

# Impacts of the board of directors and ownership structure on consolidation strategies in shipping industry\*

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## Abstract

In the study I examine the relationship between corporate governance and consolidation strategies for shipping firms. The analysis is focused on the ownership structure and corporate governance power which are supposed to influence the consolidation strategies. I investigate M&As and global alliances occurred during 2006-2007 fiscal years in maritime industry. In the empirical study, I find that institutional investors are present as the largest shareholder at about 54% of the firms followed by the family ownership with 36%. We also find that corporate governance is an important factor to shape alliance and M&A strategies.

**Key words :** Shipping industry, Consolidation strategies, Ownership structure, board of directors, Corporate governance, Mergers and acquisitions, Alliance

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\* This work was supported by the National Research Foundation of Korea Grant funded by the Korean Government.  
[NRF-2010-358-B00012]

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## **I. Introduction**

The liner shipping industry is used to be a classic example of an oligopoly with a limited number of large shipping companies. A fragmented industry, populated by mid-sized, national flag carrying shipping lines, has largely disappeared as mega-carriers have emerged. Well-known names such as P&O, Nedlloyd, and Sea-Land have been sub named by market leader Maersk and other lines have followed in their track.

Restructuring of the global shipping industry has been dominated by international alliances, mergers and acquisitions. M&A activities can be considered as one of foreign investment methods; establishing new plants and forming joint ventures, or undertaking an acquisition of a local firm.<sup>1)</sup> Advantages of M&A FDI arise from ready access to market share, technology, brand name and other firm-specific assets which immediately provide the acquiring firm with a competitive advantage in the foreign market. M&A FDI is thus one of the fastest ways for the investing firm to enter a foreign market. It is equally valid to view M&A FDI as a cross-border variant of M&A which typically involves the acquisition of a firm in one country by a firm from another country.

There is no doubt that liner shipping companies that merge horizontally or vertically influence their firm value. Most researches on the motivation of M&As are focused on the search for the synergy effect. These include rationalisation of operations and cost cutting particularly from bringing together administration, marketing and information technology. They also pursue economies of scale through the use of larger vessels, limit the number of ports of call for ships, seek high utilization of capacity and spread corporate fixed costs over greater output. Mergers and acquisitions or alliances can contribute to these ends as firms compete for volume.

Another powerful motivation for M&As is to create shareholder value and improve corporate governance.<sup>2)</sup> Weak corporate governance in the target firm implies opportunities to improve performance and thus increase shareholder value by strengthening governance. The presence of such opportunities can be expected to attract not only domestic investors but also other foreign investors

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1) Alba, Park and Wang (2009), pp.1-11.

2) Brooks and Ritchie (2006), pp.7-22.

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