

SUSTAINING COMPETITIVE ADVANTAGE THROUGH COOPORATIVE DECISION MAKING IN SHIPPING INDUSTRY IN TURKEY

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Abstract - Existing research reveals that only 2% of family businesses last more than three generations. This is reported to be due to deep psychological factors preventing elaborate strategic and succession plans to be realised often due to poor delegation, poor leadership, lack of coordination and lack of expertise. It is also noted that many family businesses are transformed into other forms of businesses for commercial and/or financial reasons. This paper reports on shipping family businesses and **presents** the outcome of **literature searches and a questionnaire** survey conducted to assist these businesssed in becoming competitive primarily through cooperative decision making.

A firm can create a suitable and competitive environment when the management and owners are well informed and make effective decisions. A family managed business is regarded as successful when it remains solvent for at least four generations, it is profitable and that the value is added to the business generation by generation.

This paper focuses on long term, medium term and short term decision making process under strategic, tactical and operational categories and reports on the outcomes of an investigation into types and phases of shipping family businesses as well as other subjects relating to the business environment. **This is carried out** by seeking the views of a sample of companies in the shipping sector using a structured questionnaire followed by one-to-one interviews.

The survey is expected to lead to the development of a checklist using quality management techniques such as, value stream management and policy deployment approaches such as, Hoshin Kanri, as a basis for constructing a model of a shipping family business with a good quality management system and a **'road map'** for sustaining itself for generations to come.

Keywords: Competitive advantage, decision making, shipping, family business.

1. Introduction

Shipping can be defined as everything related to marine transport. **Seaborne transportation** is an essential facility for the development or exploitation of economic **seaborne** resources on a national or international scale. It allows the materials to be conveyed from areas of low utility to areas of high utility (Ziarati, 1995; Branch, 1982). The increase in marine transport has necessitated larger and more advanced vessels, better equipped shipyards utilizing high technology facilities, higher qualified personnel and more progressive support industries. The shipping and maritime industry is dominated by well educated and international minded people.

Details of major growth figures and main players in shipping is given in Kaptanoglu (2007), Stopford (1995), Beenstock et al (1993).

Competitive Advantage achieved through co-operative decision making process is about creating the right organisation, offering product/service to the market at the right time, at the right place, at the right price so that the customer is satisfied (Ziarati, 1995). **It is argued that competitive** advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competitors' products (differentiation advantage). Thus, competitive advantage enables a firm to create superior value for its customers and superior profits for itself. A firm should utilize its sources and capabilities to create competitive advantage. Therefore, the most important element to create and sustain competitive advantage is the capability of the firm. Capability is the ability to bring a product or give service better or faster than competitors.

Decision making is the most important process in any organisation. A firm can create a suitable and competitive environment when the management and owners are well informed and make effective decisions. Decision making is a nonlinear, recursive process. Therefore, most decisions are made by moving back and forth between the choice of criteria and the identification of alternatives. Every decision is made within a decision environment, which is defined as the collection of information, alternatives, values, and preferences available at the time of the decision. Since the decisions must be made within this constrained environment and time, we can say that the major challenge of decision making is uncertainty and a major goal of the decision process (analysis) is to reduce uncertainty.

A strategic decision is the one that governs the direction the organisation takes for the future (Lee et al, 1999). Strategists search for opportunities or threats in the environment. Strategists search for strengths and weaknesses inside an organisation. Strategy naturally is defined as the fit between an organisation and its environment (Salaman, 2002). These strategic directions are evolved into tactical plans by middle management who then expect lower management to execute them by developing and implementing courses of action which make up the tactical plans. It is important to link strategic decisions and plans to operational decisions and activities.

In the case of a shipowning company, for example, strategic decisions may consist of the size and/or age of the fleet, etc. Tactical decisions may involve build, buy, sell, lease, long-term charter in/out agreements, employing ship management companies, utilization of loan facilities etc., operational decisions related with day to day business involve bunkering, procurement, insurance, maintenance, crewing, etc.

Family Businesses (FBs) in shipping industry do not survive after the first few generations (Lansberg, 1999). **The application** of the right business model and decision making process seem to be the primary factors in competitiveness. A good business model has an innovative edge that gives it a sustainable competitive advantage. Innovation here does not mean business as usual, but to do things differently and to do new things (Ziarati, 1995). There is a whole range of business models as presented in Kaptanoglu (2007).

Since the research reported in this paper is about making these businesses more competitive, an attempt has been made to find out how companies, family or otherwise, can remain competitive by making the right decision at the right time.

In an analysis carried out by Shanker and Astrakhan (cited in Management of Family Businesses, 1996) to establish the size of FBs as a proportion of the global economy, the importance of family run companies could clearly be appreciated. As an example, the number of family businesses in the USA is twenty million and they generate 49% of the national income. The situation in other maritime countries are very similar, for instance, the number of family businesses, as a percentage in Portugal is 70%, in the UK 75%, in Switzerland 85%, in the USA 96%, in Sweden 90% and in Turkey 95%.

FBs are found to be older and to have lower sales, fewer employees, and fewer full-time employees on permanent contracts, smaller share capital, fewer shareholders, and a higher proportion of board members among the shareholders. However, when going in depth, the financial policies implemented in FBs and non-family enterprises, the differences found indicate that personal preferences concerning growth, risk, and ownership-control may be the driving forces behind the 'peculiar financial logic' of FBs (Gallo, 2004). While there seem to be similarities between the FBs and non-family enterprises, clearly there are differences which need to be taken into consideration when constructing a road map and developing a decision processing system for it.

A family managed business is regarded as successful when it remains solvent for at least four generations, it is profitable and that the value is added to the business generation by generation (Langsburg, 1999)?. A list of methods ensuring successful and profitable family run businesses are summarised under the following headings by Kaptanoglu (2007): **Success in family** - improved and direct communication, conflicts balanced, a lasting legacy created and protected, retirement and estate planning made as well as building personal security, what is good for business is good for the family. **Success in management** - strategic planning, goal specific and accurately measuring goals, creating a learning/teaching environment, leadership coaching, providing regular feedback, sharing and delegating, assigning different roles, ensuring proper training. **Success in corporate governance and ownership** - integrating non-family members, equal is not fair.

Taking into consideration the dominance of families in shipping particularly in Turkey, this paper concentrates on Turkish shipping family businesses.

2. Research Design

Since existing resources concerning the programme of this research is limited, the investigation had to some extent rely on the primary research to gather the necessary data. To this end, a questionnaire was developed and used to obtain the data considered appropriate to carry out the intended investigation. The survey is an attempt to establish the size and types of companies and categorise them as well as seeking answers to key questions raised. This was followed by three parallel literature surveys to gather the necessary information about how Turkish Shipping Family Businesses sustain competitive advantage through co-operative decision making. The first literature survey concerned approaches to strategic, tactical and operational decision making process within the maritime industry of Turkey. The reason for this is that the changes occurring in this industry are thought to be emanated from increasing size of competition and importance of having a good decision making process (Stopford, 1995; Lee et al, 1999). Second survey related to particularly family business, and third concerned supply chain operations. Full details of these literature surveys are given in Kaptanoglu (2007).

3. Development of Industrial Survey

The questionnaire survey was one way of carrying out the intended investigation on how companies, family or otherwise, can remain competitive. Data was gathered also by structured interviews using the questionnaires with the selected shipping family businesses. The selection was based on having at least one company from the three main categories (shipoperating, shipbuilding and support sector) and involving at least one from a range of companies sizes viz., small, medium and large. An attempt was also made to ensure at least one company is selected from each generation, i.e. 1st generation, 2nd generation, etc.

The design of the questionnaire was based on Davidson (1970) clear, unambiguous and practical. According to Sanchez (1992) the quality of the data is influenced by the questionnaire format. Thus the format was carefully reviewed to ensure it is user friendly. In designing the questionnaire, the advice of Tourangeau, (2004) in keeping the questions simple and the syntax uncomplicated, were applied. The questionnaire was an attempt to find out :

i) types of shipping companies (shipowners/operators, shipbuilders, suppliers), their sizes and if they are first, second, third generation, etc., ii) the organisational vision, mission and goals, business models used, if any, iii) whether they have recruitment policies, recruitment procedures and job specifications, programme of staff development, processes to review vision, mission, goals, jobs and people, iv) whether quality tools are used to improve the efficiency or effectiveness of the organisation, v) type of qualifications and expertise required by the enterprise, vi) whether the decision making is centralised or de-centralised in the enterprise, vii) whether they have management structure, organisational structure/committees, their responsibilities, frequency of the meetings, viii) how the decision making process works, who gets involved and who does not get involved in decision making in enterprise, ix) what might be the reasons for most of family businesses not lasting for more than three generations and the respondents comments about it, and x) whether they know any company which merged, gone out of business or taken over.

4. Questionnaire Results

As a result of responses, the matrix presented as Table below was developed showing sizes of different types of shipping companies vs generations:

	Shipowning / Operating			Shipbuilding/Design			Services/Supply/Support		
	Small 0-49	Medium 50-299	Large >300	Small 0-49	Medium 50-299	Large >300	Small 0-49	Medium 50-299	Large >300
1 st Generation			1			1			
2 nd Generation					1				
3 rd Generation		1						1	
4 th Generation			1						
Other		1							

Table 1. Sizes of Different Types of Shipping Companies vs Generation

The followings are the summaries of the findings related to responses received:

It was noted that management and organisational structure exist in almost all the companies except only one company who mentioned that it **does not** have an organisation chart. Permanent committees do not exist in any of the companies surveyed, however, it was noted that when there is a need, these committees are formed often without a formal composition and/or terms of reference and/or regular frequency of meetings. It was noted also that shipping companies' visions in the next 10 years are: expansion of the fleet, renewal of the fleet and working with more modern and competitive vessels. The missions can be listed as safety of life and cargo at sea, quality management with high degree of respect to environment and safety rules.

The goals can be summarised as renewal of the fleet in order to achieve sustainable growth and maintain existence of the company for the next generation, increase the number of vessels in the fleet **and** growth of the company under a corporate structure.

Companies interviewed mentioned their different views about the business models they apply which are summarized below:

- control expenses as much as possible since income depends totally on market **fluctuations**,
- above sector average salaries to increase employee satisfaction **and improve efficiency, and**
- being honest, trustworthy to both clients and employees and creating respect.

It was noted that job specifications in written form are not found in most of the shipping companies interviewed. The general expectation from an employee is that **s/he** performs the requirements of his/her **job** and also assist other colleagues **if needed**. A general problem of shipping companies is the scarcity of sea personnel and this is a major problem of the shipping sector not only in Turkey but worldwide (Ziarati, 2006). As a result of this, companies sponsor students whom they employ after **their graduation**.

Staff development has not been noticed as common practice in the companies interviewed. Processes to review vision/mission/goals, jobs and people exist in the companies **interviewed but with a shorter turnaround**. **One family company mentioned that the review process of vision/mission/goals is slow because it is a family business**.

Quality tools to improve efficiency and effectiveness are rarely applied in the sector.

Companies interviewed prefer university graduates and for line managers they recruit English speaking university graduates with sea-going service. For more managers the prefer English speaking university graduates with sea-going service and 5-10 years of managerial experience. It was interesting to notice that only one company mentioned that they do not expect their senior managers to be captains but to have experience and knowledge in shipping business and to know office rules. In case of advisors and senior executives the employment is based on the case being considered i.e. for legal work they seek lawyers who are specialised in shipping or are employed or known in the sector, otherwise, specialisation in shipping is not required which is the case for financial and other personnel. The top post or when a family member is involed only a few of the companies interviewedn noted to recruit from shipping professionals someone with shipping education, experience and knowledge.

The survey clearly indicated that the decision making is highly centralized for strategic and tactical decisions, only some operational/day-to-day decisions may be considered de-centralized i.e. ship requests which are small-sized, change of personel, etc., however, information must always be shared with managers and senior managers. It's been noticed that use of formal quality and management tools i.e. SWOT analysis, PEST analysis, Hoshin Kanri/Policy Deployment, and Balanced Scorecard are not used.

The respondents were also asked to comment on why the percentage of family businesses lasting more than three generations is only two. This may be due to i) deep family emotion, ii) risk consideration, iii) market fluctuation, and/or iv) complexity of paperwork requirements.

Respondents comments to what might be the reasons for the above findings were:

- deep family emotions: greediness and personal benefits instead of professionalism makes the company difficult to operate causing cashflow problems etc.,
- not being able to build a corporate structure,
- lack of relevant education, and/or
- complexity of paperwork requirements

5. CONCLUSION

The initial outcome of the surveys has clearly indicated that the companies which participated are not aware of tools used in cooperative decision making and that there are no systematic approach to consciously develop a competitive edge. The survey and the complementary literature searches carried out (Kaptanoglu, 2007) have led to an understanding of how shipping family businesses can sustain competitive advantage through cooperative decision making. The current work as part of this research includes a review of value stream management techniques developed by Tapping et al, (2002) as well as a novel policy deployment approach based on Hoshin Kanri. The latter translates strategic goals and targets set at the top level into specific requirements and activities in the functional areas within the organisation.

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