

BLACKSEA ECONOMY AND TURKISH SHIPPING COMPANIES

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Abstract: *The maritime industry is an important element of the Black Sea economy. In order to survive in today's competitive environment in this sector, the new requirements have to be met, especially the demand of having skilled/qualified manpower and reorganizing themselves to be successful in the world challenging maritime industry. The shipping companies are the leading element of the shipping sector. They play a crucial role in understanding existing and future requirements for national maritime industry and they develop plans, programmes and policies to survive in today's challenging world. The shipping companies are the leading actors which drives the shipping sector. And it is clear that organization and management is the key factors which directly affect the success in the business.*

Keywords: *maritime industry, skilled/qualified manpower, shipping companies*

INTRODUCTION

At the beginning of the year 2012 the available figure of the total number of vessels over 1000 GT that Turkish Commercial fleet had, was 627.

That corresponds to a capacity of transportation reaching to 9.488.719 DWT. Considering 20.838 million DWT ships operating under other flags; the total amount of the ships owned by Turkish ship-owners reaches 30.337 million DWT.

This value is actually, ranking Turkey to the 13th, among the countries which are known to be world's largest commercial fleet (IMEAK, 2013 p. 19, 20).

Parallel to that within the last ten year period, the number of harbours / ports, terminals of the sector and their quality has been significantly improved. Three-quarters of the commercial fleet has been built in Turkey. The majority of the Turkish fleet consists of dry cargo and bulk carriers.

Dry cargo ships, oil and rejuvenated chemical tankers are traditionally being built in Turkey; just a small amount is imported from abroad. In contrast, only twenty percent of bulk cargo vessels are being constructed in Turkey whereas a vast majority of the RO-RO ships are being built abroad.

Shipbuilding activities of Turkish Shipyards continue to decline as of 2008, as the result of the experienced economic crisis all around the world. With the help of repair and maintenance of existing ships at our shipyards has supported the activities of the shipbuilding sector for the past two years and hence it has maintained its vitality. Shipping companies and organizations are reorganizing themselves to meet the new requirements of the operational and economic structures in such a manner that it has to be compatible with the contemporary needs as well.

As the result of having both this modernized fleet and shore facilities such as ports, shipyards, companies, logistics units, have consequently caused to emerge of having highly qualified staff.

A BRIEF HISTORY OF TURKISH SHIPPING

The European countries gained many special rights and capitulations after the proclamation of Tanzimat Edict (Reorganization of the State) in 1839. Having this opportunity, Western countries seized control of approximately the whole shipping activities in the Ottoman Empire. They opened many shipping, ship-brokering and ship-chandler companies at major ports. These companies generally deployed Christian and Jewish minorities due to linguistic and cultural similarities. The minorities held critical positions and even they established their own shipping companies (Cogito, 2006 p. 188, 191).

By the end of the 19th century; the Ottoman Empire was in a mire of debt and the Ottoman treasury came under control of European countries and they gained additional capitulations. The Ottoman ports passed the control of foreigner in this period (Ortayli, 2006 p.18). The number of the Ottoman flag ships was not sufficient (130,000 gross ton). As a result of the enhanced capitulations and cabotage rights related to shipping in 1861, the Europeans dominated the sector throughout the

country (Sirin, 2000 p.92). This situation caused major problems in the transportation systems of the country and the Empire established a state-owned shipping company (Seyr-i Sefain İdaresi) to govern both merchant shipping as well as in support of naval transportation in 1910. This organization continued to exist in the Turkish Republic period up until 1933.

The shipping system in Turkey remained under control of the allied countries after World War One. The newly established Turkish Republic could not establish his own shipping system between 1923-1925 periods due to lack of sufficient infrastructure and manpower to handle the system. The international shipping was still being controlled by the foreigners. The local shipping was conducted by Turkish companies organized under then (Mavnacilar Birlikleri – Associations of Barge Operators). The Law of the Ports was passed in 1925 to solve this problem and state supported shipping companies and port administrations were launched.

The national Turkish Commerce Association (Milli Turk Ticaret Birligi) started a campaign for the nationalization of shipping (Avcioglu, 1969 p.194, 220).

The main problem was the provision of qualified personnel for the shipping industry. The only source for seafaring officers and shore personnel was the Naval Academy. There was no institute to support the merchant fleet crew and the Merchant Fleet School which had been opened in 1881 and shut down in 1888 (Sirin, 2000 p. 364, 368, 369). The existing shipping companies were being operated by foreigners or minorities who almost became estranged (Cogito, 2006 p. 19).

Turkish shipping could not be improved during the 2nd World War. Turkey could not get benefit to enhance his fleet when the United States disposed of Liberty class cargo ships, only 5 ships were bought.

After 1950 the liberal economy era started and many shipowners started to become involved in shipping. Also a state-owned shipping company named DB Nakliyat (Turkish Cargo Lines) to serve for both domestic and international shipping is established. The private sector reached 553,304 DWT as the stated owned ships were 287.518 DWT in the year 1967.

In 1980, the shipping industry was the beginning of the dark days and second-hand ship sales started with very low prices. The Turkish Chamber of Shipping was founded in 1981 and it became an important tool to organize private shipping sector. The newly established Under-secretariats of Maritime Affairs directly reporting to Prime Ministry assumed maritime administration functions. The Following year the government published a law concerning "Improvement of the Merchant Fleet and Incitement of Shipbuilding Industry" which has provided ship finance for the shipowners up to 90 percent and guaranty for the freight (Turkish Government, 1982). Many new shipping companies have been established. This incitement allowed the shipowners to buy mainly second-hand ships and the tonnage of the fleet suddenly increased to 5.123.888 DWT in 1989.

The beginning of the third millennium was a golden era for Turkish shipping. The high freight rates encouraged the shipowner to enhance and renew their fleet. Old ships have been decommissioned, scrapped or sold and subsequently new, modern and bigger ships have entered service. The same efforts have been spent to improve shipyards and ports. Most importantly private sector and government agreed to applied higher standards as required in the new world order. Many maritime education institutes have been opened to support this modern fleet. The economic crisis in the 2008 has created a negative impact on the shipping industry. The sector has been badly influenced from the crisis but achieved to survive.

The country's Eastern Black Sea coast has very limited economic opportunities. This situation has led to people turning to shipping and fisheries. Still in the country, the vast majority of ship owners and sailors is the origin of this region. This situation can easily be organized to ship owners and township-relations have provided mutual support and interdependence. They have also got involved in shipyard and port operation business. The shipping companies of this group introduce a small family type of business and they hand over the positions from one generation to another. Albeit the new Trade Law is brought obligation to use professionals in the management boards of on the boards of such companies, this is solved by family solidarity.

Although there are many shipowners from the other regions, ten to twenty families from the Black Sea region lead the private maritime sector. The Turkish shipowners generally operate their ships under convenient flags or Turkish second registration. The economic data for ship owners therefore is not reflected in the economic figures of the country and their real economic value is not known.

Turkish merchant fleet today is mainly composed of bulk carriers, but meanwhile one can observe a gradual increase in the number of tankers and container ships. At the same time the Turkish shipping companies modify themselves parallel to this change. ARKAS, YASA, KAPTANOGLU and GEDEN are the leading companies who have started to this path and may other companies try to follow the same path.

COLLECTION OF THE INFORMATION

The Turkish shipping companies introduce generally a picture of family business type organizations. The management boards of these companies are generally consisted of family members. Because of work and non-work lives are so intermingled, relations between individuals can affect business practices and decisions in the family type small business. Many who start small firms hope to build a business that can be turned over to a son or a daughter. Yet the younger generation may have different career aspirations and plans and do not ever want to work in the family business. When a business is passed on from one generation to another, there is a high probability that it will not be successful.

The Turkish companies have no organizations and capacity for “reading the market” and that stops them to make strategic planning. Their plans are mainly based on ‘second guessing’ and very limited for challenges in the maritime world.

The main elements of the managing ships are based on the commercial & technical management and administration. When we investigated the company organizations a lot of missing elements are observed in particular commercial management.

Most of the shipping companies in the country are involved in technical management and they have not a commercial management capability. Within shipping, the effectiveness of an operation's commercial management will be determined by judgements made in the marketplace.

Any information on the strategic management could not be reached in this study. It may be exist in the brain of the management board but not formulized or

publicized. At least the existing or ex-employees have no idea about such plans.

Liner and bulk shipping companies, which operate at opposite ends of the unit cost function, carry out fundamentally different tasks. Liner companies have to organize the transport of many small parcels and need a large shore-based staff capable of dealing with shippers, handling documentation and planning the ship loading and through transport operations. The bulk shipping industry, in contrast, handles fewer, but much larger cargoes. Large shore-based administrative staffs is not required, but the few decisions that have to be made are of crucial importance, so the owner or chief executive is generally intimately involved with the key decisions about buying, selling and chartering ships.

In short, the type of organizations involved, the shipping policies, and even the type of people employed in the two parts of the business are quite different. Some companies have taken necessary actions to conglomerate their different functions but some still has no intention to merge their liner and bulk shipping companies.

The new liner companies were highly visible organizations with offices or agencies in the ports they served. Companies such as P&O, Blue Funnel, and Hamburg Süd became household names. Their prestigious office buildings housed teams of administrators, naval architects and operations staff who planned and directed fleets of a hundred ships or more as they plied back and forth on their trades. The companies are reluctant to make cooperation even for establishing common offices or agencies in the same areas. As we progress through the early years of the twenty-first century, the size and scope of the shipping company will continue to change. It is based on the company business plan formulated by the directors. The following factors are relevant:

(a) The company will have one of its core objectives marketing. This is generating a new breed of management and culture throughout the company. It will remain customer focused, embracing responding and empathizing to the needs of the customer in a competitive manner. Hitherto, in previous generations it was driven primarily by operating considerations. Moreover, the area of marketing embraces not only promotion strategies, but also market research, product development, including new types of containers, quicker transit and marketing plans including budget driven marketing management.

(b) The IMO codes introduced in the past decade include the ISM, STCW, and ISPS codes which influence the company structure primarily in the marine sectors of the business. In particular, the chain of command between the ship and shore with emphasis on ship management and security.

(c) Logistics is a growth area in liner cargo companies.

(d) A further factor is the impact of information technology which continues to become more sophisticated

and quickens the pace of the decision-making process. It extends all parts of the shipping company organization and in many companies has resulted in layers of management structure - especially in the middle management range - being eliminated. This has shortened the decision management chain and resulted in quicker decisions thereby making the company more competitive.

(e) At the same time the headquarters structure tends to be much smaller with authority devolved to encourage more accountability of personnel at all management levels. The profit centre concept has been developed through strong budgeting management techniques. The devolution of executive authority has involved cross border structures and in so doing yielded tax benefits and lower wage scales. The development of computerized technology has greatly facilitated this devolution and change.

(f) A further factor is the diversification of the business. Whilst shipping may remain the core of the

business many entrepreneurs have other interests which include real estate and construction, including ancillary activities of the core business such as road haulage, seaports, warehouse, ship broking and so on.

(g) The development of third party ship management outsourcing is a growth section especially in the area of crew, insurance, ship survey and bunker management.

(h) The tendency to have more operating alliances.

(i) An increasing number of shipping companies are focusing on mergers and acquisitions.

There are some attempts to improve company management systems but these attempts do not cover all above mentioned subjects. A significant issue is improvement of the IT systems.

The companies are generally led by merchant fleet origin staff, shipmasters and chief engineers, seafaring officers. But most of the staff has no formal experiment on maritime management which is vital. And there is still a language problem of the staff which communication in English is an inevitable requirement in the maritime business. It is not possible to say Turkish companies are ready to apply or have intention to achieve above mentioned roles. Even there is no intention to establish consortiums to achieve some specific economic goals may be beneficial for all interested parties.

Ship management companies fall into main categories, one being a ship-owning company that manages its own ships and offers the same services to the other ship owners. The other types are companies that have no ships of their own and solely provide ship management services to the ship owners: Whichever type it is, the function is the same and falls under five main headings:

- Crewing
- Technical
- Storage
- Insurance
- Operations

Other services such as training and consultancy may also be offered. Turkish shipping companies are generally ship-owning companies and deals with technical management only. A few technical management companies have been established and the number of such companies is increasing.

The information gathered is also evaluated in light of the general organization and management principals as well as specific issues concerning maritime economics and management.

The significant findings are as follows:

Weaknesses

The companies has no department responsible for commercial management and that limits their commercial management capability (2/2)¹

Still “one ship - one company” organization is applied that create negative impact on reputation (1/1)

The companies have no strategic plan even mid-term plans, so decision can be too spontaneous (1/2)

Informal organization is dominant rather than formal (3/3)

Day-to-day fire-fighting rather than strategy (1/1)

Absence of professional managers at the upper management (direction) (1/1)

No finance and budgeting department (2/2)

Some posts are not manned or twin mandate (3/3)

Middle management level are merchant fleet origin and qualified (2/2)

Legal issues are outsourced and no assigned legal experts (3/4)

Some general managers are family members without market experience (2/3)

Middle and lower management level are not formally qualified on maritime management (2/3). No departments to conduct abroad cooperation (2/3)

There is only one company in the stock exchange and this creates a negative impact on ship finance (3/3)

Strengths

Information systems grows and facilitates management activities (1/1)

The shipping companies have sufficient experiment to reorganize as a logistic company (2/3)

Organization has an experiment to handle a regular supply chain management system (2/3)

Some companies work different type of commodity transportation (2/2)

Close family relations between many ship/company owners facilitates cooperation and mutual support (3/3)

The young people still admires to become seafaring officer and it facilitates employment of sufficient number of crew (2/2)

There is a well organized and capable organization namely IMEAK DTO to provide cooperation and coordination in the sector (2/3)

Good cooperation between private sector organizations and Maritime Administration (2/3)

Product knowledge of the staff is sufficient (3/3)

Staff team enthusiasm is still considerable (2/3)

Ideas generation exists but needs to be organized and supported (1/3)

The companies are well aware of the facts of the few maritime order but needs more proactive approach (1/1)

Threats

Economic cycle is still unpredictable. The organization is not suitable to create a any strategic plan and handle a risk management plan which is vital to survive the company.

The commercial management capability is very low. The freight rate is still low and if they do not enhance customer range, they may not be able to continue to compete.

The composition of the world fleet is rapidly changing and modern ships are replacing olds. They have no specific department to handle ship supply and purchase activities for fleet renewal.

The number of the shipping companies is increasing and many copycats in the future are possible. The organization and management system is not sufficient to fully support the company in a maritime sector with too many competitors.

No departments exist for finance and budgeting functions. Inadequate focus on the finance/cash-flow

Key staff is changing often. This situation may create many gaps in the management system and hampers long term planning.

Family members influence on the decision process may hamper regularity of the company management systems.

Opportunities

Many road transportation companies in the country are transformed into logistic companies. The shipping companies have sufficient experiment and reorganization capability to assume logistic company roles as a complementary business and reorganize to achieve such functions.

Many companies have adopted management information systems which facilitate their management activities. This gives them an opportunity to create a data mining capability which improves their customer relations and acquisition s and purchase abilities.

An effective supply chain management system may be developed with some minor changes in the organization. Some companies work different type of commodity transportation (bulk, tanker, container etc.) This will help them to survive in case of any negative impact on freight rate for a specific type of commodity.

Close family relations between some ship/company owners may facilitate cooperation and mutual support. This

¹ Priority/Importance

situation also helps them to create strong NGOs in the sector.

The sector still has a capability to employ sufficient number of crew/personnel but needs some effort to improve quality.

Potential investors are hovering but needs to be organized for cooperation IMEAK Chamber of Shipping is a well organized and strong institution and capable for athletic sponsorship for the sector.

CONCLUSION

As a result of this study it is understood that Turkish shipping companies are mostly not adopted contemporary business and management practices. The success of a company is depending upon the correct decisions to provide smooth operation of the organization and also “luck” factor. It is evident that all institutions should adopt new business management techniques and practices to survive in a challenging economic system.