THE TENDENCY OF SHIPPING COMPANIES TRANSITION FROM FAMILY BUSINESS TO CORPORATE GOVERNANCE IN THE NEXT 20 YEARS

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Abstract

Despite having played an important role in the shipping sector for centuries, the shares of family-owned shipping companies have been decreasing in the last two decades. In this study, the effect of corporate governance in the maritime sector on the potential and qualifications of the family shipping business is questioned. Additionally, it is aimed to analyze the necessity of the transition to a corporate structure by identifying the deficiencies of the family companies and highlighting factors that could result in the families being unable to pass on their companies to the 3rd generation. For these purposes, the structure of family shipping businesses, the management style, the effects of generational differences, the relationships and interactions of professional managers and family management, the corporate governance structure, the life cycle of family businesses and, family values were examined. The Fishbone Diagram was applied to identify, analyze, and examine the barriers to the transition to third generations. It is understood that the longevity of a family shipping business generally does not last more than three generations. As a result, the effectiveness of corporate governance and the importance of shipping companies' transition from a family business to corporate governance in the next twenty years has been laid down.

Keywords: Shipping Family Business, Corporate Governance, Corporate Identity, Sustainability.

Öz


Anahtar Kelimeler: Denizcilik Aile Şirketi, Kurumsal Yönetim, Kurumsal Kimlik, Sürekülabilirilik.

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1. INTRODUCTION

Business in the maritime industry is a capital-driven business with a high level of risk, and financial strength is a precondition to stay in the industry over time. Family companies operating in the maritime transportation sector need to determine long-term strategies to compete in the global product market where competition is high and to take decisions that are fully compatible with these strategies (Randoy, 2001). In many countries that are strong in the maritime industry, family businesses that are listed or not listed on the stock exchange have the largest share in maritime trade (Syriopoulos & Tsatsaronis, 2011).

As families expand, they transfer the values they adapt to new generations in parallel with the success of the companies they have established, and they are proud of the contributions they make to society thanks to the sustainable success of their businesses. The continuation of family business management depends on the good management of the dilemma between the need to increase the warm capital supply and grow business to compete in the sector and the need to meet the cash needs of the family at the same time. This potential source of conflict may have more effects in the process of passing the management power in the company from one generation to the next (Caspar & Dias, 2010). Family businesses provide social and economic benefits and opportunities in all societies. However, the deviation of family businesses from core values and assumptions incorporate policies may have negative effects on macroeconomic performance (Johansson, Karlsson, and Malm, 2020). Since participation in family businesses is important to increase wealth and employment in countries, politicians should encourage and support family businesses to continue their activities in a long-lasting and healthy structure. The results of family members' performances have a significant impact on the life span of family businesses (Hansen & Block, 2020). Family businesses are also among the important actors of the global economy and, their economic and social importance is increasingly recognized today. The success of family businesses in terms of management makes a significant contribution not only to their own companies but also to their national economies and to the economies of other countries where they operate.

The transition of maritime family businesses to corporate governance under ruthless competition conditions, where even corporate structures are in great difficulty today, is of great importance for the sustainability of these companies. In tough competitive conditions, family businesses always need to develop the right strategic approaches that may require structural changes to maintain their existence, get new jobs, and increase their success. The success and regular income of family companies in the maritime transport sector also indirectly contribute to the sustainability of the world economy. Many different factors cause inefficiencies in the survival of these companies for generations. The different structures and principles of corporate governance can contribute to the elimination of these inefficiencies, deficiencies, and unnoticed errors in the sustainability cycle.

After the 2008 global financial crisis, UN member states have undertaken various regulatory activities aimed at strengthening their corporate governance structures to ensure economic stability and promote investor confidence (UNCTAD, 2010). In UNCTAD's analysis of the causes of the global financial crisis, regulatory weaknesses at national and international levels and weak corporate governance practices emerging in the risk management standards of companies came to the fore. In light of this increasingly accepted determination, corporate governance reforms in many areas are generally valid for all other companies besides financial institutions (Panitchpakdi, 2010). One of the positive results of the financial crisis is that it is understood that corporate governance, strategy, and sustainability should now be considered as parts of a whole (King, 2010). So, it can be said
that corporate governance is one of the main factors in determining and maintaining the working system in a business and enables the business to survive in times of financial disorder and economic crisis. Besides, corporate governance is also effective in meeting companies' capital needs from foreign markets. Corporate governance also contributes to the protection of the interests of a firm's stakeholders and shareholders and to have a balanced account structure. Maritime family businesses are required to establish and operate the board of directors' supervision, financial statements, and audit period, which are the basic building blocks of corporate governance. Also, a corporate governance structure built on solid foundations can establish a harmonious, successful, and long-term relationship between family business managers and shareholders.

Family businesses are one of the important components of the economic system. The ability of family shipping companies to adapt to fierce competition conditions, their growth and, longevity depend on how successful they are in reaching and integrating into the global economy. The ownership structure of some family shipping companies is followed by the whole family, while some have non-family shareholders or even managers. Shipping family businesses need a governance structure that can manage many social and cultural challenges, make all necessary arrangements, especially economic issues, and manage them effectively. Transferring management and ownership to the next generation of the family is one of the most important issues for maritime businesses run by families. Family businesses also have to overcome difficulties in adapting to changing economic, political, and industrial conditions. These challenges and the differences in understanding and thinking between generations show that family businesses can often only be sustained by two generations.

2. Literature Review

Family-run companies generally have more complex management structures compared to corporate governance companies. The reason for this is that "emotions" inherent in human beings sometimes override logic and some problems within the family are confused with the management of the company (International Finance Corporation, 2011). Successful family company owners need to make sure that the business is managed with a determined, strong, and talented leadership approach, that financial resources are used efficiently and that a competitive business strategy is implemented. In this way, the commercial reputation of the family and the value of the company can be increased and the commercial life can be maintained in a healthy way (Carlock & Ward, 2001).

In family companies, almost all of the boards of directors are composed of family members (International Finance Corporation, 2011). Governance processes show that the interaction of the main actors in management is carried out within a strict management approach (Sarbah & Xiao, 2015). For instance, there is an example of an independent supervisory board that can decide to dismiss a CEO who is considered to be ineffective and suspected of being successful (Fich & Shivdasani, 2006). For the business to develop healthily, instead of being managed by a controlling owner, it must first move to a sibling partnership and then to a cousin consortium in parallel with the increase in the number of family members (Gersick et al., 1999). Maritime firms, which are generally part of international trade, aim to obtain competitive benefits from the integration of “national” and “international” features through corporate governance (Randoy, 2001). Corporate management should be made a part of the business culture in family shipping companies so that others can achieve these benefits. A transition plan can facilitate changes in the leadership of the business in a gradual and planned manner. At the same time, employees, shareholders, customers, and other stakeholders should be given confidence in the protection of the reputation and brand value of the enterprise as well as its continuity (Williams, 2014).
Families who control their business as "ownership" and "management" interact with their businesses across all business operations. In family businesses, intra-organizational relationships arising from family ties affect company ownership, company structure, management, implementation of strategies, company goals, and success. The vast majority of family members are willing to work hard and reinvest their profits into the business to increase their earnings and ensure the longevity of their business. This course of action is the same as the idea in the Scottish economist Adam Smith's book "The Wealth of Nations", published in 1776 and possibly the most important economic manifesto of all time. Smith stated in the eighth chapter of the first volume that "when an entrepreneur earns more profit than he needs for his family's well-being, he will use more of his production/need by employing more employees, thus his profit will increase more." Smith also put forward one of the basic building blocks of the current system of capitalism by claiming that “an increase in the profits of private entrepreneurs is the basis for the increase of social welfare and wealth” with an example he gave (Stopford, 2009).

Experienced family members transfer their knowledge and experience to future generations by creating warm environments, ensuring the family members' loyalty to each other and their businesses and the longevity of their businesses. To sustain their existence for a long time, family businesses should constantly try to increase the quality of products and/or services and develop sustainable good relationships with their customers, suppliers, and employees. In family-owned businesses, there is generally a more complex structure in the management structure compared to corporate companies because of the transfer of family problems and emotions to the business environment (International Finance Corporation, 2011).

Since family business owners have many responsibilities towards their families as well as their business, some conflicting thoughts are likely to occur. For example, the decision to reinvest in the company rather than distribute dividends may be interpreted differently by many business owners based on their responsibilities in the firm. In many family businesses, there is inequality in the relationships between the family's managers and those coming from outside as managers in the company. An important part of the management staff positions of the family-owned company -sometimes all of them- are reserved for family members (International Finance Corporation, 2011). In this case, the motivation and, accordingly, the performances of the employees other than the managers who are not family members in the company are negatively affected. To prevent this, a "dignity at work policy" should be implemented in family businesses so that providing fair employment conditions for the employees and thus evaluating the performance of employees regardless of whether they are family members or not. In many family businesses, with the idea of maintaining effective control of the family, the right to be a board member of the business is granted only to family members. However, this situation may sometimes cause disagreement between the members of the board of directors and may result in a weakness in the management of the company. Different expectations of family members about their business can cause conflicts that endanger even the existence of the company. Family businesses should create and use communication channels that can provide continuous and regular information flow to overcome possible problems, difficulties, and challenges by working together.

Ensuring the longevity of family businesses is a difficult governance task in today's global economy. The necessity of adapting to new technologies, constantly pursuing creative ideas, and taking appropriate precautions to the competitive environment on time are among the first challenges that come to mind. Besides, trends, changes, and political developments, and volatile regulations in the global economy are other challenges that family businesses...
have to deal with. Families have different business understandings for their companies such as:

• "Work first" approach: In this approach, work is seen as more important than family.
• "Family First" approach: In this approach, it is accepted that family is more important than work.
• "Family Business Approach": In this approach, it is predicted that the family will try to find solutions that will meet their needs.

Different circumstances may lead to the obligation to choose between family and family business. For example, when the family is large and the business small, the interests of the family cannot be prioritized when it comes to earning from the business. Business life is seen as the most important issue for the family. When the company offers rich possibilities if the family is not large, there is not much difficulty in meeting the needs of the family first. Difficulties are inevitable if the business has limited resources and the family is large, and even if the family members have a career and financial goals that do not match the realities of the company. If many relatives are taking an active role in the business and others do not participate in the ownership, then difficulties are inevitable regardless of the size of the business (Carlock & Ward, 2001).

In today's business world, business owners emphasize good governance, unity, and independence from political strife to protect the common goals and values of their families and businesses. For the business to reach its goals, it is necessary to work independently, to gain the most profit, to develop new strategies, and to contribute to the training and development of employees. Besides, relations with stakeholders, shareholders, customers, and suppliers must be managed very well. Families must have influential factors such as family value, loyalty, and tradition that they will inherit as a legacy for their business to be long-lasting. Unfortunately, some families have poor decision-making mechanisms and weak relationships that threaten the longevity of their businesses (Aronoff & Ward, 1996).

Ensuring that family businesses, where governance is transferred from generation to generation, grow economically and structurally in the current very difficult and complex business environment raises some difficulties. Family businesses have to deal with a large number of industrial and organizational agreements while planning management and property transfer issues. These challenges relate to the transitions that arise as families and businesses are established and grown (Carlock & Ward, 2001). The development and growth of the business are important for the improvement of the family and property. The age, size, management system of the business, status in the markets in which it operates, employees, suppliers, financial issues, ability to meet current needs, growth strategy will determine the future performance of the business (Kruzic, 2004).

3. The Structure of Family-Owned Enterprise Governance

Shaping the decision-making process of companies is the most fundamental function in the family business governance structure. In family shipping businesses, the board of directors is affected by the activities of the advisory board and supervisory board, which have different functions. The advisory board advises family members from a different perspective, while the supervisory board acts as the official regulator of the family board of directors. Both boards support the harmonization of family shipping business management. The board of directors takes into account the recommendations of the advisory board. Advisory boards can assist, educate, and guide family business managers on the future of the company. However, since the board of directors will take actual decisions, instead of the practices to be developed,
it only prepares suggestions and submits them to the board of directors (Verbruggen, 2012). The interaction of actors who play a high-level role in company management, depending on the management frameworks, is among the usual situations seen in governance processes (Sarbah & Xiao, 2015). In this interaction, management frameworks are the main factor of the management process and company success.

The board of directors, which is an obligation in the institutional structure, and deals with legal responsibilities and jobs, expands its decision-making and planning roles to a larger group. This approach is effective in developing a strategic vision as well as providing transparency and appreciation for the development of intangible skills and competencies in the company (Zornoza et al., 2020). The board acts as an intermediary between family and business as the fundamental building block for successful corporate management. Family companies managed by independent directors emphasize that thanks to the development of the dynamic structure of the Board of Directors, a noticeable improvement has been achieved in the Board of Directors meetings in terms of discipline, planning, corporate governance, financial ability, and strategic focus (William, 2014). Family businesses that have the right managers in the top management have an advantage in competition. Even if all members of the family are good managers, they can’t have the expertise and qualifications that an economically growing company's complex structure needs for current and future perspectives. In successful family businesses, some family members are replaced by talented and professional foreigners in the long run (International Finance Corporation, 2011). Managers who join the company from outside the family but have close ties with the family perform better in these companies and their continuity takes longer in family businesses (Waldkirch, 2020).

Corporate governance, with effective control methods, ensures that managers in a company are prevented from engaging in activities that may be harmful to the welfare of the shareholders and stakeholders of this company. The control system established for this purpose consists of a board of directors to monitor governance and an external auditor who expresses an opinion on the reliability of financial statements, but there are many different components within the system (Larcker & Tayan, 2016).
Figure 1. Chosen Factors and Participants in Corporate Management Systems (Larcker & Tayan, 2016).

Corporate governance in the maritime industry has to take into account the dynamics of internal control and particularly financial and corporate performance, the delicate balance between core internal control systems, and the independence of the Board of Directors (Giannakopoulou, Thalassinos, and Stamatopoulos, 2015). The effectiveness of the board of directors in terms of successful corporate governance depends especially on its independence, and it is imperative to show a high degree of rigor and impartiality when evaluating the management of a company (Chukwunedu & Ofoegbu, 2018). Besides, the fact that the supervisory board is independent also ensures an efficient function of monitoring the board. For example, an independent supervisory board can dismiss a CEO who is not working well (Fich & Shivdasani, 2006). Since family companies are generally not willing to adopt and implement the idea of an independent supervisory board, they face difficulties in objective decision-making processes to be successful in the transition to a corporate governance structure.

As family companies grow, the relationships between company owners, managers, and employees become more complex, and this situation negatively affects the activities of the companies (Sarbah & Xiao, 2015). On the other hand, it is getting increasingly difficult for family businesses to continue their economic growth and presence in the market in the very tough competition conditions brought about by globalization. At this point, institutionalization stands out as an important opportunity for the development of family companies. With the transition to corporate governance, the implementation of good governance prepares the ground for the increase of the dynamism of family companies, the creation of strong business processes, and the economic growth of the companies. Since the corporate governance structure requires transparency and accountability, it forces family companies to increase their performance and thus obtain new financing opportunities (Williams, 2014).
There are discussions about the importance of shipping companies' transition from a family business to corporate governance in the maritime sector. But there is not any consensus that has been reached so far. It has been realized that there are very limited publications about the effectiveness of corporate governance and it is decided to write an article on this subject.

4. Research Methodology

In this study, the necessity of transition of family shipping companies to the corporate governance structure to maintain their existence by third generations is investigated. For this purpose, and also to demonstrate the methods of ensuring the longevity of family transport businesses, a hypothesis has been determined. The hypothesis is that "corporate governance structure has positive effects on the longevity of a family shipping company". According to this hypothesis, corporate governments contribute to the development and economic growth of the company by increasing the performance of the business due to the robust organizational structures. Family business managers also need to reach awareness and understanding of the structures and working methods of corporate governance. This issue is examined and its importance is emphasized.

Within the scope of this study, the document analysis method, as one of the qualitative research methods, was used. All books, articles, and websites published in Turkish and English regarding corporate governance, the shipping family business, and the recent developments after the 2008 global financial crisis in the world were reviewed. The sources included in the survey were analyzed using the document analysis method and the findings were discussed in the conclusion section.

The unstructured interview research method was used to widen our knowledge on our topic. In the framework of this study, “informal interviews” by using open-ended questions regarding the transition of family shipping businesses to corporate governance were carried out with four shipping companies. These are respectively AKO Shipping Group, TURKON Holding, ARKAS Holding, and YASA Holding. Findings related to the title of our article on the hypothesis were evaluated by analyzing the Fishbone (Ishikawa) Diagram Method as explained in the next section."

5. Results and Findings

Family-owned shipping businesses, which have become increasingly complex structures, have new business opportunities and expansion possibilities in a globalizing world. To utilize these opportunities, approaches such as increasing the separation of company ownership and governance in family shipping businesses, and the inclusion of new generations and non-family managers in the company are increasingly recommended in researches over the last two decades.

In this study, "Fishbone Diagram" has been applied to show the factors about the longevity of family transportation companies and the problems caused by these factors on a diagram and to bring a meaningful approach to the solution of the research problem. Kaoru Ishikawa, a Japanese quality control statistician, introduced the Fishbone Diagram, an analysis method used to identify the root causes of quality problems, in the 1960s (Juran, 1999). Thanks to this diagram, which resembles the skeleton of a fish, it is possible to analyze the causes of any problem and the effects (produced) by these causes in a systematic way, and in this respect, the diagram can also be considered as a "Cause - and - Effect Diagram" (Watson, 2004). Fishbone Diagram, which enables us to see the risks of the causes and sub-
causes of the impact on a single diagram, can provide meaningful integrity with quantitative and qualitative evaluations after coding the risks (Ilie & Ciocoiu, 2010).

Before deciding to apply on the Ishikawa Diagram an "Unstructured Interview Research Method" was used in making face-to-face and telephone interviews with the owners, CEOs, directors, and managers of four different sized Turkish shipping companies. The open questions were used to examine the transition of shipping family businesses to corporate governance. Then we applied our findings and knowledge to the Fishbone (Ishikawa) Diagram. This diagram also applies cause and effect analysis to the transition from shipping family business to corporate governance.

**Figure 2. Fishbone Diagram of FamilyShipping Business Longevity**

When the fishbone scheme is analyzed, it is seen that family shipping businesses have various disadvantages, especially regarding governance, family members’ commitment, technical requirements, and generational differences. The commitment of family members has some negative effects on the governance of family businesses. The emotional bonding of family members with each other prevents them from joining with professionals who have no ties with family members. Besides, it can be difficult for the family members to have a realistic approach to the board of directors’ decision-making process. This situation leads to the avoidance of innovative approaches that will enable the development and economic growth of family shipping businesses.

Technical necessities also play an important role in the growth of family shipping businesses. Lack of professional knowledge about the technical problems of shipping family businesses causes financial damages and can prevent the longevity of the business. The intergenerational differences in taking action on the issues regarding the future of the company and the reluctance of the new generation for business also affect the future sustainability of family shipping businesses. For these reasons, the longevity of a family shipping business usually lasts no more than three generations.
Six main reasons (title/factor) that will directly affect the research subject are placed in the Fishbone Diagram. These are governance, family members’ commitment, company size, generational differences, sectorial handicaps, technical necessities. Eighteen secondary causes were identified, three for each main cause. Governance, the commitment of family members, and technical necessities are the most important reasons throughout the diagram axis. The scheme is prepared according to certain conditions. In this context, it has been accepted that the quality of governance affects the size of the company as well as the commitment of family members and technical requirements depend on these three reasons. Based on the same approach, sectoral barriers also affect generational differences. While the main causes are made by observing that they represent the main factors taken into consideration throughout the process, secondary causes (manager, the focus of professionals, prevention of corporates, long-term economic crisis, etc.) are observed to be as close as possible to the cause-effect image. This Fishbone Diagram shows that the transition to a corporate company structure is necessary for many reasons and is the most important threshold for family shipping businesses to survive. Shipping family businesses that do not exceed this threshold can survive up to the third generation at most.

The corporate governance structure is necessary to keep the balance between the family members and to prevent conflicts. Both shipping family businesses and corporate companies must have short, medium, and long-term planning obligations. Technology, innovation, and Research & Development activities can be achieved through the best corporate governance structure. Corporate governance is also necessary to balance currency, modernity, and values, as well as to obtain sufficient profit. Transition to corporate governance is an inevitable option for family businesses aiming at economic growth. The suitability of professional management systems is important. Sustainability can be achieved better through the corporate governance structure. From the third generation on, family businesses lose their special qualities. However, the third generations of shipping family businesses are more open-minded than the second generation about commencing new projects and having more societies. Many family shipping businesses suffer from certain insufficiencies of several dimensions, such as in their management style, technical requirements, etc. Family members’ emotional commitment leads to negative effects when employing professionals. Also, father-son authority conflicts and generational disharmony in working together, etc. are a few of the other factors causing difficulties for family business developments. These factors make family shipping businesses’ transition to the third generation difficult. More precisely it is understood that family shipping businesses’ longevity does not generally continue for more than three generations There are various dimensions and reasons for the transition from family shipping business to corporate governance relating to the need to provide sustainability for their businesses (Tarihmen, 2020).

The internal and external factors of the businesses constitute the differences in the ways of doing business between generations. Corporate governance structure can bring new regulations and solutions to ensure the longevity of the family shipping business. Family shipping businesses could improve their business by implementing the necessary corporate governance structures to sustain their businesses in the next generations. In doing so, their interests must take into account Winston Churchill's realistic thinking that "The further backward I look the further forward I can see" (Stopford, 2009), which has inspired many fields. While developing predictions for the future, scenarios based on assumptions, and strategies based on these scenarios in family businesses, the lessons learned from the past should always be kept in mind.
6. Conclusion

The research problem was determined by examining the structures of family shipping businesses that need to address their current needs and concerns regarding sustainability after the third-generation. This subject has been studied to find out whether corporate governance is a solution to this problem. The Fishbone (Ishikawa) Diagram was applied to the analysis of the problem identified regarding shipping family businesses’ longevity. These research components generally conclude that the negative and positive effects are the main causes to sustain the shipping family businesses’ continuity. The main reasons for the problems in family businesses are the emotional commitment of family members and it harms the board of directors and competition. Additionally, it affects the generation gap between family members, the problem experienced in transferring information between generations, the technical knowledge transfer being dependent on the information of family members, and technological inadequacies.

This paper includes a hypothesis that corporate governance structure has positive effects on family shipping businesses’ longevity. According to the hypothesis, the corporate governance structure imposes necessary and unavoidable changes leading to the improvement of shipping family businesses’ structures, especially regarding their board of directors. These initiatives ensure that professionals have a voice on the board of directors of family shipping businesses. Besides, corporate governance requirements motivate family shipping businesses to get help from professionals in technical matters. A corporate governance structure is necessary for the economic development of family shipping businesses to increase their competitiveness in an increasingly competitive environment within the country and globally. When all these factors are examined, the result is the putting forth of the hypothesis that the adoption of a corporate governance structure is absolutely and inescapably necessary for family shipping businesses to provide sustainability and longevity.

Corporate governance can also prevent the father-son conflict of family members and disharmony in the working of generations. When family shipping businesses move to corporate governance, the transition can reduce the effects of economic fluctuations in the shipping family businesses and it can also prevent technical knowledge insufficiency. In the light of the future estimations of the shipping business, especially on autonomous shipping, shipping companies’ transition from a family business to corporate governance in the next twenty years gains an increasing importance. All of these factors depend on each other which is why the transition of shipping companies from the family business model to corporate governance will become unavoidable within the next twenty years. In conclusion, shipping family businesses that adopt innovative approaches will enable new generations to work actively to add new values to their businesses, and thus, will be able to transfer their existence beyond the third generation.

In future studies on the subject of this article, it will be beneficial to prefer family shipping companies that have been operating for at least 30 years and to examine the structures of small-scale companies first, and then large companies operating at least 10 ships. It is considered appropriate to conduct studies on comparing the family shipping companies that do not prefer corporate governance with the ones that have passed the corporate governance.
7. References


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