved. Further data collection took place from the start of March right until the end of July. Training to extract data from the accounting system was needed as I had never used the system before. This only took a few days as the system is quite simple and easy to use and enabled me to extract a lot of data.

⁴ Meetings were held with Precision Finance, as well as meetings with both Precision Finance and SMT



Data Analysis

The typical report format from the accounting system is in the form of a text file which cannot be used in any other programme. To (manipulate analyse/slice & dice data/present data contained in the database in different ways) either new reports were needed to be written or the data needed to be exported/extracted to another operating program; in this case Excel.

Existing off the shelf reports did not contain the depth of information nor in format required by senior management or other stakeholders

I have also used data from PowerPoint, Adobe Acrobat Reader (PDF file) but the main program used was Excel. A large focus area for change is of course the administration, and the main program used for the monthly reporting of SMT is Excel.

Limitations

Change management involves a lot of areas and departments and the scope of a project like the project at SMT spans well beyond the time available. Therefore the biggest limit is time. Another limit is the global span of the company and the extensive travelling of the CFO and other managers which makes it harder to reach them and get the answer you were looking for at the right time. Focus areas need to be determined on forehand to ensure that the subject does not become too 'big' or the report becomes too general. Time is also a limitation as the BoD (and other external shareholders) want to see results on the next Board meeting and the newly appointed CFO wants to see the impact of the changes.

Another limitation that I have encountered when doing resource at SMT was the complex nature of the data. Data is readily available but when not properly processed it is useless to management. When it is properly processed and if necessary converted it becomes information useable by management⁵. SMT has plenty of data but not enough information and this limits decision making.

The changes that SMT will need to make, and is making, will make sure that in the future there is less data and more information available.

⁵ Accounting Information Systems, Romney, Marshall & Steinbart, Paul, 10th Edition, 2006, Pearson Education, US



RESEARCH FINDINGS

Own Experience / Observations / Daily Tasks

Working at SMT has taught me a lot about change management, finance and working in a dynamic global firm. SMT is in a period of change and this was visible through the many projects SMT was involved in and in which they got me involved in as well. My daily tasks were coordinating the OPEX reports that had to be prepared every month, working on the newly developed SMART reports that would supply the top management with the necessary information on all ships in order to make the right decision and coordinating and implementing a balanced scorecard to highlight KPI's for top management.

Before I started at SMT in Cyprus, there were several meetings held in the Netherlands in order to highlight and develop a general direction for the changes of SMT. The first meeting I had was with Precision Finance in their office in Rotterdam on the 11th of February, just after Precision Finance was asked to help SMT with the proposed changes. During this meeting it became clear that SMT was lacking speed and accuracy in the administration department. The company had grown extensively over the years from owning just 1 ship in 1990 to owning and managing 26 in 2008, but the administration department did not grow at the same rate and was operating inefficiently. With inefficiently I mean it was operating as a bookkeeping department, merely reporting after the 'facts' had occurred, where the requirement was that they could also provide management with estimations and information on forehand which could help in making the right decisions, in other word they were not performing up to their full potential.

The second meeting I attended was in Vlaardingen, at the Delta Hotel, on the 18th of February, where the CFO, Executive Support, Chief of Accountancy and an accounting department employee of SMT were present and Precision Finance's Chris Smith. In this discussion the old situation of SMT was highlighted⁶ and discussed, and the requirements of SMT were stated. Due to the lack of accuracy and speed in the reporting of the accounting

⁶ Appendix C: Current problems of SMT's accounting department by Marcel Heijnsbroek (CFO)



department, other departments lost the trust in the accountancy department and kept their own record to provide them with the right information. The accounting department was not reaching any deadlines which meant information was passed on to other departments far too late to be used and SMT wanted this to be changed and streamlined.

In a discussion during the first meeting with Precision Finance it became clear to me that SMT's accounting department would have to be updated and changed from a traditional bookkeeping role to a more pro-active service department.

In the meeting with Precision Finance it became apparent that the changes, for example the OPEX reports, would have to be implemented in phases. The first phase is the old situation in which the accounting department would close down the accounts over a month after the actual month, and then an employee would manually input all the numbers into a worksheet which would usually take another 10-15 days to complete.

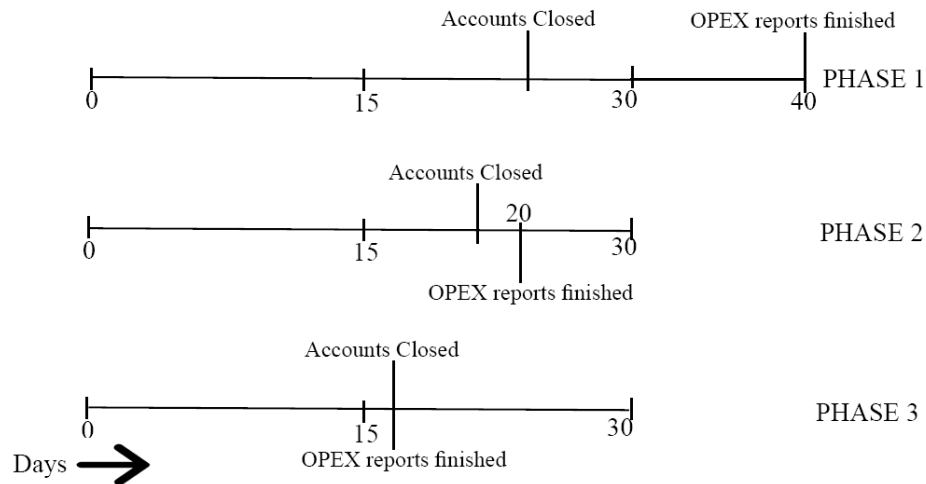
In the second phase I coordinated the OPEX reports and put pressure on the accounts department to finish closing the accounts earlier. As soon as they were closed it took me a day to complete all OPEX reports as I developed formulas into a new and improved worksheet⁷ which would automatically input the data directly from the SUN system extract.

In the last phase the remaining manual interaction (namely the conversion of the SUN system extract) will be cut out and limit the finishing off of the OPEX reports to a few hours, as can be seen in the figure on the next page.

⁷ Appendix D: New OPEX report as developed by Executive Support and Wilfred Diepeveen



Figure 1 Phases of Change at SMT

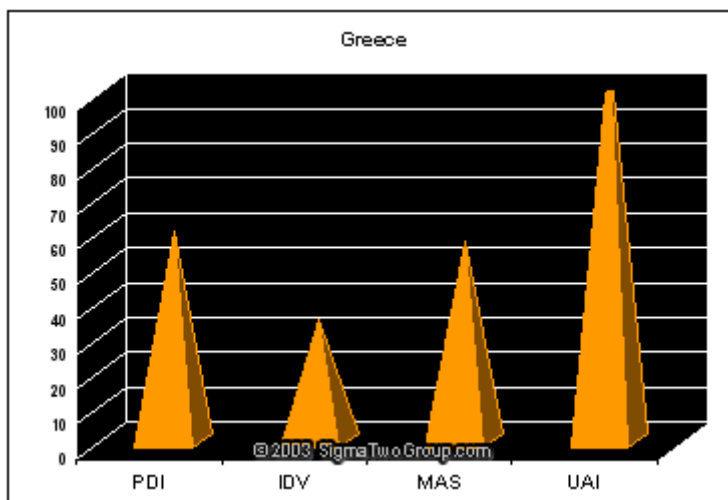


Cultural Synergy/Clash

Changes involve people, and to determine how and how strongly people will react to these changes I have looked up the cultural dimensions of the typical Cypriot by Geert Hofstede. The actual Cypriot culture was not present in the list on the website but since Cyprus is inhabited by Greek/Cypriots the culture can be perceived as very similar to the Greek culture. I have added the cultural dimensions for Greece as a reference to express a clear understanding of the Cypriot.

Geert Hofstede™ Cultural Dimensions

Figure 2 HOFSTEDE'S CULTURAL DIMENSION FOR GREECE



Source: http://www.geert-hofstede.com/hofstede_greece.shtml

The Greek/Cypriot culture, as derived from the graph above and the information I collected from the website of Mr. Hofstede, is described as a strong collective (individualism) culture



which values power distance, is reasonable masculine (status and performance is very important), and does not have a lot of strict laws and regulations to avoid uncertainty⁸.

In order for any changes to be made to the financial administration department it is important to understand the culture of the people involved. As can be seen in the graph above the Cypriot culture has a very low individualism number. This means that the Cypriots are very collective and have strong group cohesion. This was very visible during my stay in Cyprus as 2 employees were sent home suspended and the whole office was shocked and some employees even started crying. The group feeling of Cypriots is an important factor which could determine whether changes will be perceived as positive or negative. If an employee can not understand the need for the changes or the changes itself it could mean that the entire group of employees will feel the same way as they stick to their fellow employees.

The number for power distance of the Cypriots is quite high which means they value someone's title and will also expect to be respected if they are higher in order. For changes and change management in particular it is important for employees to understand the changes and be able to communicate freely without having to report to a superior all the time. Communication combined with appreciative understanding (understanding and valuing someone else's opinion) is important for changes to succeed and the power distance should therefore be neglected or reduced. Other noticeable things about the Cypriot culture are the masculinity which indicates that status and performance are valued as important and that someone's success can be determined by what they own. That performance is important in the Cypriot culture can be witnessed by watching any game from the national football league to a simple beach volleyball tournament played at Limassol. All the players, but also the crowd, are fanatic and want to win at all cost!

Changing the Corporate Culture

The corporate culture, and the stage in which the company is in, is a very important factor which determines whether change in a company will be implemented effectively or not.

⁸ Source: http://www.geert-hofstede.com/hofstede_greece.shtml



Culture is the frame of reference that helps distinguish one group of people from another.⁹ This means that culture establishes a frame of reference with regards to rules, regulations and accepted behavior which are perceived to be true by a group of people of the same 'culture'. Although individual members are all different in a lot of ways, their culture acts as the common characteristic which bonds them. Over the last few years companies have recognized the importance of corporate culture in order to make their change projects either a success or a failure as a corporate culture is 'developed' over years and has strong characteristics as it is developed by different groups in the organizations, with different cultural characteristics, facing unique challenges. This is why the corporate culture is such a complex and difficult area to venture in.

The 3 most important characteristics that explain the connection between culture and change are:

1. *Culture is composed of three components.* Beliefs, behaviors and assumptions of an organization are the guidelines to what is appropriate and inappropriate behavior for individuals and groups.
2. *Culture is shared.* It provides cohesiveness among members.
3. *Culture is developed over time.* The corporate culture is developed over the years as a result of previous successful beliefs, behaviors and assumptions.¹⁰

The above mentioned characteristics are the most important when trying to implement change in an organization, which also means effectively change the corporate culture. In the case of SMT the changes are mainly in the administration department. However it does indeed also mean a slight change in the corporate culture as in the past the responsibility was put in the hands of a few key people, which means very central decision making and responsibility, and now should be changing to a more decentralized process. This means the old culture of strong hierarchy should make way for a more 'open' work culture where the emphasis is on communicating directly and openly to develop and support change. At the moment the corporate culture is one where communication is not so open and this was

⁹ Managing At The Speed Of Change, Daryl R.Conner, 1992, Villard Books, New York, US, p.161

¹⁰ Managing At The Speed Of Change, Daryl R.Conner, 1992, Villard Books, New York, US, p.164



visible through a lot of 'closed' meetings or meetings about the changes to be made were not all the people involved were present.

In order for SMT to make the changes to be made as successful as possible it can either choose to let the culture develop naturally (evolutionary) or in a more structured way (architecturally). The first option mentioned would mean SMT will let the process of the cultural change happen naturally and not interfere with the outcome. The risk with this method is that the proposed result or cultural change may not be accomplished completely or may lack a few distinct needed characteristics. In a more structured way SMT can somewhat determine where they want the culture to go, enabling them to streamline the change process in accordance with the cultural change.

Reliability of Accounts Department

The changes needed in the financial department have been triggered¹¹ by the companies growth over the years and with the coming of the new CFO who has seen that the traditional bookkeeping role needs to be changed into a more pro-active service department not only reporting to management but to all departments needing information concerning ships. The other departments of SMT (Technical, Operations, Crewing and Insurance) have all lost at least a bit of their faith in the Accounts department for not delivering reports in time and accurately which means they have all kept count of their own records and relied on their own source for financial data. In order for the Accounts department to become reliable again it is necessary to supply reports on time and accurately so the other departments can rely on them and base decisions on the information supplied. Good information equals well informed decisions and will reinstate the trust from all other departments in the Accounts department.

¹¹ Organizational Behaviour; An Introductory Text, Buchanan, David & Huczynski, Andrzej, 4th Edition 2001, Prentice Hall, Harlow, England, p.590



Project Organization

The implementation of the new SUN accounting system needs a project team which needs to be managed properly before the project start and during operation. Managing the project team properly and efficiently ensures a better and more successful outcome of the implementation.

An important factor which will determine success of this project team is the synergy within the team. Synergy usually follows 4 stages: interaction, appreciative understanding, integration and implementation¹². This 4-step process was developed earlier by Henry Nelson for a publication in 1990 in *Man's Ultimate Commitment* and further developed and edited by Darryl R.Conner.

The first stage of a project team is interaction. Interaction here describes the actual contact and communication among members of the team. Without this essential interaction there is no synergy possible. The communication should not only take place in the team itself but also all other project members and sponsors should communicate effectively in order for the synergy to take place and to be able to take full advantage of it. At SMT the first meetings have already taken place and from the first signs everybody involved is informed and communicated too directly. This is a good development and has to be maintained throughout the project and implementation progresses, but needs to be controlled carefully as well as it could also backfire. If two departments communicate everything to each other they might start to dislike each other as they know exactly (or think they know) what is wrong or going wrong in the other department. The danger that this might happen at SMT is also present as everything about the implementation is communicated to each other and people might have comments on how others deal with the proposed plans of actions etc. It is essential for the whole business process at SMT however to ensure the implementation goes as smooth as possible and that is why they have hired a consultant (Mark Smith) to overlook the whole process. Mr Smith has experienced several SUN implementations and his input will be very valuable to SMT. When the initial phase of interaction has passed the

¹² Managing At The Speed Of Change, Daryl R.Conner, 1992, Villard Books, New York, US, p.200



synergy process progresses to the appreciative understanding stage. In this stage the members of the team will value and try to understand each others arguments and try to work with them instead of thinking their way of understanding is the best. In Cyprus this could potentially be a problem area as the Cypriot culture is very strongly present and Cypriots like to think they are always right, or have the right way of thinking. At SMT the signs of a positive appreciation of each others opinion are good as, although all of the project team members are Cypriot, all of the members seem understanding and open to other people's opinion.

The next phase in the development of the project team and their synergy is integration. This means the knowledge of the project team members that they have to value their fellow team member's opinion and that their opinion may be essential. It is the underlying knowledge of the team members that they need each other to succeed. The project team at SMT is able to do this as the Cypriot people are very group minded people and usually develop a very strong and cohesive group.

The final stage of the synergy process is the implementation phase. In this phase the management of the overall gathered momentum is the key and it comes down to the successful implementation of the previously mentioned phases. For SMT this means using all the knowledge and skills gathered from all of the project team members and making the best use of these assets. This means SMT should continuously focus on a common team goal and make sure all team members are working, together, towards this goal. Current monitoring of the team's progress is well coordinated and communicated properly to all members, which means all team members are well informed at all times and can follow progress. This also reinforces the group feeling and develops the cohesion among members of the project team.

The key to all these steps is communication and understanding of each other's opinions. Without mutual understanding a project is doomed to fail.



Accounts Department Structure

The biggest problem that I found out to be at SMT was the fact that there was not a lot of structure in the Accounts department. Staff would be asked to do several completely different tasks at once, report to a group of people and get feedback from a few bosses. Also there were a few key people who used to do the main monthly reporting tasks and if these people were not in, the jobs would simply not be done until these persons were back in the office. Due to the lack of structure and overview it was also always difficult for the accounts department to stick to set deadlines for their reports. Since almost all other departments rely on the information given to them by the accounts departments it is vital for them to meet deadlines, to give the other departments the necessary time to review and prepare comments for the managers. It is always difficult, when a company is spread over the globe as SMT is, to distribute the necessary data and figures to the right people at the right time but in the past SMT has not managed to distribute key data in the specified time frame at all. During a discussion with one of the shareholders (on the 4th of June 2008, Cyprus) the main concern was expressed that the administration department should be doing a better job as they are the most essential department of the company and the whole organization's decisions depend on the administration. Another good example of the lack of structure was the fact that the personnel was scattered over the office. Two people working together closely every day would be sitting several desks apart which meant they had to walk up and down to deliver reports etc. This may seem a small issue but can indeed be significant when the whole organization is like that.



Commitment to Change

The Cyprus office has been under some pressure from the BoD since it was lacking efficiency and control, and previous board meetings proved to be very unorganized and unstructured which caused a lot of negative criticism towards the management of SMT. Since the appointment of a new CFO the administration has become more efficient, transparent and the management has more control over what is going on and are able to present to the BoD in a more efficient, transparent and better way. The CFO made sure that the financial statements of all companies (ships) were the same to enhance group reporting and make results easier to compare, transparent and presentable.

In order to make the changes needed at SMT as smooth as possible and to get everyone to face the same direction and head for the same goals it is very important to get everyone committed to the changes and create awareness. Commitment is one of the most important factors influencing a change process and important to make a project a success. Commitment here stands for all parties concerned in a project. From the project sponsor to the people going to use the new system, everybody should be focusing on getting to the desired end goal.

Darryl R.Conner describes the stages of change commitment as a preparation phase (phase in which staff and management introduce the changes and react on it), the acceptance phase (staff accept and understand changes and judge the changes according to their values) and the commitment phase (in which the changes are fully supported by the staff and they are committed to make it work)¹³. SMT is currently in the acceptance phase. Everybody knows and has been notified that changes are going to be made and the staff now understands the changes to be made and accept that these changes are needed. A good example of this transition was when there was a meeting held in the Delta Hotel in Vlaardingen.

¹³ Managing At The Speed Of Change, Daryl R.Conner, 1992, Villard Books, New York, US, p.148



The intention of the meeting was to identify several changes in the chart of accounts and how to use these in the newly produced overview sheets. At the meeting present were Marcel Heijnsbroek, Chris Smith, Mark Taylor, Eleni Anastasiou, Tousia Diamantides and Wilfred Diepeveen. The majority of the group (Heijnsbroek, Smith, Taylor and Diepeveen) already passed the stage of preparation and acceptance but Ms Anastasiou and Ms. Diamantides were still in the preparation phase and offered some resistance to the proposed plans. However, during the meeting the necessity of the changes came apparent to them and soon they changes from being resistant to fully understanding the changes and fully participated in the discussion on how best to tackle them. This example shows how the change process develops and has more chance of being a success as soon as people are committed to the changes and have accepted the necessity for change. A recent study on management experience and change, carried out by Buchanan, Claydon and Doyle in 1999, showed that 78% indicate fear of the unknown is one of the major factors for resistance to change. This shows the behavior displayed by Ms Anastasiou was fully understandable and logic considering she was also resistant at first as she did not know what the changes would be offering her on the long run.

As mentioned before, **people don't mind change but they don't like to lose**¹⁴, and generally when something needs to be changed they lose a way of doing things. Especially in Cyprus, changing something might at first be resisted to, but when the acceptance phase is reached and a general need of change has developed people are easily convinced that the new procedure or system does indeed make their work easier or will increase the efficiency of the whole organization. In order to enable people to adapt to the changes it is important not to rush the process. A lot of projects have failed because the pressure made managers push the changes through the organization but later they turned out to fail as the personnel did not go through the various change stages properly , providing a wrong base for change to take place in and not having the full understanding of the scope of the changes.

¹⁴ Quote from Chris Smith, Managing Director Precision Finance



SUN Implementation

During my stay in Cyprus, and also after I left, a new and improved version of the SUN accounting system is being implemented. This brings a lot changes with it; not only the system itself but also personnel changes and new and improved ways of interaction between the system and the personnel using it. Due to the increased amount of work which managing 26 ships brings, more qualified personnel are needed and the existing staff are to be trained to be able to use the new SUN system. The SUN system will be implemented in January 2009 but a lot of preparation work is already being done now and this also brings with it some problems. A lot of cleaning up of the current chart of accounts (account codes used for reporting) is needed to enable one chart of accounts to be the standard for the entire accounting system and all the ships. Another problem comes up with the SUN implementation and that is the fact that the implementation and training is being done by an outsourced company called NetU Consultants. They determine the initial training sessions, when they are starting, how long it will take and how fast the system can be implemented, of course also looking at how quickly the personnel of SMT can start using the new system and their adaptation of the new system. This means SMT is depending on the ability of the staff to be educated but also relying heavily on the ability of NetU to transfer the knowledge and expertise.

A system as important and complex as the SUN accounting system needs a lot of attention and dedication from the top management as well as the staff. A good implementation is important to ensure the business will continue to run as smooth as possible. To enable SMT to implement the new SUN system as effective as possible a project team has been created (of which I took part of for a while before I left). This project team was recently developed and joined by members of the accounting department. The majority of the members of the project team are existing staff who have been working with the SUN system for many years and these members are complemented by 3 new employees who have also been working with the old SUN system but for a shorter period. At the moment every employee has been working on a separate area within SUN which means they need to be educated how to use



the system as a whole to encourage people to diversify and be usable in all areas of accounting.

Change Management Theory

When looking at current change and project management theory a few things keep coming up in various publications. The key to a project being a success is the ongoing sponsorship from the executive in charge and the continuous communication with all parties concerned. Other factors that are also very important in project management is the education of the executives to show them that project management works, convince the executives of the necessity of ongoing visible support of the project and the knowledge that executive need not to know everything, rather get the least amount of information that tells the most¹⁵. Change usually receives resistance at first as people don't like to change their way of doing things and in Cyprus (where tradition is valued highly) it will most inevitable receive resistance as well. What SMT can do to ensure the changes are being implemented effectively is use this resistance as an opportunity to get everybody committed and understanding the need for change. Because change involves something new, and the loss of something familiar to SMT, it is important to address the issue of resistance in an early stage to help develop the changes and build support for the changes. Over the years a lot of research has been carried out to identify the source of resistance to change and in 1980 Arthur Bedeian named 4 main sources of resistance¹⁶:

1. Parochial self-interest, this means people like to be in their comfort zone. They like familiarity and change means they could potentially lose power, prestige, respect and security.
2. Misunderstanding and lack of trust, basically meaning that the people involved in the change are not aware of the need of change, they do not understand its nature or the results coming from the changes.

¹⁵ Harold Kerzner, *Strategic Planning For Project Management Using A Project Management Maturity Model*, 2001, p 32, Wiley & Sons, New York, United States of America

¹⁶ Organizational Behaviour; An Introductory Text, Buchanan, David & Huczynski, Andrzej, 4th Edition 2001, Prentice Hall, Harlow, England, p.599-600



3. Contradictory assessment, everyone perceives facts and figures in a different way and this can also happen with change. When people have different views on change they might resist or be resilient to change.
4. Low tolerance for change, everyone is different and the way we can cope with change is a big factor influencing whether change has a base to build on.

Further research has been carried out since and in 1994 Tony Eccles identified 13 sources of resistance being ignorance, comparison (alternative method is preferred), disbelief, loss, inadequacy, anxiety, demolition, power cut, contamination, inhibition, mistrust, alienation and frustration¹⁷. All of these factors can potentially be a source of failure for SMT's project and therefore need early identification in order to avoid resistance.

In a global survey conducted in 1997 by PriceWaterhouseCoopers in association with Market Opinion Research International in over 500 companies managers were asked to list the main reasons for change failure. The following figure shows the results of this survey.

Figure 3 Change barriers and success factors

Top ten barriers	%*	Top ten success factors	%
Competing resources	48	Ensuring top sponsorship	82
Functional boundaries	44	Treating people fairly	82
Change management skills	43	Involving employees	75
Middle management	38	Giving quality communications	70
Long IT lead times	35	Providing sufficient training	68
Communication	35	Using clear performance measures	65
Employee opposition	33	Building teams after change	62
HR issues (people, training)	33	Focusing on culture and skill change	62
Initiative fatigue	32	Rewarding success	60
Unrealistic timetables	31	Using internal champions	60

* Results from interviews with key managers associated with change processes over the previous three years in a global sample of 500 companies. With 70 questions, the survey covered 150 companies in Britain, 150 in America, 150 in Europe, and 50 in the Far East and Australia.

Based on PriceWaterhouseCoopers Consulting (PWC) and Market Opinion Research International (MORI),
Global Change Management Study, 1997.

Source: Organizational Behaviour;An Introductory Text, Buchanan, David & Huczynski ,Andrzej, 4th Edition 2001, Prentice Hall, Harlow, England, p.600

¹⁷ Organizational Behaviour;An Introductory Text, Buchanan, David & Huczynski ,Andrzej, 4th Edition 2001, Prentice Hall, Harlow, England, p.600



In order for SMT to avoid these barriers it is wise to start a project of by creating a stakeholder list. This stakeholder list is to identify who will be involved in the project. It is also a list to identify the different members that can be used to anticipate what their reaction to the change will be as different individuals and groups will react in different ways to change.

The creation of a stakeholder list can be used as a first step in the planning process. SMT has currently identified some of the project members but to ensure everyone knows what the stakeholders are and where conflicts might arise it might be wise to get an overview. SMT could do this:

1. Create a list to identify individuals and groups affected by the change.
2. Try to create a list to identify the changes and their impact on each individual/ group (who will lose or gain what)
3. Identify the advantages of the change and communicate these efficiently to the members concerned to build a support base
4. After highlighting the pro's vs. the con's of the proposed project, if there are still objections or concerns try to address these concerns and possibly limit the losses for the individual/ group concerned.

This is a first step in overcoming some of the resistance and can be used in early stages to avoid it. Other steps identified over the years and very useful to SMT could be:

1. Education and commitment, managers involved in the project should share project objectives, perceptions and knowledge with all people involved. In order to avoid uncertainty and misunderstanding (major factors of failure), all people involved should be informed about all progress and objectives by meetings, memos, reports and face-to-face feedback. In this way SMT will avoid any resistance due to inaccurate information and communication.
2. Participation and involvement, this involves getting people that resist to get involved more by giving them the power to plan and implement. Some resistance can be caused by people not feeling included enough and not feeling valued enough and by



giving them incentives to join you can possibly take away resistance and encourage commitment.

3. Facilitation and support, some people are more resilient to change than others and the people that do not like change or have fears of losing their familiarities could be helped by counseling or therapy to make them more resilient to change.
4. Negotiation and agreement, sometimes changes can be so radical or extreme that people within an organization are very resistant and not willing to cooperate. It is wise for any organization to look into this and possibly come to a compromise to facilitate both parties involved. At SMT the proposed changes and development of current business processes is a good example of negotiation and compromise as some current business processes ARE working well for the organization and need not to be changed.
5. Manipulation and co-optation, this means playing down the disadvantages and highlighting the advantages to certain stakeholders. Co-optation means giving heavy resisters high positions in the project management team. At SMT the advantages of the proposed changes are well known but the disadvantages are not so well known with the BoD. This is to create a healthy support base for the changes and is sometimes necessary to get 'everyone on board'.
6. Implicit and explicit coercion, in some cases it may be necessary for a change to be pushed through and if resistance for this particular change is not welcome than other measures come to the surface such as firing or relocating people. At SMT this measure has, and hopefully, will not be needed but in case of heavy resistance but necessary change sometimes needs that little push to get accomplished¹⁸.

At SMT there are several projects running at the same time. SUN implementation, the SMART reporting, new OPEX reporting format and procedures, as well as the office being extended and personnel changes. Using proper project/change management methodology

¹⁸ Organizational Behaviour; An Introductory Text, Buchanan, David & Huczynski, Andrzej, 4th Edition 2001, Prentice Hall, Harlow, England, p.603



will help SMT keep control of what is going on in the organization and keep track of possible problem areas and adapt a pro-active approach to these problems instead of a reactive one. The current projects at SMT are managed well to a certain extent, because the project team is scattered across the globe (Norway, Netherlands, Cyprus) working together is a little more difficult and proper change management could enhance the projects outcome.



Prince2 Project Management

When searching for the right 'change/ project management' approach there are a lot of different methodologies to choose from. Some of the most common methodologies do not differ that much from each other; the only difference is the organization that has come up with the methodology. Most of these methodologies have been developed for the IT industry originally but have been developed over the years to accommodate process changes in other businesses as well. SMT is currently undergoing a lot of changes for which currently only two projects are using methodology. The SMART implementation is using Prince2 methodology which is a methodology which stands for Projects In Controlled Environments edition 2. This method is very common for projects nowadays and was also originally developed for IT projects. Many international and domestic firms operate their projects according to Prince2 methodologies and guidelines. For example British Rail, Natwest, BT, London Underground and Royal Mail have and are currently using Prince2. The Prince2 method is ideal for SMT as it drives on the following principles:

- A defined project management structure.
- Flexible decision-making points.
- A system of plans for resources and technical issues.
- A set of control procedures.
- A focus on products—deliverables to the client.
- A focus on project deliverables throughout the project¹⁹.

These characteristics of the Prince2 method enable SMT to have full control of the project whilst at the same time enabling the project team to work independently without too much interference. The key remains the deliverables at the end of the project, which is what SMT are after, and the control throughout the project is of such a level which enables management to regularly review and/or adjust the planning.

The advantage of Prince2 methodology is the fact that it is applicable to almost any project as it provides a framework for the project to be implemented in. It also has a large user

¹⁹ Project Management Methodologies: Selecting, Implementing and Supporting Methodologies and Processes for Projects, Jason Charvat, 2003, John Wiley & Sons, New Jersey, United States



group in the UK as well in the Netherlands and is recognized as one of the best methods to use for changes/projects in both countries. Prince2 is also applicable to both small and large projects. Some disadvantages of the method are that the method does not provide the cure for projects, merely a method. Prince2 can be tailored to the projects need and if not done so the method can be very bureaucratic with all the forms and checklists to be filled in. At SMT Prince2 is used but possible not to its full potential. Of all the methodologies Prince2 is one of the easiest to implement and to manage and, when executed properly, could provide SMT with the framework to encourage changes and project implementation.

The methodology of Prince2 focuses on 4 areas: initiating, stage boundaries, ad hoc direction and project closure. The initiation process is when the first draft of the project is being delivered. This stage for SMT was initiated early February when the plans for change where known and Precision Finance was contacted to help streamline this change. The stage boundaries where set to determine what was needed and where SMT wanted to go. The ad hoc direction stage is the control and checklist stage. In this stage the project is initiated and regular checks are made to ensure the project is on track. This was done at SMT as well but in a less efficient manner as the CEO, the CFO and the project sponsor where not present at all times. The last stage is the project closure stage in which the delivered products are presented.

As mentioned above the Prince2 method focuses on phases and cutting the project into pieces for convenience. Control is also a very important factor and is not limited to the product itself. Control and checks are carried out throughout the initiation and continues all the way to the project closure phase. This enables flexibility and full control of what is going on and enables management to decide quickly on what is good for the company. The Prince2 method can provide SMT with the managerial tools to guide and possible alter the projects trajectory as well as its outcome. At SMT the principles of Prince2 are still new but this does not mean that the method is unusable for them. The Prince2 method is easy to implement but needs full support from management as well as the staff. As with change in general, Prince2 also needs the support and communicational freedom to give the company the outcome they desire.



DISCUSSION

Before I went to Cyprus there were several meetings in which the changes needed were described and in these meetings it came apparent to me that the administration of SMT did not grow at the same pace as the rest of the company. The administration department was delivering reports to managers a month and 10-15 days too late which meant that managers basically could not use the information given to them. The administration department was working as a bookkeeping department instead of providing more 'service' and on time and accurate reports. After being in Cyprus for a few weeks other reasons for this became apparent as there was not a lot of structure in the administration department and the main reports were being prepared by a few key people. If these people were not there the reports would not be made as no one else knew how. Moreover at the time there were plans to change the administration but it was not sure who was going to do what and how it was going to be done. Since there was still a lot of uncertainty about what was going to happen the staff in Cyprus were resistant and a bit hesitant when it came to the changes proposed. In order to get the staff to understand and fully commit themselves to the changes on hand it is important for SMT to look into the sources of this resistance and try to use this as an opportunity to deliver successful project outcomes.

Structure of Accounts Department

The fact that it used to take an employee 10 to 15 days and a month to prepare a monthly report should indicate that something is wrong in the administration department. For the employees in Cyprus it looked as if they knew it was not right but they could not do anything about it as they thought they prepared them as quick as they could. The problem here is that although the changes are necessary, not everyone within the organization is fully aware that the current way of doing things is not working for the management. But the management, on the other hand, should also incorporate everyone in the change process (or at least all the people involved in the changes) and communicate what is needed from the employees to make the changes work.



Cypriot Culture and Change

The Cypriot culture has very strong characteristics and if SMT want to make sure the changes they want to make are successful they need to take into consideration how the staff can react to certain changes and what SMT can do to turn these reactions (such as resistance) into opportunities. Cypriots are very status oriented people that acknowledge and respect power and this could possibly limit the change process as change requires people to be resilient to the changes and somewhat change their corporate culture to adapt to the new requirements of management. The stage of change acceptance determines whether a company is ready for the proposed changes or whether management still need to convince staff that the changes are inevitable and needed. The changes needed in Cyprus need to be explained and examples of the need for the change need to be given so that the staff understand and see why the changes are needed. Communication in a culture like the Cypriot one is very important and needs to be done to all parties involved to ensure everyone is heading the same direction. Resistance is one of the hurdles SMT need to overcome and they can overcome this by determining resistance sources early and using these as an opportunity to make people resilient to change and open for discussion. The Cypriot culture is a culture with strong characteristics and strong reactions towards change can be expected. If SMT can utilize the negative energy that change can provoke they create a better environment for change to take place.

Reliability of Accounts Department

The Accounts department of SMT has long maintained a role of bookkeeper and in doing so has been delivering reports late to management and other departments. This meant that other departments had lost some of their faith in the reports as they were always late and possibly not corresponding to 'their' numbers. Making a decision based on 'old' information is not good for an organization and this is why several departments had their own administration going on to make sure they made the right decisions. The Accounts department of SMT need to restore their reliability and the only way they can do that is by becoming a 'service department' not just reporting after things have happened but by providing reports to management with current and future expectations. This change can



restore the reliability of SMT in other departments and will make sure the organization of SMT can rely on the figures supplied by the Accounts department.

Change Management Theory

The changes at SMT can only be made with the full support of staff and management and in order for SMT to develop the staff's resilience to change and to increase the chance of SMT actually successfully implementing the changes it needs to look at the various factors which could influence the behavior of staff. Sources of resistance can make or break a project and in the current organization of SMT the changes needed are an upgrade of the current business processes, SUN implementation and the formation of a project team, new balanced scorecard for monthly reporting and new staff to support the new role of the Accounts department. Change management theory can help SMT by developing a list to determine who is going to be involved, affected and interested. This list will identify the possible sources of resistance and will also be able to determine who will lose something and who will gain. This overview can help identify what specific change management theory can be used in what situation. The only problem with change management theory is that management need to be informed about what is needed from them and possible management could need to be educated to get the most out of the project. One of the reasons of projects not being successful is the lack of change management skills and SMT need significant amount of both top and normal managers to be able to implement change management skills. Change management is quite broad and can span a lot of subjects which could be irrelevant to SMT and the danger is that SMT can loose sight of what is needed in their organization.



RECOMMENDATIONS

SMT is on the verge of making important and necessary changes to the organization and in particular the Accounts department and in order to make this change as successful and smooth as possible there are several things they have to take into consideration. For example the culture and religion of the Cypriots is very important and can pose considerable threat to a project or project team. In order for SMT to improve the financial administration I would consider the following:

The several projects that should ensure the financial administration is improved need to be 'managed' and the best possible approach for these projects is 'management by exception'²⁰. Management by exception means the Project Manager is given the responsibility, after agreeing with senior management about the plan of action, of the project and left alone unless there is a reason for senior management to interfere. This method also means senior management does not have to constantly be updated on the proceedings and have time for their normal every day business. This approach in combination with Prince2 methodology will ensure management is kept up-to-date and has all the means necessary to alter the course of the project while at the same time keeping control over what is going on. My recommendation for SMT is that they use Prince2 methodology for all projects involved and, if need be, educate managers and staff to ensure they understand what changes are going on and how to manage these changes effectively. Before every project's start it is vital for SMT to create a stakeholder list to identify the people involved and to make sure SMT have an idea of what possible trouble area's there are. In order for SMT to improve the financial administration SMT need to create a stable and supporting base in order for the changes to be made possible.

²⁰ Source: Prince2 Manual, 3rd Edition, 2002, OGC p.3-4



The current business administration is under a lot of pressure from other departments as they have not delivered proper reports and have not provided them with the essential information needed to make the right decisions. SMT has made a good start in upgrading the current OPEX reports and has seen considerable results from that.

In order for SMT to further improve the financial administration it is important to establish which reports they need every month and who is going to supply the information necessary. At the moment data is coming from everywhere within the company and this needs to be gathered and converted into one general format usable for reporting. This means reports are usually made later than needed as the people responsible for the delivery of the data are supplying the data at different times. In order for SMT to improve the quality of the data as well as the supply of the data I would recommend that they enable the new SUN system to incorporate the data from other systems within the company to create reports and make sure that this data is available whenever they need it. This means that not only the Accounts department needs to be involved in the development of the new SUN system but also the other departments from which data needs to be collected for reporting such as Operations, Crewing, Technical and Insurance. Right now the SUN system is only used and available in Cyprus but I would recommend SMT to make the system available throughout the entire company as this would enable information to be added and inputted by other people within the firm as well and it would always be able to be kept up to date. The problem now, which is reliance on a few key people, is in this way also being limited as other people can be educated and taught how to use the SUN system and add data to the reports.



The SUN implementation is going to be done from now until the beginning of next year and for this project a project team is needed. My recommendation for the creation and managing of this project team is to make sure communication is done thoroughly to create resilience for the changes ahead. Everybody within the project team needs to be understanding the changes necessary and the communication amongst team members should be open. If SMT can successfully manage the project team the synergy created by the team members will enable SMT to also successfully complete the SUN implementation. In order for SMT to be sure all projects can be implemented and the financial administration is indeed improved it is essential for SMT to hire new and qualified staff. At the moment projects are not being finished or started because of the lack of resources. SMT needs new people to be hired to help in creating monthly reports on time, help develop and make new monthly reports (SMART reports), assist other departments that need reports and do the basic accounting duties so the accounts can be closed off in time for reporting.



Accounting System

Although SMT are currently underway implementing a new version of the existing accounting system SUN, there is a lot of improvement to be made in the reporting/administration side of the company. The new SUN system is said to incorporate better and easier reporting methods and ways of presenting and converting into the mostly used Excel format. However, a lot of key performance indicators and monthly reports and figures are now still coming from other departments (and other systems) such as operations department and the crewing department.

In order to incorporate all of these measures/ figures into one system, easily accessible and usable throughout the organization it might be wise to look at an entirely new system for the whole company. This is a costly option but may give SMT the financial and administrative edge over the competitor and will provide the organization with the right information at the right time. An example of a tailor made company wide system might be SAP. SAP is a world leader in providing companies with tailor made solutions. An entirely new system for SMT could possibly be the solution to help improve the standard of reporting, the speed of reporting and less dependence on key individuals in departments (to provide the manager in question with the right information). Incorporating the several departmental reporting systems into one is a time consuming job and needs a lot of commitment from all departments involved but using project management methodology could potentially provide SMT with the framework needed to make it a success.

All of the above mentioned recommendations I derived from looking at the current business processes at SMT and when thinking about ways of improving the current administration. The options mentioned above are all feasible and although the last option may seem quite extreme, it could potentially be the solution for SMT to create better cooperation throughout its departments and different offices around the globe!!



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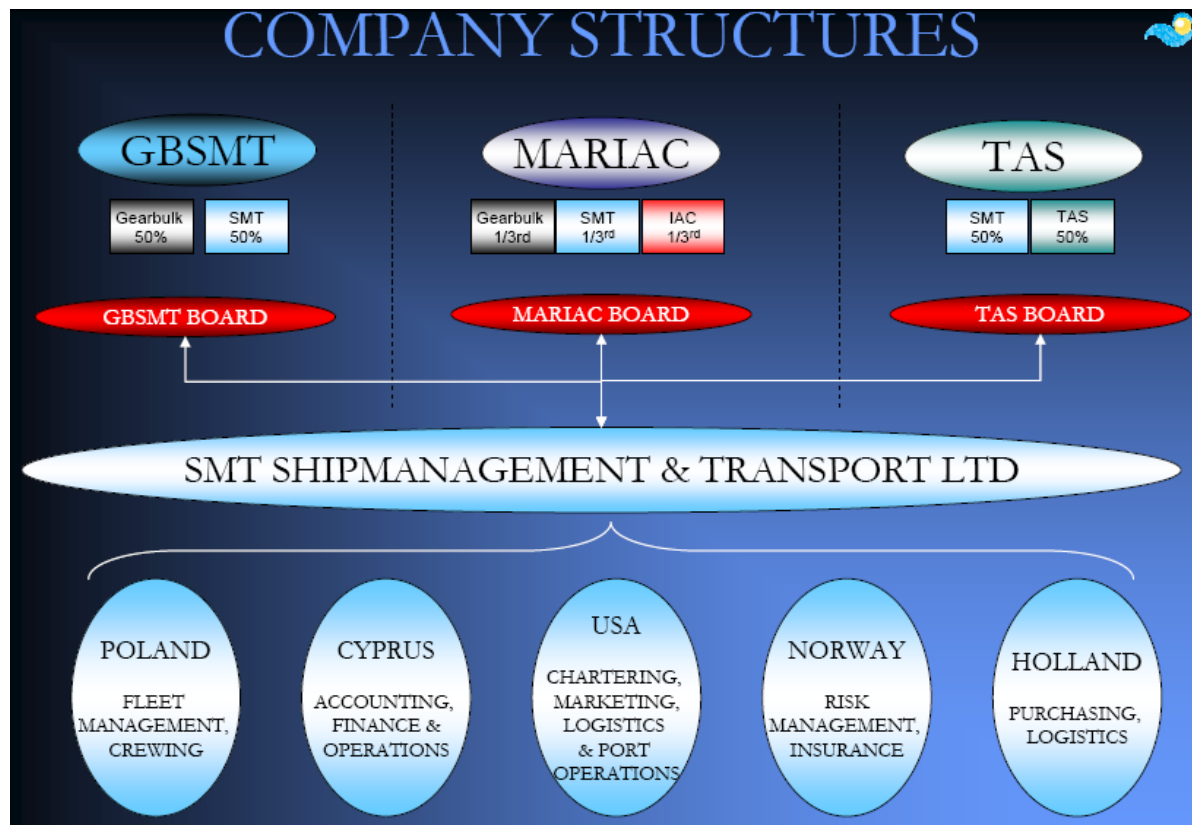
The following people contributed to my thesis:

- Mr Marcel Heijnsbroek, CFO of SMT
- Mr Mark Taylor, Executive Support of SMT
- Mr Chris Smith, General Manager Precision Finance and my company supervisor



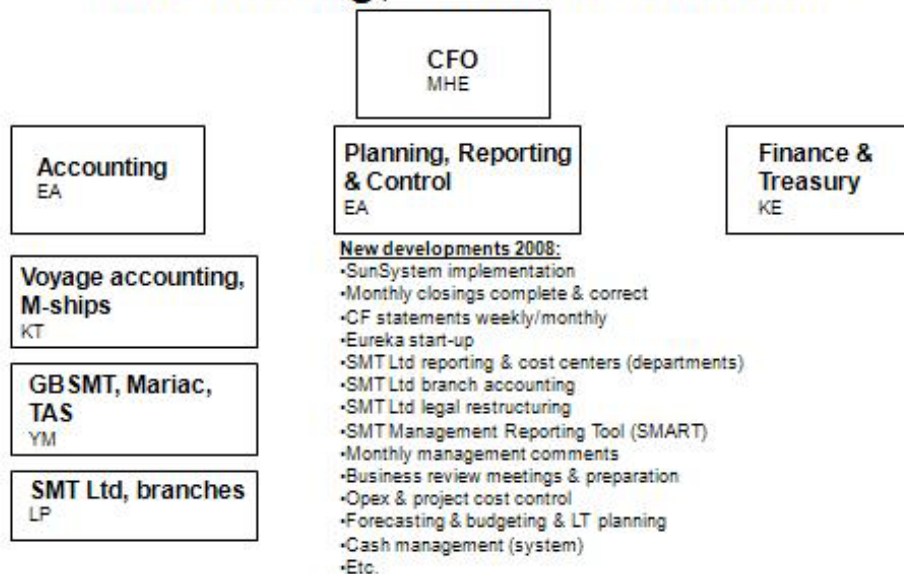
APPENDICES





Source: Mark Taylor, Executive Support, SMT

Current organisation Accounting, Control & Finance



Source: PowerPoint Presentation Marcel Heijnsbroek, CFO, SMT

Current situation

- Requirement to step up quality of work (correctness of financial results, monthly closing, management comments, budgets/forecasts, cash flow mngt, SMT Ltd reporting, bookkeeping branches etc.)
- New business development (Eureka)
- Requirement for fast project implementation (SunSystem, SMART, cash mngt system)
- Too much dependence on few key people
- Key requirements cannot always be fulfilled due to lack of resource and/or inefficiency

Source: PowerPoint Presentation Marcel Heijnsbroek, CFO, SMT



APPENDIX D

New and improved OPEX report as used by Wilfred Diepeveen

2008			GBSMT FLEET - 16		
182 days			VSLS		
Account					
Category	Code	Description	BUDGET	ACTUAL 182 DAYS	VARIANCE
ALL CATEGORIES	0	CREW & PROVISIONS			
	1	PROVISIONS			
	2	CONSUMABLES			
	3	SPARE PARTS			
	4	REPAIRS & MAINTENANCE			
	5	MODIFICATIONS & NEW INST			
	6	INSURANCE			
	7	SUNDRIES			
	8	DEDUCTIBLE & CLAIMS			
	9	AMORTIZATION DRYDOCKING			
TOTAL COSTS					
OPEX PER DAY					
TOTAL EX MOD & NEW INST					
OPEX PER DAY					
TOTAL EX DEDUCTIBLE & CLAIMS					
OPEX PER DAY					

Source: OPEX Review map created by Wilfred Diepeveen during internship for SMT

