

DEVELOPING COMPETITIVE ADVANTAGE THROUGH COOPERATIVE DECISION MAKING IN SHIPPING FAMILY BUSINESSES

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Abstract

This paper builds on the outcome of a recent paper titled, ‘Sustaining Competitive Advantage through Co-operative Decision Making’ by the same author which argued that only 2% of family businesses last more than three generations. The reasons were 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 was also noted that many family businesses are transformed into other forms of businesses for commercial and/or financial reasons.

While the first paper presented the outcome of the literature search and result of survey using a questionnaire supported by interviews, this paper reports on a complementary survey using a more refined questionnaire based on the one used in the earlier paper. This time a larger sample of companies were presented in the survey.

The focus of the research reported here is to develop a preliminary checklist which could identify a particular course of action for making a company to plan long term hence helping it to develop a competitive advantage.

It is argued that effective and efficient use of the human resources and involvement of the whole organisation in the decision making process are vital if a company’s is to remain solvent and develop a competitive edge.

Key Words : Competitive Advantage, Shipping, Decision Making, Family Business

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1. Introduction

There are very large volumes of goods and materials as well as people which are transported daily from one geographical location to another. Considering the volumes involved, the demand for shipping becomes clear. Over 95% of total world cargo is transported by ships. Shipping therefore is an overwhelming means of allowing economic resources to be transported and hence a major facilitator for economic developments worldwide. To this end, the argument put forward by the first paper (Kaptanogğlu et al, 2007) that only 2% of family businesses last more than three generations, is a serious concern, if substantiated.

The main purpose of the research reported here is to support shipping companies to develop competitive advantage which is achieved, as argued by Kaptanoglu (2007), through a co-operative decision making processes. Competitive advantage 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). There are also value stream management approaches (quality tools) to improve competitive advantage (Tapping et al, 2002).

To understand the business structures and decision-making processes in an enterprise, it is crucial to visualise the main components of a company or business, irrespective of the type or size of the enterprise.

For many family businesses, innovation drives the early years of the family business. The following generations often tend to be caretakers rather than innovators. Not paying sufficient attention to “innovation” within their business, their industry and in their market place may be one of the contributing factors why so many family businesses fail to transition into being generational family businesses.

It is often argued that successful family businesses become more risk-averse as the company matures. In that process, the concept of innovation does not get proper attention, support or funding. The ultimate challenge is achieving balance between the “traditions” of the family’s business with “innovative” ideas and business practices that will enhance the growth, profit and sustainability of the family’s business

Typically, in successful family businesses, the senior generation earned their spurs by hard work and commitment to the success of the business. That type of work ethic encourages genuine loyalty from the management team and the employees. The next generation of family must EARN the respect of the management team and the employees. Family business innovation programs represent a wonderful platform for re-earning or authenticating trust in the next generation of leaders in the family business.

Innovation drives entrepreneurship – first the vision then the mission.

A company often has ‘vision, mission, organisational goals’, ‘jobs’ and ‘people’. It can be visualised as in the form of a triangle, as shown in Fig.1, where job design, recruitment policy or processes, personnel qualification and experience are crucial factors.

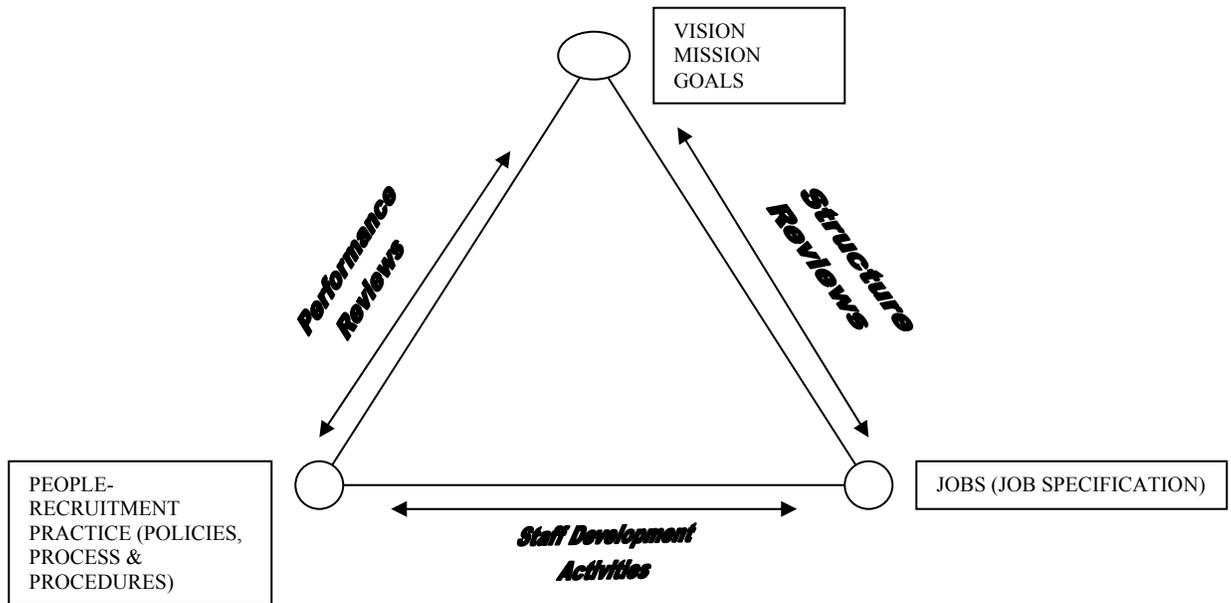


Fig. 1. Goals vs Jobs vs. People Triangle to Identify Expertise Needed
(Source: Ziarati, 1995)

A key consideration in the development of a theory of the family firm is whether family involvement leads to a competitive advantage because answering this question will provide some insights regarding why family firms exist and why they are of a particular scope and scale. Before we can rigorously test whether family involvement leads to competitive advantage, however, we need a theory about how one leads to the other. The potential benefit of an empirically supported theory about the relationship between family involvement and competitive advantage is incalculable to family firms because by exploiting and leveraging the relationship, a family firm may be able to enhance its economic performance. Furthermore, preserving, strengthening, and extending the firm's competitive advantage are among the most critical considerations in strategic or succession planning. If we do not understand the sources of family firms' competitive advantage, how can we hope to preserve, let alone strengthen or extend it?

Succession planning is often discussed from the family's perspective. However, how the employees of the family business perceive the succession process can have an enormous impact on how well the business does on a day to day basis. How the succession issue is perceived by vendors and customers is another important part of the succession management process. If key managers perceive a lack of competence in the leadership skills of the next generation, key employees may move to some other company where they may have more upward mobility and/or more influence on the organizational structure of the business.

A company is made of various entities/departments which have their own goals and objectives. Each of these entities/departments have their own short/medium/long term objectives often devised to achieve organisational goals in the most effective and efficient way. By effective, it is meant doing the right thing and by efficient, it is meant doing things right. This structure can be visualised as a pyramid as depicted in Fig. 2.

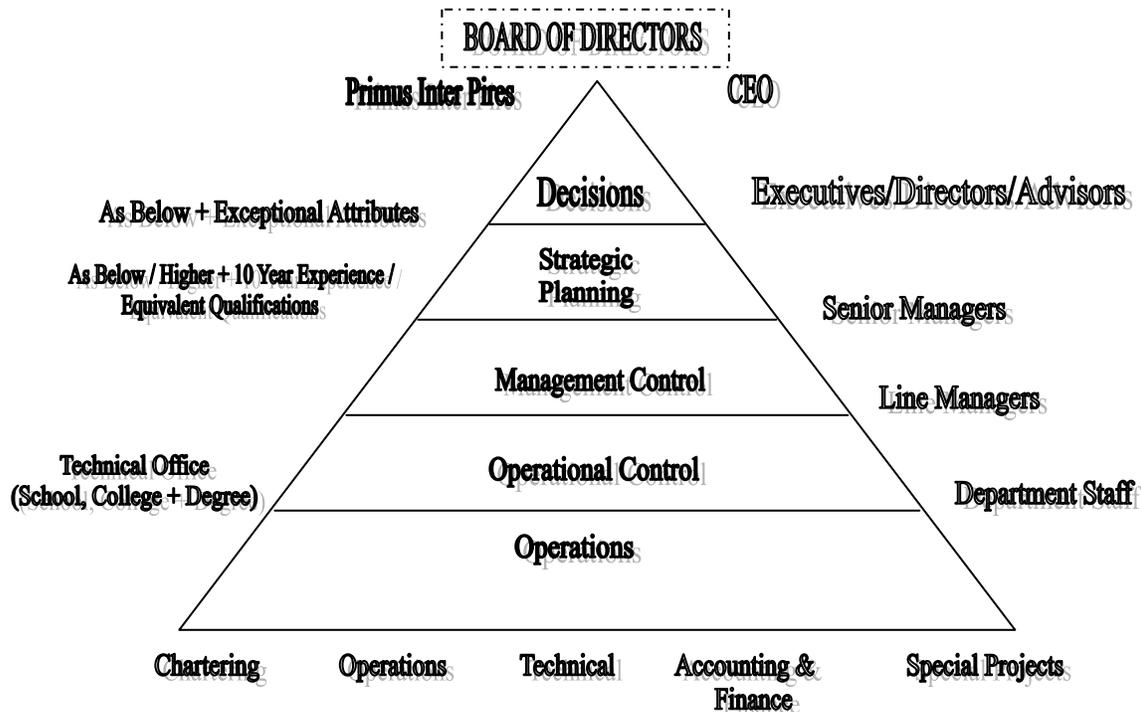


Fig. 2. Management Structure vs. Expertise Requirement vs. Company Business Activities
(Source: Ziarati, M, 2003)

Companies often employ quality tools to improve the efficiency or effectiveness of their organisation which is composed of support infrastructure, operational and a management system. The structure of an organisation may be integrated or flat and be based on TQM or learning organisation concept. The latter has an integrated system of management, a flattened organisation, teamwork and placing responsibility where it belongs. (Nyham,1991).

Companies irrespective of types and nature of business have to interact with the world outside viz., the company's environment. A firm is surrounded by suppliers, customers, government agencies, share/stake holders and last but by no means least, the competitors, (Ziarati,2003). Each interest group be it a bank or a customer has a given interest hence tries to influence events or even exert pressure to safeguard its interest. A business therefore needs to develop strategies to deal with these external groups as well as competitive forces emanating from globalisation, international economic influences, social and environmental constraints.

Strategic decisions facing a business are concerned with all those issues that have long-term implications for the organisation (Jennings, 1998). Tactical decisions employ methods to achieve the strategies of the company. In the case of a shipowning company, for example, strategic decisions may consist of the size and/or age of the fleet, the shipping sector in which the company wishes to exist or step in, tactical decisions may involve buy, sell, lease, long-term charter in/out agreements, employing shipmanagement companies, utilization of loan facilities etc., operational decisions related with day to day business involve bunkering, procurement, insurance, maintenance, crewing etc.

It is important to link strategic decisions and plans to operational decisions and activities. A novel quality management technique to improve the performance of business systems is Hoshin Kanri which translates strategic goals and targets set at the top level into specific requirements and activities in the functional areas within the organisation. With this technique, it is being ensured that everyone in the company is aware of the overall vision and targets.

2. Research Design

As reported in the first paper, the existing published materials on the subject of this research is limited and this was why the initial work had to rely on the primary research to gather the necessary data. The preliminary questionnaire developed in the earlier work was further developed and used to obtain the data considered appropriate to carry out the intended investigation. So far, a preliminary investigation has been carried out to categorize the type of family business in general terms (Turkish family owned shipping companies).

The research project involved the development of a matrix of Different Types of Shipping Companies vs Generation as shown in Fig. 3.

3. Development of Industrial Survey

A preliminary questionnaire included questions relating to the following aspects of the companies interviewed:

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

4. 1. Results of Interviews and Completed Questionnaires

As a result of responses to the below three questions, a matrix has been developed showing sizes of different types of shipping companies vs generation :

Q1. In which of the following area(s), does your company function?
(More than one item can be ticked.)

Shipowning/Operating
Shipbuilding/Design
Services/Supply/Support

Q2. How many employees work in your company ?

0 - 49
50 - 299
300 and more

Q3. Please specify your generation.

1st Generation 2nd Generation 3rd Generation Other

| | 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 | 1 | 1 | 1 | 1 | 1 | 1 | |
| 2 nd Generation | 1 | 1 | | 1 | 1 | | 1 | 1 | |
| 3 rd Generation | | 1 | | | | | | 1 | |
| 4 th Generation | | | 1 | | | | | | |
| Other | | 1 | | | | | | | |

Table. 3. Sizes of Different Types of Shipping Companies vs Generation

4.2 Management and Organisational Structure

The questions are :

- Q14. Do you have a management structure ?
- Q16. Does the company have organisational structure/committees?
Please provide us with your management structure and organisation chart.
- Q17. What are the responsibilities of the committees?
- Q18. What is the frequency of meeting of the committees?

Based on the responses , it was noted that management and organisational structure exist in almost all the companies except only one company who mentioned that it doesn't have an organisation chart. The general outlook of the organisation chart of a typical shipoperating company as well as one for the shipbuilding company were found to be as shown below:

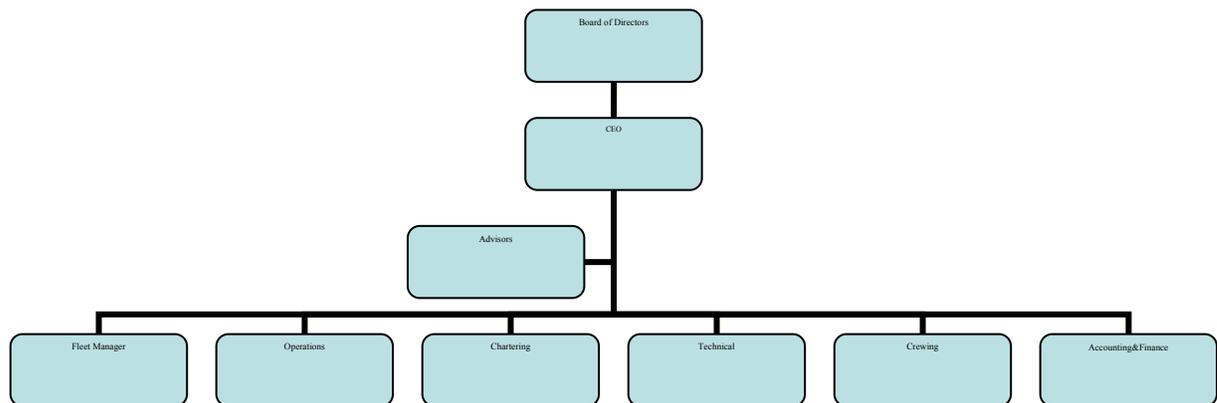


Fig. 6. Organisation Chart of a Typical Shipoperating Company

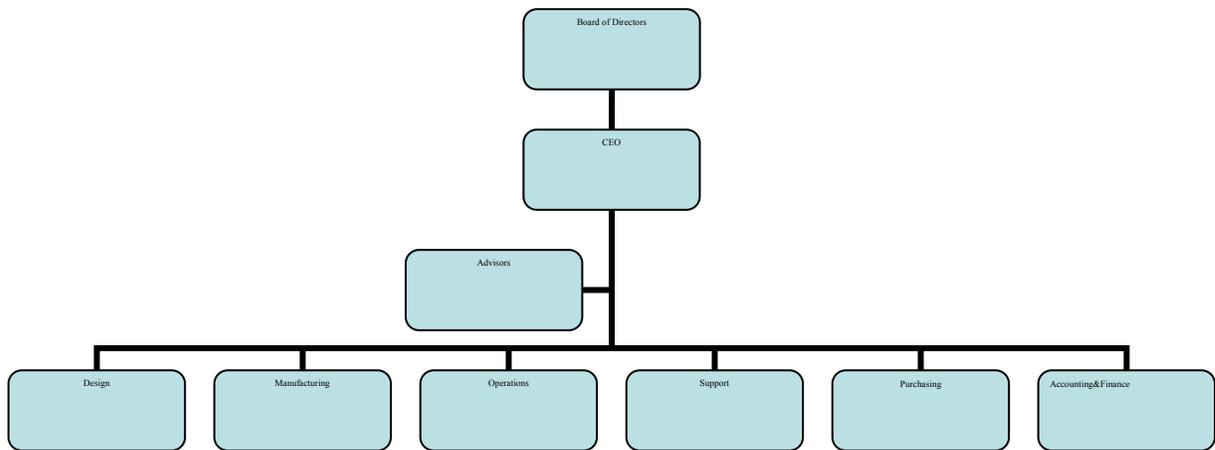


Fig. 7. Organisation Chart of a Shipbuilding Company

The organisation of service/supply/support companies are not dissimilar to the structures presented above.

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.

4.3 Vision, Mission Goals

The questions are :

- Q4. Please tell us about your company's vision. How do you foresee your future, where do you want your company to be in the next 10 years, what type of successes do you plan to achieve in the future ?
- Q5. What is your company's mission? How do you commit yourselves to business?
- Q6. What are your company's goals ?

Based on the responses , it was noted 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, growth of the company under a corporate structure.

4.4 Business Models Used

The question is:

Q7. Are you using a specific business model such as loyalty, low-cost, multi-level marketing etc.?

As a result of the responses to this question, respondent mentioned that shipping is an international business governed by international rules and standards where there are various contacts and interaction with banks, insurance companies, agents, brokers and chartering is considered to be the marketing side of this specific business. The players in this sector are aware that they should apply the rules and standards set e.g. by International Maritime Organisation (IMO) if they want to be well-known, accepted worldwide and perform their own business of concern. If they are in shipoperating, for instance in cargo business i.e. carrying cargo from Point A to Point B, they would wish to do their business without any damage to cargo, loss of life and damage to the environment, and if they are in shipbuilding, they would wish to build safe ships satisfying the customer's specification as well as the requirements of regulatory bodies. The companies involved in support sector would like to provide/supply a quality service.

Always considering and applying the international rules and standards, 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 get maximum efficiency
- being honest, trustworthy to both clients and employees and creating respect.

4.5 Recruitment, Review, Quality Tools, Decision Making

The questions are:

Q8. Do you have :

- recruitment policies
- recruitment procedures
- job specifications

Q9. Do you have a program of staff development ?

Q10. Do you have processes to review your:

- vision/mission/goals
- jobs
- people

Q11. Are you using any quality tools to improve efficiency or effectiveness ?

Q12. What type of qualifications and expertise are required for entity/department

- staff
- managers
- senior managers
- executives / directors / advisor
- CEO
- Board of Directors

Q13. Is the decision making centralised or de-centralised in entities/departments?

Q15. Do managers know what decision they can make and how the decision making process works ?

- Q19. Who gets involved in decision making in entities/departments ?
- Q20. Who doesn't get involved in decision making in entities/departments ?
- Q21. "Existing research reveals that the percentage of family businesses lasting more than three generations is only two. This may be due to
- deep family emotion
 - risk consideration
 - market fluctuation
 - complexity of paperwork requirements
- Please comment about the above paragraph.

Based on the responses to the above questions, 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 he/she performs the requirements of his/her specific job and also assist other colleagues in case of need.

During the course of recruitment process, some companies apply personality/language/knowledge tests in addition to interviews and reference is mostly required to the point that one company mentioned that they don't employ anybody without a reference. 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 education are completed as well as employing trainees and training them with the company culture.

Processes to review vision/mission/goals, jobs and people exist in the companies interviewed, and because of the speedy and continuous nature of shipping business, jobs and people reviews might sometimes be done as short as monthly. However, one family member mentioned that the review process of vision/mission/goals is slow because it is family business.

Staff development has not been noticed as common in the companies interviewed.

Quality tools to improve efficiency and effectiveness are International Safety Management Code (ISM) which exist in all the companies since it is mandatory. Only one of the companies had quality certificates of ISO 9001 and ISO 14001 (environment).

Qualifications and expertise required for entity/department:

- staff: preferably university graduates
- managers: English speaking university graduates with sea-going service
- senior managers: 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 don't expect their senior managers to be captains but to have experience and knowledge in shipping business and to know office rules.
- executives/directors/advisors: shareholders and in case of advisors, the employment is based on the case being handled ie lawyers who are specialised in shipping are employed if the case is related with shipping, otherwise, specialisation in shipping is not required which is the case for financial and other matters.
- CEO: family member. In only a few of the companies interviewed, the CEO are shipping professionals with shipping education, experience and knowledge.

- Board of Directors: family member

The decision making is highly centralized for strategic and tactical decisions, only some operational/day to day decisions may be considered de-centralized ie. 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 tools i.e. SWOT analysis, PEST analysis, Hoshin Kanri/Policy Deployment, and Balanced Scorecard are not used.

The respondents are also asked to comment on the following finding of previous researches:

“Existing research reveals that the percentage of family businesses lasting more than three generations is only two. This may be due to

- *deep family emotion*
- *risk consideration*
- *market fluctuation*
- *complexity of paperwork requirements*

Respondents comments to what might be the reasons are:

- 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
- complexity of paperwork requirements

5. Discussions and Conclusions

Maritime industry is one of the oldest industries in this world. Shipping is there since man first discovered that water is the best mode of transporting goods and people as it provide the cheapest and most convenience access to its destination. Starting from boat paddle to the use of internal combustion engine, the shipping business evolved accordingly with the advancement of technology. The changes of seaborne trade from the small parcels which were carried by general cargo ships of the size up to 24,000DWT to today large dedicated parcel which required to be carried by specialized carriers such as LNG Carrier, Chemical Tankers and bulk carrier demand specialize skill from the companies that operate such a vessel. Thus the level of competitive advantage to be maintained demanded for today shipping environment differs from what it used to be.

For many family businesses, innovation drives the early years of the family business. The following generations often tend to be caretakers rather than innovators. Not paying sufficient attention to “innovation” within their business, their industry and in their market place may be one of the contributing factors why so many family businesses fail to transition into being generational family businesses.

A key consideration in the development of a theory of the family firm is whether family involvement leads to a competitive advantage because answering this question will provide some insights regarding why family firms exist and why they are of a particular scope and scale. Before we can rigorously test whether family involvement leads to competitive advantage, however, we need a theory about how one leads to the other. The

potential benefit of an empirically supported theory about the relationship between family involvement and competitive advantage is incalculable to family firms because by exploiting and leveraging the relationship, a family firm may be able to enhance its economic performance. Furthermore, preserving, strengthening, and extending the firm's competitive advantage are among the most critical considerations in strategic or succession planning.

The aims of this research was to study competitive advantage and how it can be sustained through co-operative decision making as well as looking into reasons why family businesses are not competitive and go out of business after a few generations with the ultimate aim of constructing a model for family businesses in shipping industry in Turkey in the form of a checklist for them to remain competitive for generations to come.

In order to achieve these aims, the concept of competitive advantage was put forward first, that it is about creating the right organisation, offering product/service to the market at the right time, place and price so that a firm sustains profits which exceed the average of its industry and stay in business. Then, attention was given to main factors of competitiveness: decision making, business models and supply chain. Literature reviews were made on these subjects and the researcher also mentioned about family businesses and shipping industry.

One definition of business model is that it is a visualisation of how a business works to see if a business is viable and can be approved or has no hope (Deal, 1997). When one looks at business models, they can, in general, be adjusted to every type of business. All businesses have a form of management structure and often have formal or informal committee structure. A business model is based on how management structure and committee structure are designed.

Since the success or failure of a company depends first on how well its business addresses its customers' priorities and overall requirements, companies must continuously rethink and redesign their model to ensure the customer base is maintained and expanded (Afuah, 2004).

Business environment in general dictates the sector in which the company is working in to adopt/adapt certain models specific for the sector. Moreover, a business model depends on industry factors and firm-specific factors which determine a firm's profitability. Not only the business model itself, but also executing it is important, that is, finding structures, systems and people that best fit the business model formulated.

Some business models, such as transportation, may require different types of attention for the purpose of formulating a business model.

A successful company should also focus on doing the right thing (being effective) when deciding which activities to perform. In deciding how the activities will be performed, the focus is on doing things right (being efficient). Furthermore, the timing of when activities will be performed is a factor which directly affects a company's profitability.

Decision making is an important part of business and decisions of varying importance are made everyday. Decision making is usually associated with some degree of risk taking. A decision is made within a constrained environment and time where information, alternatives, values and preferences available at the time of decision are collected and decision makers assess the risk to clarify uncertainty and doubt. Ziarati (1995) argues that risk can be reduced by the recruitment of right people and through effective and efficient management.

There are various decision making models which can be used for different projects in order to assess risks and aid specialists in decision making process. Sometimes the decision maker applies pragmatic approaches based on personal instincts and experience. Also, the most time-consuming step is not making the decision but putting it into effect.

The world outside the company's environment i.e. suppliers, customers, potential new entrants, complementors and substitute products try to influence and exert competitive forces or some of them may cooperate. The macro environment i.e. country culture, government policies, fiscal and monetary policies, judicial and legal system, technological changes also affect the profitability of a company. A business, therefore, needs to develop strategies to deal with the outside world as well as competitive forces emanating from globalisation and international economic influences.

Taking all the above into account, the researcher tries to find out whether competitive advantage can be sustained in shipping family businesses in Turkey and construct a model in the form of a checklist for them to remain competitive for generations to come.

For this purpose, a preliminary questionnaire was developed to gather data for the intended work and in light of the responses, the questionnaire will be revised and a new survey will be conducted for complementing the research.

The work so far has focused on the first aim of the project and touched on the reasons why family businesses are not competitive which forms the core of the second objective.

The research has also identified several feasible criteria for inclusion in the proposed checklist for further study. The intention is to construct a model for family businesses in the shipping industry that would help them to become more competitive and have a vision of future pitfalls that may await them.

In light of the aims of the research presented in this paper, the researchers developed a matrix of shipping companies in Turkey showing sizes of different types of shipping companies vs generation. The table in its present form does not give the full picture of distribution of Turkish shipping companies. However, the companies involved in the survey were selected so that the data is collected with regard to their structural and operational functioning from at least one company from the three main categories.

Development of checklist would require a substantial programme of work if it is to be meaningful. To this end, it is intended to carry out a several case studies of selected companies and conduct performance analysis of the companies involved with these studies.

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