

Changes needed in corporate governance of shipping companies



Captain Pappu Sastry, CEO of Adhira Shipping and Logistics

Captain Pappu Sastry, CEO of Adhira Shipping and Logistics is calling for a radical restructuring of corporate governance in shipping to relieve pressure on crew and ship managers and provide professional oversight of shipping companies and owners.

Captain Pappu Sastry, CEO of Adhira Shipping and Logistics | Apr 26, 2024

Shipping companies in the context of this article can broadly be segregated into ship owning (asset based) and ship operating (non-asset) companies. There are many such companies that are a combination of both. Ship managers are referred to as managers in this article and not as shipping companies; ownership companies managing their own ships are a dying breed but then the article

refers to them as primarily the ship owning companies. This article is still an attempt to complement a change and not complain about the way things work.

There need not always be a trigger for a call out to change the way things work. All regulations and processes in place today are reactive results to incidents and accidents that have occurred prior to the change.

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Whilst the entry barrier for an asset-based company is the availability of finance, the entry barrier for a non-asset-based company in shipping is just the funds needed to buy a computer! The structure of these shipping companies is generally given little thought. Ship owning has become a collection of SPVs which may not even be staffed; the main reason being the cross liability in shipping related casualties. Most of the ship operating companies give little or no thought to the maintenance of the ships they charter, with a very narrow commercial approach and distancing themselves from the responsibility of effectively running the vessel and directing its employment and trading patterns.

The way the ships are being managed in more recent times are a combination of:

- Being based on the capability of the ship's crew
- Shore staff's control of daily decisions in spite of International Safety Management (ISM) regulations
- The deliberate anonymity of the actual owners

The practicality of cargo movement is that the perpetual ISM compliant ship managers are usually not the ones who place the commercial pressure on the ships. They are, in many cases, the victims (even if they are in-house) of a tight budget, difficult schedules, constant changes to the 'goal posts and unreasonable expectations of all the stakeholders.

In such a scenario and especially when there is an incident that affects the environment or safety of life at sea, the onus of the standards of management is always limited to the managers.

Such managers have their priorities overburdened by regulations such as the ISM/ ISPS code and the various CLC, MLC, SOLAS and MARPOL regulations. There is usually a ruthless treatment of managers when there are major incidents with scrutiny of their processes and procedures. There is however no short term or long-term corrective action in ISM or ISPS against the commercial pressure or blame apportioned to the ship staff and managers by the shipping companies that control the commercial and trading aspects of the ships.

Whilst there is over regulation in the way the ships are managed and the responsibility of decision-making trickles from top to bottom in the vicious chain of command, there is little or no role of the actual shipping companies in ISM. These shipping companies have placed themselves in a place of no-responsibility within the realm of the blame culture that is misdirected and unintentional departure from the ISM code.

Many insurance policies don't cover owners (shipping company) negligence but will cover manager's or crew' negligence. This is another deterrent to stopping the blame culture. It is high time that these shipping companies and ship managers make it a practice to have a genuine corporate culture. It could be argued that it is in the interest of avoiding blame and helps the insurance companies with transparency regarding actual responsibility for an event.

The norms of such a culture are set and many of the larger companies follow their own versions of it. However, it has been seen that unless there is a regulation for this, compliance will always remain optional. Corporate culture starts with a corporate structure. Every shipping company should be made responsible for the decisions they take and the reasons for their instructions. The structure of a board of directors and board of advisors is the starting position.

The SPV collective of ship owning companies should have a working body responsible for the operations of the company and a governing body with the directors being responsible for the decisions taken on strategic decisions that dictate the standard of management. The non-asset-based ship operating company should be forced to register with minimum certification to actually operate ships. They could use the corporate structure as an entry barrier for anyone with a computer to start and work a ship operating company.

All shipping companies should have a transparent decision-making matrix where you can see where and how the decisions are made. All the shipping companies should have a compulsory non-executive third party board member with voting rights. This helps with breaking the mould of a 'old boys club' attitude with working management. Since there are SPVs of a ship owning company and may be the 'brand' name of the ship operating company, that are established in different tax-favourable countries with local company law as the norm, the application of this corporate structure regulation needs to be standardized at an operational level. It could be done as an amendment to the present ISM code and include the shipping company responsible for the trading and commercial decisions (and should require that this is not the same as the ship manager, to avoid loopholes). There is also a scope for formalizing Project Managers, as the professional coordinators for such activity.

Think about the change that can occur if we can vent the commercial pressure on the managers and the crew; by standardizing the shipping company responsibilities and ensuring a professional approach from all stakeholders in a common maritime venture, called shipping!

**SPV – Special Purpose Vehicles/ Companies*

**ISM – International Safety Management Code*

**ISPS – International Ships and Ports Security Code*

**CLC – Civil Liability Convention*

**MLC – Maritime Labour Convention*

**MARPOL – Marine Pollution Convention*

**SOLAS – Safety of Life at Sea*

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