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

Heejung YEO**

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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

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

** Full-time lecturer, Keimyung University, Korea, Email: heejungyeo@kmu.ac.kr

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.[1)] 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.[2)] 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

1) Alba, Park and Wang (2009), pp.1-11.
2) Brooks and Ritchie (2006), pp.7-22.

for corporate control. Our research question is whether corporate governance of the firms can influence the choice of mergers and acquisitions or alliances strategies. We address ownership structure and power of corporate governance with respect to M&As and alliances decisions.

Top managers and shareholders play an important role in corporate governance. In a firm with separated ownership and control managers assume daily business activities. Agency theorists believe that both principals (shareholders) and agents (executives) prefer projects with higher returns to those of lower returns, but their interests diverge in terms of the uncertainty, or risk associated with different projects.[3)]

Acquisitions result from CEOs' hubris if they are overconfident in their personal capabilities to achieve synergy. The stock market appears to be one of the most effective mechanisms to prevent the abuse of managers' discretion. The market for corporate control can be seen as the field where alternative management teams compete with each other for the right to manage corporate assets owned by the shareholders.

On the other hand, agency theory predicts that managers will act largely out strategies which increase self-interest of themselves unless they are closely monitored by large shareholders.[4)] This implies that manager-controlled firms are likely to make more conglomerate mergers and exhibit higher levels of diversification than owner-controlled firms.

Ownership structures play a central role in determining the extent to which the interests of owners and managers are aligned.[5)] Ownership structure also influences a firm's acquisition strategies, with higher internal equity fostering less risky acquisitions but large shareholders and certain institutional owners pressing for higher risk acquisitions.[6)]

The paper is organized as follows. First, it provides background information on the industry, followed by an overview of corporate governance. The empirical study and the results are then presented. Section IV discusses the empirical findings and concludes.

3) Lane, Cannella Jr. and Lubatkin (1998), pp.555-587.
4) Demsetz (1983), pp.375-395 ; Shleifer and Vishny (1986), pp.461-488 ; Walsh and Seward (1990), pp.421-458.
5) Dalton et al. (2003), pp.13-26.
6) Wright et al. (1996), pp.441-463 ; (2002), pp.41-53.

II. Shipping industry and corporate governance

1. Shipping industry

Mergers and acquisitions (M&As) represent a prevalent strategy in the liner shipping industry to reduce costs and improve profitability. The maritime transport industry is characterized by its concentration of market with the top five companies controlling 44.1% of the slot capacity in 1980 and 48.2% in 2003. However, the industry is not known for stable return on investment. It is difficult to make continuing positive returns. That low returns offer limited shareholder growth, with that growth in shipping running two percent annually over the 1993-1997 period, compared with 30% for logistics services, 14% for equipment leasing, and 7% for truckload trucking.[7)]

Mergers and acquisitions may not only have long-term strategic and economic effects, they may also impact directly and immediately on the value of the company.[8)] Horizontal mergers and alliances enhance service quality for shippers by increasing the geographical span of services. This is consistent with shippers' interests in using fewer lines to serve global markets. Vertical mergers and alliances may enhance lines' capability to provide well-integrated transport and logistics services.

The liner shipping industry has undergone an unprecedented consolidation in nineties. The consolidation phenomenon was highlighted through a series of high profile mergers and acquisitions, and alliances. This led to an increase of a global scale of shipping firms. While there has been quite a lot written about M&As in other industries, and about alliances in liner shipping industry, little has been understood about M&As in the total maritime sector of transport.

Mergers and acquisitions took place to rationalize activities, reduce costs, and create significant economies of scale, all of which are conducive to establish a major market player. The formation of P&O Nedlloyd Container Line was a strategy aiming towards improving the performance of the container shipping activities of the two listed companies. The partners aimed at achieving cost reduction in the order of US$200 million annually offset against an initial re-structuring cost of USD100 million.[9)]

7) Kadar, Compton and Randall (1999), pp.3-9.
8) Panayides and Gong (2002), pp.55-80.
9) Panayides and Gong (2002).

The largest mergers occurred in 1997 with the integration of P&O Containers and Royal Nedlloyd Line (P&O Nedlloyd) followed by the merger of Neptune Orient Lines (NOL) and American President Lines (APL). The merger of SeaLand and Maersk (Maersk - SeaLand) was completed in 1999.

Major global shipping firms are also involved in global alliances, and these firms were able to integrate their vessel operational activities. Strategic alliances were set up in 1994 by APL, OOCL, MOL and Nedlloyd in the name of Global Alliance for the Europe-Far East route. The new Grand Alliance (with the entrance of OOCL and MISC) and the New World Alliance became operational in January 1998.[10)]

Today, of the top-10 shipping companies, only Evergreen and Mediterranean Shipping Company (MSC) remained an independent operator. Marketing operations and internal organization, by contrast, are integrated to a much lesser degree.[11)]

The United Alliance, involving Hanjin, DSR-Senator and Cho Yang was formed in October 1997; activities started in March 1998. There was the reorganization of the two most important alliances, i.e. the Grand Alliance and the Global Alliance, due to the creation of P&O Nedlloyd (January 1997) and the takeover of APL by NOL (April 1997).

M&A or alliance strategies offer unique benefits to managers seeking to create and sustain a competitive advantage for their companies. However, strategic alliances are likely to increase organizational complexity and competition among member companies and have its inherent problems with allocation of responsibilities and instability. This suggests that for firms suffering from these problems M&As could be a preferred growth path.

2. M&As and Corporate governance

1) Mergers & Acquisitions

In Mergers and Acquisitions the course of a merger deal can be affected by managers' personal interests and incentives, not necessarily aligned with those of their shareholders. The managers of the target firm, for instance, may be in danger of losing their managerial positions in the post-merger successor firm.

10) Heaver, Meersman, Moglia and Van de Voorde (2000), pp.353-373.
11) Heaver, Meersman, Moglia and Van de Voorde (2000).

This can result to a loss of future compensation and possible misalignment of incentives between the target's board and shareholders. In some target companies, incumbents might attempt to avert 'value enhancing' mergers. In other cases, target executives may agree to lower merger premiums in exchange for offers of future employment or other perquisites with the successor company.

Since target firm shareholders can receive a substantial premium in a merger while target managers risk losing their seats, manager incentives to promote a merger deal tend to diverge from those of their shareholders.[12)] Shareholders generally prefer their company to become a target, while managers prefer their company be one of the survivors. The attitude of the management towards a takeover deal can reveal the efficiency of the corporate governance structure towards shareholder interests.

Bleeke and Ernst[13)] suggested that alliances are often precursors to acquisition and that wealth may be destroyed in the merger attempt. Harrigan[14)] and Levine and Byrne[15)] suggested that 60% of mergers fail to achieve their economic promise. The greater market share of lines realized through mergers and alliances may create some initial heightened market power, but this is unlikely to result in sustained high profit margins in the dynamically competitive international shipping and logistics industry.[16)] Sources of wealth destruction in mergers include the hubris hypothesis,[17)] agency problem and managerial entrenchment,[18)] bad judgment[19)] and the escalation of commitment.[20)] Jensen and Ruback,[21)] Halpern[22)] and Weston et al.[23)] provide summaries of some of the most influential studies.

Managers may opportunistically use their control to pursue objectives which are contrary to the interest of shareholders. Hiller and Hambrick[24)] argue that executives with a strong evaluation are likely to make quick strategic

12) Syriopoulos and Theotokas (2007), pp.225-242.
13) Bleeke and Ernst (1995), pp.97-106.
14) Harrigan (1988), pp.53-72.
15) Levine and Byrne (1986), pp.100-106.
16) Panayides and Gong (2002), pp.55-80.
17) Roll (1986), pp.197-216
18) Jensen, (1986), pp.323-329 ; Morck et al. (1988), pp.293-315.
19) Morck et al. (1990), pp.31-48.
20) Lys and Vincent (1995), pp.353-378.
21) Jensen and Ruback (1983).
22) Halpern (1983), pp.297-317.
23) Weston, J. F., Chung, K. S., Siu, J. A. (1998).
24) Hiller and Hambrick (2005), pp.297-319.

decisions with little analyses, engage in large-scale strategic actions (e.g. large acquisitions) and have extreme confidence that they can implement the decision successfully.[25)]

The management team which attaches the highest value to corporate assets or promises the highest returns to shareholders takes over the right to manage these assets until it is replaced by another management team that attributes even greater value to corporate assets. Competition between management teams in the market for corporate control increases the pressure on managers to perform well.

The assumption made by some agency theorists is that evidence of self-serving managerial behaviors can be inferred by comparing the corporate diversification behaviors of firms with strong shareholder monitoring to those with little shareholder monitoring.[26)] Specifically, firms without large shareholders are expected to engage in more unrelated acquisitions and show higher levels of diversification than firms with large block shareholders.[27)]

2) Ownership structure

Firms may be owned by a diverse mix of different types of investors. These investors become owners in firms to accomplish financial objectives.[28)] Scholars have demonstrated that owners shape the incentives of managers to make competitive decisions. They suggest that owners may affect both vertical relationships (i.e. upstream suppliers and downstream buyers) and horizontal relationships (i.e. competitive behavior between firms).[29)]

Research on the relationship between a firm's ownership structure and corporate diversification has also received considerable attention. Financial economists often cite a study by Amihud and Lev[30)] to show that the absence of large and powerful shareholders results in greater unrelated product diversification. However, the relationship between the ownership concentration and firm diversification researchers is not clear cut. Lane, Cannella Jr., and Lubatkin[31)], for example, found that ownership concentration

25) Krishnan, Hitt and Park (2007), pp.709-732.
26) Lane, Cannella Jr. and Lubatkin (1998), pp.555-587.
27) Jensen and Meckling (1976), p.305 ; Eisenhardt (1989), pp.57-74.
28) Connelly, Hoskisson, Robert, Tihanyi and Certo (2010), in press.
29) Vroom and Gimeno (2007), pp.901-922.
30) Amihud and Lev (1981), pp.605-617.
31) Lane, Cannella Jr. and Lubatkin (1998), pp.555-587.

was not related to product diversification. Ramaswamy, Li, and Veliyath[32] found that pressure-sensitive owners are associated with unrelated product diversification whereas the association is negative for pressure-resistant owners. In contrast to product diversification, all types of institutional owners generally support international diversification,[33] but for different reasons. [34]

3) Inside ownership

Firms with family ownership provide distinct examples of conflicts over the distribution of the firm's wealth than can occur between powerful, large shareholders and atomic shareholders. Family ownership can be advantageous because the family has the incentive and power to monitor managers, thereby minimizing the free-rider problem in firms with more widely dispersed ownership structure.[35]

Equity ownership by insiders helps align the interests of managers and shareholders.[36] These insiders are likely to make decisions consistent with interests of the broader constituency of shareholders.

Sheifer and Vishny[37] document that family shareholders are common and, note that founding families continue to hold large equity stakes and board seats. In many cases families are large shareholders and holding a top management position. This family ownership represents a unique class of shareholders that hold poorly diversified portfolios, are long term investors, and often control the management team. This implies that they are more willing to employ firm resources towards long-term profitability and less likely to shirk from executing their fiscal and strategic responsibilities.

However, in family firms salient conflict occurs from family's potential expropriation of firm resources to their private benefit, suggesting that small shareholders have concerns with moderating family influence and power. Family shareholders and the family incentives to extract private benefits raise the question of whom or what keeps the family from expropriating minority shareholders' wealth.[38] Minority shareholders (investors) are protected when

32) Ramaswamy, Li and Veliyath (2002), pp.345-358.
33) George, Wiklund and Zahra (2005), pp.210-233.
34) Tihanyi, Johnson, Hoskisson and Hitt (2003), pp.195-211.
35) Anderson and Reeb (2004), pp.209-239.
36) Agrawal and Knoeber (1996), pp.377-397 ; Perry and Zenner (2000), pp.123-152 ; Himmelberg et al. (1999), pp.353-384 ; Dalton et al. (2003), pp.13-26.
37) Sheifer and Vishny (1986), pp.461-488.
38) Anderson and Reeb (2004), pp.209-239.

they have power relative to controlling shareholders and are able to limit large shareholders' expropriation of the firm's wealth.

At the same time, other scholars such as Morck et al.,[39] insist potential pernicious effects of shareholder-managers. High level of ownership by insiders, participation of family in management, may provide executives with increased power, which can cause them to become entrenched within the firm. Once entrenched, managers may consume more perquisites and/or reduce the firm's risk profile to protect their own interests. Some research found that managerial ownership may as often lead to goal misalignment with respect to such issues as backdating of stock options, earning manipulation, and dividend policies.[40]

Prior research indicates that several conventional corporate governance mechanisms used in mitigating agency conflicts between managers and shareholders are less effective in dealing with conflicts between shareholder groups. Gomez-Mejia, Larraza-Kintana, and Makri[41] and Kole[42] found that the takeover market, institutional investors, and incentive compensation are potentially less prevalent governance mechanism in family firms than in non-family firms.

4) Outside ownership

Many scholars have examined influence of owner on a number of other firm-level outcomes. Institutional owners foster restructuring activity in order to create more efficient organizations.[43]

The Securities and Exchange Commission (SEC) has defined blockholders as any investor with more than a 5% equity stake in the firm. Two main factors motivate large block ownership by outsiders: concentrated control and private benefits.[44] Most of outside owners are institutional investors. Institutional investors are a broad array of entities, including mutual funds, hedge funds, insurance companies, university and charitable endowment funds, pension funds, investment banks, investment advisors, and portfolio managers, among many others. Their common trait is that they actively deploy the pooled

39) Morck, R., Shleifer, A. and Vishny, R. (1988), pp. 293–315.
40) Bhattacharya (1981), pp.163-180 ; Devers et al. (2007), pp.1016-1072.
41) Gomez-Mejia, Larraza-Kintana and Makri (2003).
42) Kole (1997), pp.79-104.
43) Bethel and Liebeskind (1993), pp.15-31.
44) Connelly, Hoskisson, Tihanyi and Certo (2010).

capital of third party beneficiaries in the equity securities markets.[45)]

Institutional investors today hold or at least control the purchase/sale/voting decision-making over most of the outstanding shares in most large public corporations, and certainly most of the shares that actively trade in the markets. They play a significant role in corporate takeovers. Some corporate raiders are institutional investors. Institutional shareholders frequently hold more than a majority of the target's shares, and so have a large say in the outcome of the acquisition or merger vote. Fewer institutional investors than individual shareholders have emotional ties to the company, and therefore are less likely to support management, therefore becoming the swing vote for both the bidder and the target.

Different types of institutional owners may have different impacts on firm strategies, including internationalization,[46)] and performance.[47)] Some scholars[48)] differentiate between 'pressure-resistant' and 'pressure-sensitive' institutional investors and show their different effects on strategic decisions. Pressure-resistant investors, such as foreign financial institutions, are unlikely to have strong business links with their portfolio firms and can have a strong influence on strategy choices.[49)] In contrast, pressure-sensitive investors, such as domestic financial institutions, likely have business relationships with investee firms and often have an obligation to support management's agendas.[50)]

III. Empirical study

In the empirical study I will examine the relationship between corporate governance and consolidation strategies. Especially, I will test the influence of such corporate governance variables as ownership structure, board of directors, and composition of the board of directors to the choice of consolidation strategies.

45) Porter (2009), pp.627-682.
46) Hoskisson et al. (2002), pp.697-716 ; Tihanyi et al. (2010).
47) Douma et al. (2006), pp.637-657.
48) e.g. David et al. (1998), pp.200-208.
49) Hoskisson et al. (2002), pp.697-716
50) Tihanyi et al. (2010), in press.

1. Data collection

For empirical analysis, we investigate M&As and global alliances occurred during 2006-2007 fiscal years in maritime industry. Maritime industry comprises many sub-sectors such as inland water transportation, storage, building of vessels etc. We have narrowed the sample firms to the deep sea foreign transportation, excluding trucking, shipbuilding & repairing, cargo handling, and warehousing & storage firms to fine the analysis. Data necessary such as Ownership, dividend, board of directors are obtained from annual reports of each firm concerned. We have manually collected the annual reports in English version. We excluded firms, when they do not publish the business activities report in English. 22 firms launching a takeover bid were selected to be used in the analysis. In addition to collect data on M&A firms, we gather information on 11 firms which have attracted the public attention to their world grand alliance announcement for the comparison analysis.

2. Variable definition

Firm size is measured by the book value of total assets. CEO Dual is a dummy variable measuring whether the chairperson is holding the position of the CEO at the same time. If the chairperson is also the CEO of the firm, it is coded one, and zero otherwise. Bsize is the total number of board members sitting on the board of directors. Bmeeting measures the number of board meetings held during the year. ACQUISITION refers to the number of acquisitions launched by a firm in the year. PRACQUISITION measures the proportion of target firm's equity obtained by a firm during the takeover bid. Prindirs is the ratio of independent directors to the total number of board of director members.

3. Descriptive statistics

<Table 1> presents summary statistics of variables used in the study. Firm size ranges from 58 million USD to 62,739 million USD, with the mean value of 5,509 million USD. A multiple office-holding is widespread in shipping industry, because we find that 67% of chairperson is the CEO of the firm at the same time on average. With respect to the board size, firms have a minimum member of five directors and a maximum member of 14 directors

on the board of directors. The number of board meeting varies from four to nineteen times with an average of eight times a year. When they launch a takeover bid and acquire a proportion of firm's equity, they obtain 91% of the target firm's share. Finally, they have on average 40% of outside directors on the board of directors.

<Table 1> Descriptive statistics

	Minimum	Maximum	Mean	Median	S.D.
Firm size, million USD	58	62739	5509.44	4621.00	10889.27
CEO dual, dummy	0	1	.67	1.0	.48
Bsize, nr.	5	14	9.67	9.0	2.39
Bmeeting, nr.	4	19	7.61	5.0	4.56
Acquisition, nr.	1	9	5.23	4.0	3.34
Pr Acquisition, %	78	100	90.94	100	11.15
Prindirs, %	0	1	.40	0.42	.22

4. Empirical findings

To test the different characteristics of shipping firms in terms of consolidation strategies, I have classified the firms into two categories and identified the firms which have different paths to concentrate their business activities, namely, M&As, and International alliances. <Table 2 > shows identities of the firms which have launched either mergers and acquisitions or alliances.

<Table 2 > Identities of consolidating firms

Mergers & Acquisitions		International Alliances	
firms	Number of M&As	firms	Number of alliances
EITZEN MARIT	1	Maersk	1
CAMIL EITZEN	1	NOL	1
HARBOUR LINK	9	NYK	1
EITZEN CHEM	1	K-LINE	1
Clarksons	2	HMM	1
Costal Contracts	1	MOL	1
Seacor Holdings	1	OOCL	1
Global carriers	4	YML	1
EITZEN MARIT	1	HJS	1
		EVERGREEN	1
		MISC	1
Total cases	21		11

Researchers examining blockholder ownership mainly consider the influence of a primary outside blockholder with a very large stake (e.g. the state or a corporate 'raider'). However, in most firms the presence of several smaller blockholders is more common than a single majority blockholder.[51)] To the extent their interests are aligned, blockholders may work together to enhance their concentrated control.

<Table 3> shows the distribution and identities of the three largest shareholders in the sample shipping firms. First, second, and third shareholders show the proportion held by the three largest shareholders. We find that institutional investors are present as the largest shareholder at about 54% of the firms followed by the family ownership with 36%. Family ownership appears to be quite common in shipping industry. One-third of the sample firms are controlled by families. The presence of individual, industry, or government as the first largest shareholder is minimal. With respect to the second large shareholder, the institutional investors are prevalent with 68%. Family owners are the second large shareholders in 19% of the firms. The dominant identities of the third large shareholders are also institutional investors and family. Other shareholders such as Individual, Industry, Government and Employees are present as dominant owners in rare cases. Consequently, the ownership in shipping industry is very concentrated and the identity of shareholders is limited.

<Table 3> Identities of the largest shareholders, %

	1st large shareholder	2nd large shareholder	3rd large shareholder
Institutional investor	53.6	67.7	44.8
Family	35.7	19.4	51.7
Individual	3.6	0.0	0.0
Industry	3.6	9.7	3.4
Government	3.6	0.0	0.0
Employees	0.0	3.2	0.0

As institutional investors and family are two major controlling shareholders, we have classified firms into two categories; firms controlled by outside owners (institutional investors) and inside owners (families). <Table 4> presents the ownership concentration by outsider and insiders as the

51) Maury and Pajuste (2005), pp.1813-1834.

controlling shareholders, and the proportion possessed by the second and the third large shareholders in each category of firm. The second column shows how many stocks either institutional investors or families hold when they are the principal large shareholder of the firm. When the firm has a family as a dominant owner, they hold about 51% of the firm stock and 52% for institutional investors. In contrast, the proportions held by the second and the third large shareholders are 13% and 5% respectively. By the fact that the proportion held by the other two large shareholders is relatively small with respect to the dominant shareholder, we can assume that the power exercised by the largest shareholder is immense.

The result is consistent with the findings of Becht which reports that 82.5% of German listed companies, 65.8% of Italian listed companies, and 64.2% of Swedish listed companies have a blockholder at least 25% control level. Those shareholders are a single individual, family or group. Claessens, Djankov, and Lang find that a single shareholder has control in more than two-thirds of listed firms in their study with nine East Asian countries.

<Table 4> ownership concentration by different category of firms

	1st large shareholder, %	2nd large shareholder, %	3rd large shareholder, %
Outside owner-dominated firm	52.0	16.56	5.5
Inside owner-dominated firm	50.65	10.74	4.72

The result suggests that the monitoring role exercised by controlling shareholders as a means to ameliorate agency problems in shipping firms is likely to come with frictions, that is, the conflict between the controlling shareholders and the non-controlling shareholders over the extraction of private benefits of control — benefits to the controlling shareholder not provided to the minority shareholders.[52)]

A t-test has been run to find statistical differences of consolidation strategies regarding corporate governance. <Table 5> shows characteristics of firms which launched M&As or formed a global alliance and mean difference tests. Firms with M&A are different from those which engaged in an alliance.

52) Gilson (2006), pp.1641-1679.

Variables such as governance power, firm size, and proportion of outside directors on the board of directors are statistically significant. Governance power is measured by the amount of dividend distributed to the shareholders. The signaling function of dividends is important from a corporate governance perspective. Dividend cuts are often interpreted by the market as powerful signals of bad news about a company. As a result, the failure to meet an anticipated dividend level can prompt corrective action designed to avert a potential crisis.[53)] Dividend policy is the proxy of the power of board of directors (BODPOWER). Inside ownership represents the proportion held by the family members. Outside ownership is institutional investor's shareholding.

We find that larger firms have formed more alliances than M&As. The more the firms are large, the more they prefer the alliance strategy. As bigger firms initiate more international alliances, it is supposed that consolidation movement of shipping industry is led by small firms. Firms with strong corporate governance are likely to engage more alliances than M&As process.

With respect to the ownership concentration, the more the ownership is concentrated, the more controlling shareholders are likely to expand their business activities. However, this is not statistically significant.

Whether the CEO is also sitting on the position of chair is not related to the choice of either alliance or M&A strategy. The size of board of directors does not matter to the M&A or alliance strategy. In contrast, the number of meetings that the board of directors has is associated with an alliance strategy. Firms which engaged in the process of M&A appoint more outside directors on the board. It is found that the preference for M&A strategy or global alliance strategy diverges between controlling shareholder group (outsiders and insiders) and outside directors on the boards. This implies that the ownership structure is an alternative to governance techniques such as independent directors and takeovers.[54)]

53) Bank, Cheffins and Goergen (2009), pp.208-224.
54) Gilson (2006), pp.1641-1679.

<Table 5> difference of means tests

	Alliances			Mergers & Acquisitions			t-test
	Mean	S.D.	S.E. of mean	Mean	S.D.	S.E. of mean	
Firm size	8.9542	0.8429	0.2542	6.3999	2.0455	0.4361	5.060***
Governance power	111.78	90.875	27.400	1.36	3.300	.703	4.029***
BoDpower	1.00	.000	.000	.36	.492	.105	6.062***
Outside ownership	.40	.516	.163	.61	.502	.118	1.047
Inside ownership	.40	.516	.163	.33	.485	.114	0.341
Bmeeting	10.43	5.192	1.962	6.67	4.041	.882	1.989*
Prindirs	.31	.261	.079	.45	.179	.038	1.771*
CEO Dual	.64	.505	.152	.68	.477	.102	0.253
Bsize	10.18	2.316	.698	9.41	2.443	.521	0.871

IV. Conclusion

While many M&As are proved to be failed in terms of financial performance, shipping firms are still pursuing their concentration. We assume that there is another motive for going bigger. The paper aims to find the role of the top management for the strategic decisions such as M&As and alliances. Most important strategic decisions are made in the board of directors' room by the CEO, the president, and other board members.

The paper investigates M&As and global alliances occurred during 2006-2007 fiscal years in maritime industry with respect to internal corporate control mechanisms. In the empirical study, it is found that the shipping industry has a highly concentrated ownership structure. Institutional investors and families are major shareholders of the industry. We also find that corporate governance is an important factor to shape alliance and M&A strategies.

Shareholders can either directly monitor managers or use the board of directors mechanism. While the level of ownership held by either insiders or outsiders does not influence the alliance or M&As strategies, the variables such as governance power and BODPOWER are significant. This suggests that shareholders in shipping industry apply corporate governance mechanism to monitor managers rather than to monitor directly.

The corporate governance mechanism in shipping industry operates as a bonding mechanism that commits managers to maximize share values. A shipping company having a strict policy of making regular cash distributions to shareholders constrains executives to run the company well enough to generate sufficient net cash flow. Managers of these firms are less likely to pursue the concentration strategy especially the M&A attempt. Moreover, an ongoing commitment to pay dividends places inherent limits on the ability of a company to finance its business plans from retained earnings for M&As.*

* Date of Contribution ; Jan. 4, 2012
Date of Acceptance ; March 30, 2012

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