BOARD COMPOSITION IN THE AFFILIATES OF FAMILY BUSINESS GROUPS IN TURKEY: A LONGITUDINAL ANALYSIS

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Thesis Abstract

İdil Ziyaoğlu, "Board Composition in the Affiliates of Family Business Groups in Turkey: A Longitudinal Analysis"

Recently, both supranational and national institutions have been advocating an increase in outsider representation on boards of directors. However, studies conducted so far reveal that the board composition prevailing in many emerging economies contradicts with the demands of these institutions. Thus, Turkey, as an emerging economy, is a suitable context to investigate if the recent pressures have been able to create a change in insider dominated boards of emerging economy firms.

Therefore, the main objective of this study is to investigate if the board compositions of business group affiliates in Turkey have changed over time. A second objective is to find out if there is any association between board composition and export performance in the context of business group affiliates. For this aim, boards of six family-owned business group affiliates have been analyzed as of 2003, 2005, and 2007. The data were collected mainly from archival sources such as annual reports and corporate governance compliance reports of the focal company and the business group that it is affiliated with. Frequency analyses, t-tests, one-way ANOVA test, and correlation analyses were used for the statistical analysis of the data.

Findings reveal that board composition of the affiliated companies has not gone through a major change between the years of the analysis. Boards are mostly composed of insider directors who are dependent on the owner-family. Moreover, this study also displays to some extent that there is a positive correlation between total insider representation and export performance of the companies.

Overall, it seems that increasing outsider representation on boards is not likely to be actualized as a consequence of the current pressures in a short period of time. Stronger pressures over a longer period of time may help the diffusion of outsider representation on boards. Besides, directors who are appointed on the basis of their experience, expertise, knowledge may have a positive impact on export performances of the companies.

Tez Özeti

İdil Ziyaoğlu, “Türkiye’deki Aile Grup Şirketlerinin Yönetim Kurulu Kompozisyonu: Boylamsal Bir Analiz”

Son zamanlarda, hem uluslar üstü hem ulusal organizasyonlar yönetim kurullarında dışarıdan üye sayısının arttırılmasını savunmaya başladılar. Ancak, bugüne kadar yapılan çalışmalar, gelişmekte olan ülkelerdeki yaygın yönetim kurulu kompozisyonunun, organizasyonların bu talepleriyle çeliştiğini ortaya koymuştur. Bu sebeple, gelişmekte olan ekonomilerden birisi olarak Türkiye, gelişmekte olan ekonomilerde içeriden üye hakimiyetindeki yönetim kurulu kompozisyonunun baskılar karşısında değişip değişmediğini araştırmak için uygun bir ortam sunmaktadır.

Bu noktadan hareketle, bu tezin esas amacı Türk şirket gruplarına bağlı şirketlerin yönetim kurulları kompozisyonunun değişip değişmediğini araştırmaktır. Çalışmanın ikinci amacı ise bağlı şirketlerin yönetim kurulu kompozisyonu ile ihracat performansı arasında bir ilişki olup olmadığını ortaya çıkarmaktır. Bu amaçla, altı ayrı aile şirket grubuna bağlı şirketlerin yönetim kurulları 2003, 2005 ve 2007 yılları için incelenmiştir. Veri çoğunlukla bağlı şirketlerin ve holdinglerin faaliyet raporları, kurumsal yönetim uyum raporları gibi arşivsel kaynaklardan toplanmıştır. Verilerin istatiksel incelenmesinde frekans, t-test, tek yönlü ANOVA ve korelasyon analizleri kullanılmıştır.

Sonuçlar, bağlı şirketlerin yönetim kurulu kompozisyonlarının analiz yapılan yıllar içerisinde büyük bir değişim geçirmediğini göstermiştir. Yönetim kurulları çoğunlukla aileye bağımlı içeriden üyelerden oluşmaktadır. Ayrıca, bu çalışma şirketlerin ihracat performansları ile toplam içeriden üye temsili arasında bir dereceye kadar pozitif bir ilişki olduğunu göstermiştir.

Genel olarak, yönetim kurullarındaki dışarıdan üye temsilinin mevcut baskılar ile kısa bir sure içerisinde artması olası görünmemektedir. Uzun zaman sürecek daha kuvvetli baskılar yönetim kurullarında dışarıdan üye temsilinin yaygınlaşmasına yardımcı olabilir. Bununla birlikte, deneyimleri, uzmanlıkları, bilgilerine dayanarak yönetim kurullarına atanan üyeler şirketlerin ihracat performansları üzerinde pozitif bir etkiye sahip olabilirler.

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CHAPTER ONE

INTRODUCTION

In recent years, corporate governance has become one of the issues that draws the attention of many actors; scholars to analyze its various aspects, governments to make some reforms, companies to revise their governance structures. The importance attributed to corporate governance practices has increased with economic turmoils at both country- and company-level (Roberts et al. 2005; Faccio et al. 2001). Corporate scandals like Enron and WorldCom and financial crises in East Asia, South America, and Russia disappointed many shareholders and raised suspicion regarding how well and strongly the rights of shareholders are protected by firms and governments.

Today, supranational organizations, states, governmental agencies, trade associations, training institutions, professions, and universities focus on the need to improve corporate governance applications. As a supranational organization, OECD has made the major contribution to the efforts to improve corporate governance practices by publishing the principles of good governance, which set corporate governance standards and guidelines (Selekler-Gökşen and Yıldırım-Öktem, 2009). IMF and World Bank contributed to the efforts by putting some pressure on national governments to adopt these codes and to make necessary adaptations in their legal frameworks (Suehiro, 2001). Governments have been adopting OECD's standards as they are or with some revisions and exerting power on companies to improve their corporate governance applications. Institutional investors have begun to use corporate governance as a key criterion in shaping their investment decision and call for corporate governance reforms particularly in emerging economies (Gibson, 2003). Other institutional actors in the business world such as universities, research institutions, and professional and businessmen associations have also been involved in the efforts to improve corporate governance practices (Selekler-Gökşen and Yıldırım-Öktem, 2009). They organized seminars and conferences, and published reports and guides to create changes in cognitive frameworks of business world.

The main objective of the principles across many countries is to improve the quality of companies' board governance and thereby to increase the accountability of companies to shareholders. This, in turn, is expected to maximize shareholder and/or stakeholder value (Aguilera and Cuervo-Cazurra, 2004). Thus, board of directors, which is responsible from protection of shareholder rights, has become one of the main issues of the corporate governance reforms. This interest in boards resulted in institutional pressures to improve board composition by increasing the outsider representation to assure board's independence from management. Those pressures, however, are in contrast with the insider-dominated board structures prevailing in many emerging economies which are characterized by family-owned and –controlled business groups (Selekler-Gökşen and Yıldırım-Öktem, 2009). Therefore, this study aims to investigate whether these pressures have resulted in some changes in board composition in the context of an emerging economy, Turkey.

However, considering many organizational actors especially the owner families who benefit from the current governance structures, it is possible to see the emergence of some resistance against implementation of reforms. Furthermore, since forming insider-dominated has become a taken-for-granted practice, the institutional environment is also likely to maintain current insider dominated boards. Besides, in many countries, pressures to increase outsider representation lack mandatory basis (Aguilera and Cuervo-Cazurra, 2004). This drawback, in turn, may also have a negative impact on the tendency of companies to make necessary adaptations in their practices. Especially the lack of coercive pressures from governments may increase the likelihood of non-conformity with the principles of good governance.

Thus, on the one hand, there are pressures from national and supranational organizations to adopt corporate governance reforms. On the other hand, however, there are sources of resistance such as lack of coercive pressures, and organizational actors' interests and cognitive frameworks. Thus, there emerges a question; whether a corporate governance reform regarding board composition is adopted in the face of such countervailing forces in Turkey.

Therefore, the first objective of the study is revealing the extent to which the board composition has changed in Turkey as a result of institutional pressures. The research question that guides this study is "How much, if any, change is created in the insider-outsider composition of boards of business groups as a result of the efforts to increase outsider representation as codes of best practices imply?" Boards of family-owned business group affiliates in Turkey will be analyzed for the years of 2003, 2005, and 2007 so as to shed light on this issue.

Boards are responsible of reviewing and guiding corporate strategy of the companies. This responsibility requires board members to make strategic decisions for the company. Besides, boards are used as a tool to maintain control over the group firms in emerging economies. Thus, critical decisions are likely to be taken by boards. As decisions regarding internationalization can be seen among strategic decisions of a company, an association can be expected between board member characteristics and export performance of a company. In this regard, the second purpose of the study is to find out whether there is an association between export performance and board compositions of the companies in the sample.

The next two chapters provide the theoretical basis of the study. The second chapter focuses on the board of directors; their roles and theoretical approaches to the board composition in literature. The third chapter investigates the concept of change and presents arguments not only in favor of change but also in favor of resistance to change. This chapter also includes the relation between managerial attributes and export performance and it eventually ends with the hypothesis of the study. The fourth chapter provides information about the research setting; corporate governance mechanisms, business groups, institutional pressures for change, and resistance to change in Turkey. The fifth chapter focuses on sample, data collection and the variables of the study. The sixth chapter presents the findings of the study. Finally, the study concludes with Chapter Seven which aims at drawing a general picture of board compositions of Turkish business groups between 2003 and 2007 and commenting on the extent of change that has been actualized and its future prospects.

CHAPTER TWO

BOARD OF DIRECTORS

In this section of the study, roles attributed to the boards of directors, theoretical approaches to the board composition, and approaches to the board composition in practice are studied.

Roles of Board of Directors

Literature on the boards of directors attributes a variety of duties on boards. These duties can be categorized under three widely recognized roles for board of directors namely, control, service, and resource dependence (Johnson et al. 1996). These three roles establish an umbrella for viewing various duties and functions performed by boards (Young et al. 2001).

Control Role of Boards

Board of directors can serve as an internal corporate control mechanism (Young et al. 2001), ensuring protection of shareholder interests against potentially opportunistic behaviors of managers (Donaldson and Davis, 1991; Daily and Dalton, 1993; Johnson et al. 1996; Westphal, 1999; Boyd, 1994). As managers have the potential to use firm's resources for their own private benefits at the cost of firm's performance and hurt shareholders rights (Heinrich, 2002), they need to be controlled. While performing the control role, boards approve decisions made by the management, monitor implementation of approved decisions, evaluate managerial performance, determine executive compensation, and hire and fire top management (Johnson et al. 1996; Zahra and Pearce, 1989, Denis and McConnell, 2003).

In the fulfillment of their control role, boards are expected to monitor managers so as to make sure that the managers act in the best interest of shareholders and contribute to firm growth (Muth and Donaldson, 1998). Boards are also responsible from evaluation of managerial performance. On the basis of this performance appraisal, they may decide to reward top executives (Johnson et al. 1996). Alternatively, they may also decide to fire managers and hire new ones if they believe that managers are not acting in line with the shareholders' interests (Zahra and Pearce, 1989). Thus, boards may contribute to organizational performance by avoiding managerial behavior which contradicts with the interests of shareholders and which may lead to expropriation of shareholder rights (Zahra and Pearce, 1989).

Service Role of Boards

In the fulfillment of their service role, boards of directors are expected to contribute to the human capital available to the firm (Hendry, 2005), by sharing their expertise and experience on the business, and by providing counsel, advice and guidance to the management (Johnson et al. 1996; Daily and Dalton, 1993; Pfeffer, 1973; Westphal, 1999). Valuable recommendations of board members may have an important role particularly when management is formulating a strategy. In addition to providing advice in strategy formulation, the board, itself, may also initiate or develop some strategies (Johnson et al. 1996).

Thus, existence of many active or retired CEOs and insider professionals on boards can be seen as an attempt to benefit from the expertise, experience, and knowledge of board members in strategy formulation. Such contribution of the board is also made apparent by the self-reports of directors who indicate that they spend considerable amount of time and effort to contribute to the decision making process in the firm (Johnson et al. 1996).

In some organizations, the service role may be more pervasive compared to the other board roles. In contexts where external monitoring mechanisms such as highly competitive product markets and managerial labor markets exist, the need for boards as an internal control mechanism diminishes. Thus, instead of its control role, the service role of boards may be utilized more intensely and companies may have a tendency to appoint experience- and expertise-rich directors on their boards (Johnson et al. 1996).

Resource Dependence Role

Board of directors can also contribute to the acquisition of scarce resources that are critical for the survival of a company (Pfeffer, 1972; Peng, 2004). While fulfilling the resource dependence role, the board acts as a boundary spanner that links the organization to its external environment (Daily and Dalton, 1993). In the fulfillment of this role, board members are expected to bring critical resources including capital, legitimacy and information to the company (Muth and Donaldson, 1998).

Board members who have contacts with financial institutions or are active in business circles may facilitate the company's access to capital (Pfeffer, 1973). In a similar vein, companies may appoint former bureaucrats and military officers on boards in order to establish good relations with the state, to get access to the resources it controls, and to obtain prestige and legitimacy for the company (Peng et al. 2001; Suehiro and Wailerdsak, 2004). Appointing prestigious directors in their professions and communities may enable organizations to gain or enhance reputation and legitimacy (Pfeffer, 1972; 1973; Young et al. 2001; Selznick, 1949; Zahra and Pearce, 1989; Muth and Donaldson, 1998; Zald, 1969).

Moreover, interlocking directorates may be used to get access to critical information either on the industry in which the firm operates or on its competitors (Muth and Donaldson, 1998; Lang and Lockhart, 1990). Especially in uncertain environments, companies use board interlocks to achieve better coordination with other organizations and reduce uncertainty (Peng et al. 2001).

Depending on the different board role they emphasize, three predominant theories in corporate governance research, namely agency theory, stewardship theory, and resource dependence theory have varying suggestions regarding how an optimal board should be composed of.

Theoretical Approaches to the Board Composition

Board composition refers to the mix of director types on a board. “Director type” refers to the distinction between insider and outsider members of a board (Zahra and Pearce, 1989). The concept of insiders and outsiders are defined in different ways by different authors. According to Daily and Dalton (1993), a board member is categorized as an insider provided that he/she is employed by the organization. Thus, these authors classify all board members who are not employees of the organization as outsiders. However, some other authors provide narrower definitions of outsiders by expanding the definition of insiders.

Phan et al. (2003) describe an outside director as one who has not had any commercial interest in the company for a minimum of three years, who is not employed by the organization, who is not a relative of the owner family or a controlling or significant shareholder. Likewise, Zahra and Pearce (1989) define an outsider as one who is not a member of the current or immediate past top management, family member or associate of the top management or an employee of the firms or its subsidiaries. Yıldırım-Öktem and Üsdiken (2008) exclude shareholders, families of shareholders and current or retired employees of the focal firm, the holding company which the focal firm is affiliated with and other firms affiliated with the same holding company from their definition of outsiders. As members of the controlling family, retired employees, and employees in the focal firm or other firms cannot be assumed as “independent” due to their ties with the management, Daily and Dalton’s (1993) definition is too broad. Particularly in the context of emerging economies where family-owned and -controlled business groups prevail, there is need for a definition other than that offered by Daily and Dalton (1993). Their definition which has been shaped in the Anglo-Saxon context does not fit to this context because boards are usually composed of family members, insider professionals working in any affiliate of the business groups, or retired professionals who served for long years for the business group.

Agency Theory and Board Composition

Agency theory establishes the dominant theoretical framework in the corporate governance literature (Roberts et al. 2005; Hillman and Dalziel, 2003; Tian and Lau, 2001; Hendry, 2005). The theory is based on a model of man that is self-interested and rational. This model, coupled with an assumption for an inherent goal conflict between the agent and the principal (Zahra and Pearce, 1989; Nicholson and Kiel, 2007), leads agency theorists to emphasize the control role and sees the board as a major structural mechanism to curb managerial opportunism (Donaldson and Davis, 1991). According to agency theorists, due to the separation of ownership and control in the modern organization (Berle and Means, 1991; Muth and Donaldson, 1998), professional managers act as agents who work on behalf of the shareholders - the principals. As managers have superior knowledge about the company and its operations, they have a great deal of freedom and can act against the interests of the shareholders (Nicholson and Kiel, 2007). Therefore, they should be monitored by boards (Zahra and Pearce, 1989; Donaldson and Davis, 1991).

The agency problem that emerges between managers and shareholders is not the only agency conflict that is likely to rise in a firm (Heinrich, 2002). It is specific to countries with dispersed ownership such as the United States and the United Kingdom (Goergen and Renneboog, 2001). There emerges a different type of agency problem in countries with concentrated ownership, which is found to be more widespread than dispersed ownership around the world (La Porta et al. 1998). In case of concentrated ownership, the agency problem materializes between the large shareholder and the small shareholders because of the potential divergence of interest between the two parties (Faccio et al. 2001). The large shareholders who are usually also active in management, can also be involved in opportunistic behavior. They may engage in expropriation of minority shareholder rights by redistributing wealth from the firm through excessive compensation, related-party transactions, or special dividends (Faccio et al. 2001; Anderson and Reeb, 2003; Schulze et al. 2003; Anderson et al. 2003). Thus, minority shareholders need protection against opportunistic behaviors of majority shareholders. Protection in this case can also be obtained through the use of board of directors (Muth and Donaldson, 1998; Hendry, 2005; Bonazzi and Islam, 2007; Zahra and Pearce, 1989, Davis et al. 1997).

From an agency theory perspective, regardless of the nature of the agency problem, the main duty of the board of directors is control. In the context of emerging economies, as the objective is coping with the possible expropriation of minority shareholder rights, boards should be composed mainly of outsiders who are independent of managerial influence and thus can be more objective in evaluating the management of which the large shareholder is usually a part (Muth and Donaldson, 1998). Besides, it is assumed that outside directors have incentives to develop reputations in decision control (Fama and Jensen, 1983) and thus, are more willing to in protect minority shareholders' interest. Thereby, outside directors are expected to perform their monitoring duty better and avoid self-serving behavior, which may negatively influence firm performance at the cost of minority shareholders. In this way, board members are expected to contribute to healthy corporate growth and performance (Zahra and Pearce, 1989; Kosnik, 1987; van Ees et al. 2003).

In addition to their ability to monitor management, outsiders are also expected to reduce managerial influence (Muth and Donaldson, 1998; Daily and Dalton, 1993; Westphal, 1999, Bonazzi and Islam, 2007; Hillman and Dalziel, 2003). In the context of firms where families emerge as the large shareholder, Anderson and

Reeb (2004) claim that outside directors may play a particularly important role by moderating the family's power and alleviating conflicts among shareholders. Additionally, outsiders may also bring different perspectives on strategic affairs of the company due to their objective perspectives (Tian and Lau, 2001).

Stewardship Theory and Board Composition

Stewardship theory is perceived as both an alternative and a complement to agency theory (Daily et al. 2003; Tian and Lau, 2001; Muth and Donaldson, 1998). With its roots in psychology and sociology, stewardship theory holds a different conception of man (Donaldson and Davis, 1991). In stewardship theory, the model of man is based on a steward whose behavior is pro-organizational and who believes that collectivist behaviors have higher utility than individualistic and self-serving behaviors (Davis et al. 1997). In accordance with this model of man, stewardship theorists believe that managers are loyal to the companies they work for (Muth and Donaldson, 1998), diligent (Donaldson, 1990), and good stewards of the corporate assets (Tian and Lau, 2001; Donaldson and Davis, 1991).

Besides, stewardship theorists also assume that the interests of owners and managers are aligned and the managers are directed to achieve organizational objectives (Muth and Donaldson, 1998; Davis et al. 1997). Furthermore, they claim that even if the interests of the steward and the principal were not aligned, the steward's behavior would not depart from the interests of the organization (Davis et al. 1997). Due to the faith in managers, stewardship theory advocates the use of corporate governance mechanisms which create mutual trust and cooperation between the board and the management (Donaldson, 1990; Tian and Lau, 2001).

They also support the idea of providing the management with higher autonomy, authority, and decision-making power (Davis et al. 1997; Tian and Lau, 2001).

Based on all above-mentioned claims, stewardship theory focuses on the service role including consultancy and advisory function of boards (Selekler-Gökşen and Karatas, 2008). According to stewardship theory, directors are appointed to the board due to their expertise and experience (Westphal, 1999) rather than their potential to control managers -in the case of diffused ownership -or large shareholders -in the case of concentrated ownership.

Stewardship theorists support inside membership on boards. Insider dominated boards are favored for their depth of knowledge, information about firm's day-to-day activities, technical expertise and commitment to the firm (Muth and Donaldson, 1998; Tian and Lau, 2001; Selekler-Gökşen and Karataş, 2008). Since inside directors have greater experience and expertise in the management of the company they govern, they are expected to contribute to firm performoance more than outside directors (Donaldson, 1990). In a similar vein, Anderson and Reeb (2004) claim that stewardship theorists may support to bring in family members on boards as insiders in case of family ownership since stewardship theorists recognize family members as stewards who are prone to identify themselves with the company and act in the best interest of their company.

Despite its favorable assumptions regarding inside directors, stewardship theory does not completely reject the benefits that may be brought by outside directors. Through this lens, Westphal (1999) supports the presence of outside directors regarding the advisory and consultancy function of boards based on the assumption that outsider directors who have friendship ties with the top managers may increase willingness of managers to seek advice from the board by enhancing mutual trust between the two parties.

Resource Dependence Theory and Board Composition

The third major theory in corporate governance literature is the resource dependence theory. Resource dependence theory, which, has its roots in sociology and organizational theory, gained considerable attention in 1970s (Zahra and Pearce, 1989; Nienhüser, 2008) and received renewed attention in 1990s (Young et al. 2001). This theory suggests alternative implications for the board composition in addition to those of agency and stewardship theories. Resource dependence theorists have claims similar to those of agency theorists regarding the optimal board composition but for different reasons. While agency theory supports outsider domination due to outsiders' ability to monitor management, resource dependence theory supports outsider domination due to outsiders' ability to bring critical resources to the company.

Resource dependence theory is based on the notion that the environment is the source of scarce resources that organizations are dependent on for their survival (Mizruchi and Stearns, 1988; Pfeffer and Salancik, 1978) and that organizations' lack of control over these critical resources leads to environmental uncertainty (Nienhüser, 2008). Accordingly, resource dependence theorists argue that in order to reduce the impact of this environmental uncertainty on organizational performance, it is necessary for organizations to develop and sustain effective relationships with their external environments (Pfeffer, 1973). Therefore, organizations should establish links to their environments through the use of a variety of mechanisms one of which is the board of directors. Boards can help organizations through acting as a linking mechanism that reduces the environmental uncertainty by bringing in critical resources to the organization (Pfeffer, 1972; 1973; Zahra and Pearce, 1989).

Resource dependence theorists advocate appointment of outside directors on the basis of the assumption that outsiders may assure access to more resources in comparison to inside directors (Johnson et al. 1996; Muth and Donaldson, 1998; Daily and Dalton, 1993; Pfeffer, 1972; 1973; Abor, 2007; Pfeffer and Salancik, 1978). However, as a further step, Peng (2004) claims that especially resource-rich outside directors should be appointed since they are more likely to contribute to the performance of the company. The level of which a director is resource-rich can be measured by Lester et al.'s (2008) concept of "depth and breadth of resources" where the depth refers to the profundity and the breadth refers to the level of directors' expertise, knowledge, skills, and social networks. According to Lester et al. (2008) as the depth and breadth of resources that an individual may bring to the company increase, this individual's likelihood of appointment as a director increases as well.

Board members may bring in information about the political agendas of the government, the market, and the competitors (Zahra and Pearce, 1989; Muth and Donaldson, 1998; Young et al. 2001; Mizruchi and Stearns, 1988). Interlocking directorates may help acquisition of information about the activities and agendas of the competitors and other actors in the market (Lang and Lockhart, 1990; Johnson et al. 1996). Therefore, "cooptation" (Selznick, 1949) - bringing in representatives of some critical institutions on the board- may be used as a means of dealing with external organizations (Pfeffer, 1972; Pfeffer and Salancik, 1978). For example, partners in legal firms may be appointed to boards as outsiders to obtain legal advice that otherwise would be costly for the firm to acquire (Daily et al. 2003). Likewise, director interlocks with financial institutions may facilitate a firm's access to capital (Pfeffer, 1973; Johnson et al. 1996; Zahra and Pearce, 1989; Young et al. 2001; Mizruchi and Stearns, 1988; Daily et al. 2003).

Furthermore, former governmental officers may be appointed to boards as outsiders due to a variety of resources they may provide (Lester et al. 2008). In late developing economies, the presence of former governmental and military officers is more common in comparison to developed economies due to the pivotal role of the state in business world. In Thailand, the presence of former military officers is common as an attempt to prevent the intervention of government (Peng et al. 2001). Presence of former government officers as outsiders on boards is also pervasive because of organizations' dependence on the government which can influence competitive positions of organizations by applications such as changing the size of markets, establishing entry or exit barriers, and providing special tax treatments. Furthermore, governments may also be large customers of organizations (Lester et al. 2008). Additionally, state's dominant role in economy makes information on its political and policy agendas a critical factor for companies to benefit from business opportunities. Finally, appointing prestigious directors on boards may also bring legitimacy and credibility to organizations (Pfeffer, 1972; Young et al. 2001; Pfeffer, 1973; Selznick, 1949; Zahra and Pearce, 1989; Muth and Donaldson, 1998; Young et al. 2001; Zald, 1969). Therefore, presence of former government officers with such prestige on boards may provide legitimacy to a company or enhance its legitimacy in its external environment (Lester et al. 2008). Thus, links with the state through board membership becomes a prevailing practice in the context of late developing countries (Colpan et al. 2007).

According to Young et al. (2001), resource dependence role may become more critical compared to service and control roles of the board in some countries. Most of the late-developing countries, such as the ones in East Asia, are characterized by insufficiency of contract enforcement laws and less efficient markets. Therefore, in these countries personal contacts become more important than in other countries rendering resource dependence role more pronounced than service and control roles (Young et al. 2001).

Board Composition in Practice

Financial crises in South East Asia, Latin America, and Russia, and corporate scandals like Enron, Pramalat and WorldCom drew attention to the expropriation of shareholder rights (Selekler-Gökşen and Yıldırım-Öktem, 2009; Suehiro and Wailerdsak, 2004). In these financial crises and corporate scandals, agency problem arouse as one of the main reasons (Selekler-Gökşen and Yıldırım-Öktem, 2009). Placing the emphasis on the control role of the board, supranational organizations such as the IMF, World Bank and OECD have been involved in developing recommendations to increase outsider representation (Selekler-Gökşen and Yıldırım-Öktem, 2009). Agency theory, the most recognized theory directing several studies on boards (Zahra and Pearce, 1989; Hilman and Dalziel, 2003; Daily et al. 2003), deeply influenced the recommendations put forward by the OECD and many governments (Nicholson and Kiel, 2007; Westphal, 1999). However, the recommendation of increasing the outsider representation on boards contradicts with the practices prevailing in many late-developing countries.

Business groups emerge as the dominant form of organizing in many late-developing countries (Yiu et al. 2007; Khanna and Rivkin, 2001). A business group can be defined as a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated actions (Khanna and Rivkin, 2001). Even though the definition of business groups differs among authors, they all have two common characteristics: ties holding the group firms together and coordinated actions those ties enable (Khanna and Rivkin, 2001). One of the major reasons why business groups are widespread in most of the emerging economies such as Korea, Taiwan, Thailand, and Turkey, is the market failures arising in the particular institutional contexts of emerging economies (Amsden and Hikino, 1994; Khanna and Rivkin, 2001; Suehiro and Wailerdsak, 2004). Emerging markets are usually characterized by the inefficiencies of the capital, labor, and product markets and business groups can overcome these inefficiencies by transferring capital, labor, and other inputs among their affiliated firms (Khanna and Rivkin, 2001).

Business group are also usually owned and controlled by a family or a small number of allied families who maintain control over the companies establishing the group through the use of centralized management units, cross-shareholdings, interlocking directorates between group firms, and family presence in management and/or on boards (Yurtoğlu, 2001; Kula and Tatoğlu, 2006; Claessens et al. 1999). Due to the use of interlocking directorates and family presence on boards as mechanisms of family control, insider representation tends to be high in business groups. This board composition, in turn, contradicts with the composition recommended by the OECD and accepted by many governments. Thus, conformity to these codes and reforms requires fundamental changes in board composition of companies.

One of the research questions this study aims to answer is whether insider dominated board composition has changed as a consequence of institutional pressures by investigating the case of Turkey. To this end, the next chapter puts forward the theoretical arguments regarding how likely change is. It also covers the pressures for and resistance against change in board composition. Besides, it provides the range of strategic responses that organizations may follow against these countervailing forces. Additionally, the third chapter includes the background information about the relation between managerial attributes and export performance of companies. Finally, it concludes with the hypotheses of the study.

CHAPTER THREE

THE CHANGE

As mentioned in previous chapters, the conventional board composition in emerging economies is not in line with the composition that the institutional pressures have been calling for (Selekler-Gökşen and Yıldırım-Öktem, 2009). This contradiction requires fundamental changes in the board composition. Therefore, in order to anticipate the extent to which the board composition has the potential to become in line with the reforms, the forces for and against change should be analyzed.

In this section of the study, first, the pressures that may result in change and the resistance that may emerge against change in general is analyzed. Second, as the research question of the study is to find out if any change has occurred in the board composition in line with the corporate governance reforms, the concept of change is analyzed with a focus on change in board composition. In this respect, pressures to change board composition and the resistances to maintain it as it is are studied.

Pressures for Change

Institutions, such as supranational organizations, the states, governmental agencies, professions, and universities, can impose pressures on organizations, forcing them to give a response (Oliver, 1991; Ribeiro and Scapens, 2006; DiMaggio and Powell, 1983). Consequently, organizations may respond to the institutional pressures with a strategy of *acquiescence,* as Oliver (1991) suggests. In *acquiescence,* the organization fully conforms to the institutional pressures on it. Conformity to institutional pressures, in turn, is expected to increase the organization's likelihood of survival (Oliver, 1991) as it provides legitimacy, prestige, stability, access to resources, and social acceptability (Oliver, 1991; 1992; van Gestel and Teelken, 2006; DiMaggio and Powell, 1983). Therefore, in order to enjoy these benefits, organizations tend to adopt structures, practices, and processes that are valued in their institutional environment rather than resisting them (Oliver, 1991). However, adoption of these structures, practices, and processes may require some changes in the formal structure, organizational culture, the mission, goals, programs, or practices of an organization (DiMaggio and Powell, 1983).

The likelihood of change as a response to institutional pressures is highly related to the nature of institutions that are imposing the pressures. Pressures exerted by the institutions on which an organization is dependent are more likely to result in conformity (DiMaggio and Powell, 1983). Additionally, as the level of dependence increases, so does the likelihood of conformity (Oliver, 1992). Furthermore, some institutions may have coercive power over organizations. Coercive pressures by these institutions may emerge in the form of force, persuasion or direct imposition of government mandate (DiMaggio and Powell, 1983). Therefore, coercive pressures from institutions that organizations are highly dependent on may push organizations to conform to their demands more forcefully and create change in organizational structures, practices, and processes (Oliver, 1992). Thus, coercive isomorphism may emerge. The state and governmental agencies may arise as particularly significant actors in contexts where the state has a pivotal role in business life and, organizations are dependent on the state in order to assure.

Besides, supranational organizations may also exert coercive power to some extent. Supranational organizations such as the OECD, IMF, and World Bank may make recommendations implementation of which are kept on a voluntary basis. However, they may also require conformity on the basis of threats of withdrawal or refusal of monetary support given to governments. Therefore governments, in order not to lose the monetary support of these supranational institutions, may push laws and regulations forcing companies in their countries to conform to the changes required by them (Chang, 2006a; Faccio et al. 2001). Thus, change may be initiated by the pressure of supranational organizations as well.

In addition to coercive forces, normative forces on organizations may also initiate change. Normative pressures refer to expectations, values, and standards diffused by professional associations, trade associations, training institutions, and business schools (Scott, 2001). These pressures, in turn, have an important role in shaping the cognitive frameworks of their members (DiMaggio and Powell, 1983). By means of their members, the ideas supported by these institutions may be diffused to other actors in the society (DiMaggio and Powell, 1983) and this diffusion may create change in organizational structures, practices, and processes which may be called as normative isomorphism.

Moreover, mimetic forces may cause changes in organizations as they may encourage organizations to question the appropriateness of maintaining or changing some traditional organizational practices (DiMaggio and Powell, 1983). Mimetic forces refer to the pressures that force organizations to model themselves on other organization (DiMaggio and Powell, 1983). Organizations mimic other organizations particularly under circumstances such as uncertainty and goal ambiguity. In mimicry, they choose those other organizations that they perceive to be legitimate or successful and this, in turn, results in mimetic isomorphism (DiMaggio and Powell, 1983). Therefore, if an organization believes that another is in a better position, it may change itself to become similar to the latter so as to increase its legitimacy and potential of success.

The possibility of change may also be related to the functional pressures on organizations. Functional pressures include effects of economic crises and intensified competition over scarce resources (Oliver, 1992). Financial crises in a company or economic crises in a country may raise doubts on the validity of the established practices and encourage organizations to reevaluate their status quo (Oliver, 1992). Intensified competition over scarce resources may also create pressures on organizations to make some changes to distinguish themselves from their competitors (Oliver, 1992).

Pressures for Change in Board Composition

In the context of this study, demands to change board composition by increasing outsider representation can be seen as an environmental pressure that is imposed on companies by several institutions. The extent to which companies will conform to these pressures by making necessary changes in their board compositions can be determined by analyzing the sources and the intensity of institutional pressures on companies.

Supranational organizations including the OECD, IMF, and World Bank have been involved in several efforts to increase outsider representation on boards. OECD provides a large number of publications about corporate governance on its web site. However, OECD's most influential work has been the publication of the Principles of Corporate Governance (OECD, 1999; 2004). OECD, IMF, and the World Bank took an active role in the efforts to diffuse these principles (Suehiro, 2001). After the East Asian crises in 1997, the OECD, IMF, and World Bank together with institutional and foreign investors, have demanded stronger corporate governance practices in East Asian countries (Chang, 2006a). These supranational organizations have forced East Asian governments to put pressure on companies operating in their countries. IMF obliged national governments to adopt these codes and to restructure their governance systems in return for relief funds (Chang, 2006a). Direct imposition of standard procedures and legitimated rules about board composition by the World Bank and IMF have the potential to create changes in board compositions of companies. In 2009, OECD launched an ambitious action plan to address weaknesses in corporate governance that are related to the financial crisis. Besides, OECD has organized several conferences and published reports regarding corporate governance applications and developments in countries. OECD aims to develop a set of recommendations for improvements in priority areas, such as board practices, implementation of risk-management, governance of the remuneration process, and the exercise of shareholder rights.

Coercive pressure of the state supported by supranational organizations' demands may also emerge as an influential pressure to initiate change. The state may support outsider representation on boards either on a voluntary or on a mandatory basis with actions varying from issuing a threat of more stringent regulation to providing assistance through the process of change or to promoting the reputation of first adopters (Delmas, 2002). However, coercive pressures with mandatory basis are more successful to make companies conform to new regulations due to the state's usually pivotal role in economies of emerging countries (Tsui-Auch and Lee, 2003).

The cases of Singapore and South Korea studied by Tsui-Auch and Lee (2003) provide a better understanding of how different stands of states may create different outcomes. Singaporean and South Korean states took different approaches in imposing new regulations and this, in turn, resulted in different levels of change in board compositions of companies in these countries. Following the East Asian financial crisis, both Singaporean and Korean states urged companies to reduce family control and to increase outsider representation on boards. Due to ruling party's political dominance and popularity and its control over the major media, Singaporean state, exerted strong pressure on companies to improve corporate governance. It restructured the financial sector and intensified the coercive pressures to discourage family control and rule. In addition, the state, through the ruling elite, state-controlled media, and its agencies, enhanced normative isomorphism by promoting professional management and governance as the best practice in managing large enterprises. Furthermore, the state tried to change cognitive frameworks by criticizing the reliance on family and network ties in running businesses. As a result, a decrease in family control in Singaporean companies has been achieved (Tsui-Auch and Lee, 2003).

Korean state also exerted pressure on companies to decrease family control and to appoint outside directors on boards. However, after the political democratization of 1987, the state lost much of its capacity to discipline business groups. Besides, Korean state did not have power over media and elites to strengthen its pressures. Therefore, even though the state has imposed some pressures to increase outsider representation on boards, business groups did not conform to pressures (Tsui-Auch and Lee, 2003). Instead, Korean companies even intensified family control on boards (Chang, 2006b).

This paradoxical result can be explained by the different degrees of coercive pressures imposed by the states and the dependence of companies on governments. According to Tsui-Auch and Lee (2003) strong coercive pressures of Singaporean state and the dependence of companies on the government to gain legitimacy resulted in the decrease of family control in Singapore. Yet, the opposite occurred in Korea due to the lack of state power and of enthusiastic actors to diffuse the reforms.

In addition to the pressures by the states, there have also been efforts by a variety of institutional actors to create changes in cognitive frameworks of business world. Business schools, research institutions, and professional associations have been involved in the corporate governance reforms by giving seminars, organizing conferences and publishing reports and guides. In Turkey, for instance, nongovernmental agencies such as the Corporate Governance Forum of Turkey and Corporate Governance Association of Turkey organized seminars, conferences, and workshops to explain the necessity of outsider representations on boards. Such educational efforts aim at creating an awareness of the importance and necessity of outsider representation. This awareness, in return may stimulate organizations to adapt their board compositions accordingly (Burns and Nielsen, 2006).

Furthermore, companies may increase outsider representation because of the effects of mimetic forces on them. A company may change its board composition based on the belief that another organization's legitimacy has increased with increasing outsider representation while its legitimacy is threatened because of maintaining a conventional insider-dominated board composition (Oliver, 1992). In Singapore, for instance, private banks imitated the government-linked banks and began to recruit professional managers from outside of the founding family for senior management positions (Tsui-Auch and Lee, 2003).

Moreover, the change in board composition may occur as a consequence of functional pressures like economic crises and corporate scandals (Oliver, 1992). Following the Asian crisis, Korea applied for emergency funds from the IMF. Since the IMF perceived that chaebols were pivotal to Koreas' crises, it demanded that the Korean state force chaebols to reorganize and improve corporate governance. Thus, in order acquire some resources, companies were forced by other institutions to change their current structures. However, there still is a possibility of manipulation of these pressures by institutions in order not to be deprived of the benefits while they are not conforming to the pressures.

Also, as another effort to obtain resources, organizations may differentiate themselves from other companies (Oliver, 1992) by means of their board compositions. By highlighting its outsider dominated board, an organization may attempt to gain trust of the investors (Tsui-Auch and Lee, 2003). Thus, companies can attract more investors to provide funds to their companies. Therefore, as the scarcity of capital increases, the likelihood of appointing outside members may increase as well.

Among the above-mentioned pressures, governmental regulations with legal enforcement can be seen as the most critical mechanism to initiate change (Oliver, 1992) especially in late developing countries due to pivotal role of state in economy. When governmental pressures are supported by normative pressures, the potential for change becomes even higher (Oliver, 1992). Through this lens, it seems possible that as government pressures to increase outsider representations is accompanied by normative pressures of professional associations, trade associations, training institutions, and business schools, the potential for organizations to conform to pressures and follow a strategy of *acquiescence* may become higher (Oliver, 1991).

Resistance to Change

Organizational change cannot be seen as making simple movements from an optimal position to another (Burns and Nielsen, 2006). Considering change as simple movements would be misleading since this perspective ignores the complex nature of change where the context, history, and institutional embeddedness all matter (Burns and Nielsen, 2006). Therefore, due to the complex nature of change, the above-mentioned efforts to create change may face countervailing forces of resistance to sustain the prevailing structure.

Organizations possess inertial qualities like organizational values and norms that cause resistance to change (Scott, 2001). The concept that best captures this kind of resistance is the "power of the system" (Riberio and Scapens, 2006). "Power of the system" stems from the institutionalized organizational structures and behaviors which are characterized by stability, repetitiveness, and endurance (Oliver, 1992). These behaviors are repeated in a taken-for-granted manner without being questioned (Riberio and Scapens, 2006; Oliver, 1992; van Gestel and Teelken, 2006). Thus, these activities carry the power of habit, history, and tradition which makes them to be highly resistant to change that challenges the existing organizational structures, practices and processes (Oliver, 1991; 1992).

In addition to the resistance of the system itself, some actors may resist to change as well. According to Oliver (1991) actualization of change may be related to the extent to which actors are willing to conform to institutional pressures. Since institutionalized structures in organizations are representations of the interests of some dominant actors, those actors may be prone to resist the changes that will harm their interests (Selekler-Gökşen and Yıldırım-Öktem, 2009; Burns and Nielsen, 2006). Furthermore, even though there may be peripheral actors who are pro-change, their efforts may not be enough to initiate a change due to their lack of power. Thus, willingness of actors should be supported by their ability to create change, which usually refers to the amount of resources these actors possess in an organization (Ribierio and Scapens, 2006).

Besides, organizational actors may not be seen as independent from institutionalized structures since their identity, interpretation of their surrounding environments, ideas, and possible actions are shaped by them (van Gestel and Teelken, 2006). Therefore, actors whose ideas are shaped by institutions may not even try to change those institutions as they take them for granted (Scott, 2001).

Finally, change in organizations does not come without costs. Moreover, the cost of change is higher when the change is radical in nature. This, in turn, makes changes that contradict strongly with institutionalized structures, procedures, and processes even harder to be actualized (van Gestel and Teelken, 2006).

Because of all the reasons mentioned above, organizations may not conform to the institutional pressures. Instead; they may respond in other strategies such as *compromise, avoidance, defiance,* and *manipulation* (Oliver, 1991).

If institutional expectations are inconsistent with the efficiency of the company or its interests, the actors may *compromise* by exhibiting partial conformity or bargaining on the requirements with external consistuents. When inconsistency between institutional pressures and interests of organizational actors increases, the organization may use more active strategies of resistance namely, *avoidance, manipulation,* and *defiance*. *Avoidance* involves precluding the necessity of conformity, concealing non-conformity, and escaping from pressures (Oliver, 1991). Organizations may conceal nonconformity through window-dressing or just making surface adoptions (Oliver, 1991). *Defiance* strategy, on the other hand, may be used by ignoring or challenging the requirements of pressures. Organizations may use the strategy of ignorance when the pressures lack coercive power or when the organizational goals evidently contradict with the requirements put forward by the institutions (Oliver, 1991). *Manipulation*, which is the most active resistance, aims to cope with the pressures by co-opting, influencing, or controlling institutional pressures. Oliver (1991) claims that *avoidance, manipulation,* and *defiance* responses are likely to be pursued when the anticipated legitimacy and economic gain from the conformity, dependence on institutions imposing pressure, and legal coercion for conformity are low.

Resistance to Change in Board Composition

In order to predict if board composition will change as a result of institutional pressures, the possible forces of resistance that are likely to emerge should be identified. Recognizing that organizational actors may resist institutional pressures (Oliver, 1992), willingness and ability of these actors to resist and avoid change should be considered. Insider-dominated boards which are widespread in business groups of emerging economies are likely to serve the interests of family members and insider professionals. Increasing outsiders on boards is likely to be perceived as a reduction of their power on organizations. That is why these actors are likely to resist the change in board composition.

Moreover, the actors who are supporting change should have sufficient resources because their ability to change board composition is related to the amount of resources they have. Increasing outsider representation is most likely to protect the rights of minority shareholders. However, in addition to the fact that they have limited control over the company, the legal system prevailing in many emerging economies do not provide them with much power either. Therefore, the advocates of change –minority shareholders- have less resource endowments compared to the advocates of current structures –majority shareholders. Thus, the likelihood of change decreases.

In addition to the resistance of dominant actors, the system itself has the power to resist changes in the board composition. Since insider-dominated board structures are widespread in many countries for several years, especially in emerging countries, these structures have the power of taken-for-grantedness, history, and tradition. Therefore, due to the power of institutionalized practices, structures, and processes in the organizations, the necessity for change may not lie within the cognitive frameworks of organizational actors. Hence, in the companies where the practice of appointing inside directors is highly institutionalized, the likelihood of appointing outsiders decreases. Besides, organizations influence or even shape ideas and approaches of the organizational actors within itself (van Gestel and Teelken, 2006). Therefore, since organizations are likely to appoint insiders on boards, actors whose ideas are shaped by those organizations may not aim to change board composition by appointing outsiders (Scott, 2001). Lastly, since the practice of appointing outsiders on boards is not compatible with their practices, to recruit sufficient, knowledgeable, experienced and influential independent outsider directors may cause psychological and monetary costs for these actors.

Consequently, companies may not be willing to increase the outsider representations. Therefore, organization might respond with strategies of *avoidance, defiance and manipulation,* mentioned in the previous section.

Organizations tend to use the strategy of avoidance when they do not want to lose their legitimacy due to their non-conformity (Oliver, 1991). Therefore, they attempt to avoid the pressures through window-dressing, that is, just by making surface adaptation. Responses of the Korean chaebol to state's abolishment of central management units is an example of the strategy of avoidance (Chang, 2006b). In response to governmental demands to decrease family control, owner families closed chaebols' central management units but shifted the duty of coordination to the flagship companies of the business group (Chang 2006b). Thus, through window-dressing, chaebols avoided criticism and loss of legitimacy, which may emerge due to their opposition to institutional pressures. In Turkey, on the other hand, family-owned and –controlled holding companies appointed their retired managers as ''independent'' outside directors (OECD, 2006). Despite the fact that retired managers are not categorized as insiders, they cannot be assumed as independent outsiders due to their relationship with the owning family. Thus, the efforts of holding companies can also be seen as avoidance.

Companies may use the strategy of manipulation by shaping the definition of "outsiders", in line with their interests (Selekler-Gökşen and Yıldırım-Öktem, 2009). In Korea, for example, the listed companies were first required to appoint at least one outside director. After 1999; they were required to restructure their boards to have an outsider representation of at least 25% (Chang, 2006b). In response to these requirements, however, dominant shareholders appointed outsiders with whom they had close relationships (Chang, 2006b). Thus, the aim to improve monitoring of top management by outsiders was not accomplished and a *manipulation* strategy used by companies. Turkish holding companies' practice of appointing retired managers as outsiders is also a case of manipulation since they interpreted the definition of outsiders in line with their interests.

Besides, organization may implement strategies of *defiance* through ignorance. As the pressures to increase outside representation contradict with the interests of dominant actors and because governments did not use coercive power, the likelihood of ignorance increases. Varis et al. (2001) find that in most of the listed firms on Istanbul Stock Exchange, a significant percentage of board members also have executive position in the focal firm and thus one of the principles put forward by the Capital Market Board of Turkey is ignored.

Hypotheses

Hypotheses Regarding Change in Board Composition

As mentioned so far, change is not a simple movement; it has a complex nature. Coercive, normative, and mimetic forces of institutions may create change. However, resistance to these forces is also likely to arise.

In the context of emerging economies where family business groups prevail, boards have been used as a mechanism to maintain family control. As the business groups grew in size, it became impossible to appoint family members as managers in all affiliated firms. Thus, boards began to serve as a mechanism to preserve the control of owner-family. Therefore, families' perceptions regarding the role of boards should be changed through a change in their cognitive framework. Otherwise, surface adaptation may emerge, as the case of Korean chaebol illustrates. Besides, state and other governmental agencies should put some legally enforced pressures to increase outsider representation on boards. Responses including resistance may arise more easily in a setting where coercive pressures from the state do not exist. Taking into account the vital role that families have attributed to the board of directors, it is expected that they will be unwilling to lose control over the boards. Therefore, an increase in the percentage of outsiders is not expected.

H1: There will not be an increase in the percentage of outside directors on the board.

Instead of changing the insider-outsider representation balance on boards, less radical changes can be actualized by altering the distribution of seats among different types of insider directors. This may be seen as a response given to institutional pressures and may help loss of legitimacy and reputation. For instance, a decrease in the number of family members on the board may be compensated by an increase in the number of insider professionals. In such a case, some extent of conformity will be signaled by decreasing family representation although the newly appointed directors will also be dependent on family. In line with this expectation, Selekler-Gökşen and Karataş (2008) find that between the years of 1997 and 2002, a decrease in the representation of family members is balanced by an increase in insider professionals. Alternatively, organizations may also appoint retired professionals on boards to offset a decrease in family representation. Family, due to their long-term relationship, sees the retired professionals as trustworthy individuals. Like appointing insider professionals, bringing in retired professionals may also signal the image that family representation is not high on the board. However, none of them can be seen as using the strategy of *acquiescence* through conformity. Instead; appointing retired professionals or professionals working in an affiliated company and naming them as outsiders can be seen as using a *manipulation* strategy to avoid harsh criticisms

(Selekler-Gökşen and Yıldırım- Öktem, 2009). Thus the following hypotheses are stated.

H2: There will be a decrease in the percentage of family members on the board.

H3: There will be an increase in the percentage of retired professionals on the board.

H4: There will be an increase in the percentage of insider professionals on the board.

Hypothesis Regarding Export Performance

The argument that successful exporting is important for both organizational and national affluence has gained much support in recent decades (Leonidou et al. 1998). Four major global trends namely, slowing growth in domestic markets, persisting trade deficits, liberalization of the world trading system, and intensified world-wide competition are seen as the main stimuli of the exporting (Leonidou et al. 1998). Due to these trends, a large number of studies have been conducted into the dynamics of the export behavior of companies.

Management of a company is seen as the main force behind a firm's decision on exporting because of its direct responsibility and involvement in export decision making process (Miesenböck, 1988). In line with this point of view, most of the studies in the literature have been conducted to analyze the relationship between the management and the export performance with forming a unidirectional association with the former affecting the latter (Leonidou et al. 1998). To a great extent, studies have aimed to identify the managerial factors that impede or facilitate exporting. Past studies categorize the managerial attributes that influence export performance into two groups as subjective and objective factors. While subjective factors include attributes such as risk tolerance, innovativeness, flexibility, commitment, quality, dynamism, and perception of the managers; objective factors include age, educational background, professional experience, ethnic origin, language proficiency, and foreign country exposure (Hutchinson et al. 2006; Leonidou et al. 1998; Loane at al. 2007). For instance, reviewing 46 studies, Leonidou et al. (1998) find that managerial perception of risk, costs, and profits in the foreign markets, and manager's innovativeness, expertise, skills and commitment demonstrate a strong association with exporting performance of the company.

Through another lens, like the management, boards may also be expected to influence export decision of the company. As mentioned in the board roles section, boards are not only responsible for providing advice in strategy formulation, but, may also initiate or develop some strategies (Johnson et al. 1996). Furthermore, in Turkey, as in other emerging countries, boards are used as a tool to maintain family control and to assure coordination among the affiliated firms that make up business groups (Lins, 2003). Most of the boards are characterized by insider domination by including family members, insider professionals or retired professionals of the business groups (Selekler-Gökşen and Yıldırım-Öktem, 2009). Therefore, due to fact that internationalization decisions are strategic rather than operational, these decisions are likely to be taken at the board level.

Wiedersheim-Paul et al. 1978 suggest that management with high capabilities, skills, and expertise have a positive impact on export propensity and success of the company. On the other hand, insider professionals on boards are expected to have managerial expertise, skills and competence in order to fulfill the roles attributed to directors. In line with this thinking, a positive association may be expected between insider professional representation and better internationalization performance.

Inside directors on boards tend to have deeper knowledge in the company in terms of its capabilities, resources, opportunities, and threats it faces which in turn may increase their ability to serve the firm better in the internalization process. Additionally, they tend to have business expertise due to their long experience in the company. Furthermore, particularly family members may have close relations with the state which in turn has led to business groups to proliferate in the emerging economies. Furthermore, since the ties between the affiliated firms of the business groups enable firms to transfer capital from one to another, they are able to draw resources to exploit international opportunities (Khanna and Rivkin, 2001). Thus, both due to the ties with the state and the ties between the firms, family members can assure access to resources both inside and outside the group (Selekler-Gökşen and Yıldırım-Öktem, 2008). Finally, since family members aim to pass the management of the firms to the coming generations, they may have a more positive attitude towards internalization (Selekler-Gökşen and Yıldırım-Öktem, 2008). Besides, due to long tenure of both retired and professional insiders with the company, they usually have close relations with the founder family and therefore, they are deemed as the dependent board members. This, in turn, may enhance the board members willingness towards internalization in parallel with the willingness of the founder family.

Therefore, total insider representation including the sum of family members, insider professionals and retired professionals is also expected to be associated with better export performance.

H5: There exists a positive association between total insider representation and export performance.

CHAPTER FOUR

RESEARCH SETTING

In this section of the study, the characteristics of the research setting are summarized. Firstly, the context in which the study is conducted is analyzed. For this aim, corporate governance mechanisms prevailing in Turkey and business groups as the dominant economic actors of the context are described. Second, the institutional actors and their efforts to change conventional board composition in Turkey are outlined. Third, the resistance against pressures to change the prevailing board composition is summarized.

The Context

Corporate governance systems around the world can be categorized into two groups as "outsider" and "insider" systems (Becht and Mayer, 2000). An "outsider system" of corporate governance is characterized by a large number of listed companies, a liquid capital market where ownership and control rights are frequently traded, and few inter-corporate shareholdings (Yurtoğlu, 2001). On the contrary, an "insider system" of corporate governance is characterized by few listed companies, a large number of substantial share stakes, and large inter-corporate shareholdings (Becht and Mayer, 2000). The Turkish corporate governance system has strong similarities to the "insider system" due to three reasons.

First, the number of Turkish companies listed on The Istanbul Stock Exchange (ISE) is very limited. Even though the number of listed companies has steadily increased from 302 in 2003, to 343 in 2005, and to 403 in 2007, it is still low. Second, Turkish listed companies exhibit highly concentrated and centralized ownership structures. In most companies, founding-families arise as the ultimate owners who have the majority of ownership in their hands. Families, directly, or indirectly, own more than 75% of all companies on the ISE and keep the majority control (Yurtoğlu, 2001). Third, the majority of listed companies in Turkey, especially the companies affiliated with a particular business group, are organized under pyramidal ownership structures and they are linked to one another through complicated and large inter-corporate shareholdings (Yurtoğlu, 2000). Hence, cross-shareholdings organized around holding companies are quiet widespread in the Turkish context.

Corporate Governance Mechanisms in Turkey

Corporate governance can be defined as the whole system of rights, processes, and controls established internally and externally over the management of a company with the objective of protecting the interests of all stakeholders (CEPS, 1995). Corporate governance mechanisms can first be categorized into two groups as internal or external mechanisms. In this section of the study, these two categories are analyzed in connection with the Turkish context.

External Corporate Governance Mechanisms

External corporate governance mechanisms stem from the dynamics that are external to the companies. These mechanisms include to the market for corporate control (the takeover market) and the legal system of a country (Denis and McConnell, 2003).

Market for Corporate Control

The market may act as an external corporate governance mechanism in case of dispersed ownership. In countries, such as the United States and the United Kingdom, where there are many traded companies on the stock exchange and the ownership is dispersed among several investors, the market usually functions as an external corporate control mechanism (Denis and McConnell, 2003). In these countries, if there is a wide gap between the actual value of a firm and its potential value, outside parties seek control of the firm (Denis and McConnell, 2003). Therefore, a threat of a change in control occurs, which in turn, provides incentives to management to keep firm value high.

On the other hand, given the limited floatation ratios and the concentrated ownership structures of a typical listed company on ISE, an active market for corporate control does not exist in Turkey; it is almost impossible to acquire a listed company without the consent of the controlling owner (Yurtoğlu, 2001). Selekler-Gökşen and Yıldırım-Öktem (2009) find out that the percentage of floating shares of listed companies are 26.84%, 28.09%, 27.75%, for the years of 2002, 2004, and 2006, respectively. Thus, even though families use the capital market as a form of financing (Buğra, 1994), they keep floating shares limited in order not to lose ownership control. Regarding the limited floating shares of the traded companies, OECD (2006) recommends CMB and ISE to increase free float requirements for all listed companies.

In this case, large stakes may have a negative impact on the governance of a company. Since families who are active in management also own large shares in the Turkish context, large shareholders are not in a position to discipline poor management performance (Denis and McConnell, 2003). Thus, large stakes prevent the punishment of poor management by the market and cannot protect small shareholders if their rights are expropriated.

Legal System

La Porta et al. (1998) suggest that the extent to which a country's laws protect investor rights and the extent to which those laws are enforced depend on the legal system of that country. Therefore, the legal system emerges as another external control mechanism that may protect minority shareholders against majority shareholders (Denis and McConnell, 2003).

In general, commercial law comes from two broad traditions: common law and civil law. While common law is British in origin, civil law is Roman in origin and has three major law traditions: French, German, and Scandanivian (La Porta et al. 1998).

According to La Porta et al. (1998) investors in common-law countries are protected better than those in civil-law countries. Among civil-law countries, on the other hand, the quality of law enforcement is higher in Scandinavian and German civil law countries in comparison to the French civil-law countries (La Porta et al. 1998).

Turkey's legal system is based on French civil-law (Ararat and Uğur, 2003; Yurtoğlu, 2001) and law enforcement is also poor in Turkey (Ararat and Uğur, 2003). Thus, in addition to the lack of an active market as an external corporate governance mechanism, a strong legal framework to protect minority shareholder rights is also missing in the Turkish context.

La Porta et al. (1998) also find that there is a negative correlation between ownership concentration in the largest publicly traded companies and the quality of legal protection of investors in a country. Therefore, poor investor protection in French law countries is followed by extremely concentrated ownership and by consequence the lack of market for corporate control emerges. This case can also be expected to be seen in the Turkish context that is characterized with poor legal protection.

Internal Corporate Governance Mechanisms

Internal corporate governance mechanisms, as the name suggests, stem from the internal dynamics of the companies. Internal mechanisms operate through the board of directors and ownership structure.

Ownership Structure

Turkish listed companies exhibit highly concentrated and centralized ownership structures. Family arises as the entity holding directly, or indirectly, more than 75% of all companies on the ISE and keeping the majority control (Yurtoğlu, 2001). Yurtoğlu (2000) finds that families own 198 of the 257 traded companies in 1998 and in 158 of these, families have majority control. As mentioned above, the highly concentrated ownership structure in Turkey makes companies resistant to takeovers in the market. The controlling stake commonly stays with the founder of the company and/or his family, even when the company is large and listed on the stock exchange (Yurtoğlu, 2000). The controlling shareholders generally take active part in running the company either by appointing the management or by directly taking executive positions (Faccio et al. 2001). In this situation, the conflict of interests materializes between the minority shareholders and majority shareholder. Hence, as the ownership and management reside in the hands of family, the protection of minority shareholders remains to be problematic.

Board of Directors

One-tier board system is used in Turkey and a board must have at least three members (Yurtoğlu, 2000). Minority shareholders may not be protected by the typical board structure in Turkey either. Several surveys made on the Turkish context reveal that the board of directors in Turkey is characterized by insider domination. Selekler-Gökşen and Yıldırım-Öktem (2009) find that the percentage of insiders on board in the largest family business groups of Turkey is 75.1%, 73.07%, and 70.46% for 2002, 2004, and 2006, respectively. Besides, Yurtoğlu (2000) shows that at least one-of-third of all board members are large shareholders. Similarly, Yıldırım-Öktem and Üsdiken (2008) stated that family members and insider professionals employed by either the focal firm, holding company or any other affiliated firm of the business group compose the two-of-third of boards of directors in ten largest Turkish family business groups. In another study, Selekler-Gökşen and Karataş (2008) indicate that 70% of the board members in an affiliated firm are family members and insider professionals.

Two types of outside board members namely, politicians or military officers, are common in Turkey (Buğra, 1994). However, rather than to ensure the protection of minority shareholders, they are appointed on boards for mainly public relations purposes and to solidify relationships with important external constituencies (Yurtoğlu, 2000). Besides, they signal to the outside world that the company is in good hands (Yurtoğlu, 2000). The composition of the board of directors reflects the picture obtained from the ownership structure and reveals that boards are dominated by the owner family. Thus, boards arise as an internal mechanism of control reinforcing the owners' influence on the company.

In countries where external corporate control mechanisms are poor, internal control mechanisms become more important for corporate governance (Ararat and Uğur, 2003). However, Mitton (2004) concludes that internal and external corporate control mechanisms complement each other and therefore, if one is poor the other one is expected to be poor as well. As mentioned so far, in the Turkish context, internal corporate mechanisms such as independent boards of directors and dispersed ownership seem to lack the strength to protect minority shareholder rights. As opposed to what literature suggests for good governance, companies in Turkey usually have insider dominated boards and highly concentrated ownership structures.

Given this structure, all types of corporate governance mechanisms that the literature suggests such as board of directors, ownership structure, active market, and law system seem to be disadvantageous for small shareholders in the Turkish context.

Business Groups in Turkey

A distinctive feature of the Turkish business system is the prevalence of business groups. In Turkey, as in most other emerging economies, majority of listed companies, are affiliated with a business group (Yurtoğlu, 2000; 2001; Khanna and Rivkin, 2001; Colpan et al. 2007). The dominance of business groups in emerging economies has been attributed to the market imperfection and state policies in these countries (Khanna and Rivkin, 2001; Colpan et al. 2007).

The imperfections in capital, labor and input markets have also encouraged the emergence and proliferation of business groups in Turkey. Ties between affiliated firms enable transfer of not only capital and human resources within the group but also inputs for production in a way that protects the group from the weak contract enforcement in input market (Colpan et al. 2007). Thus, the business group form helps to overcome the market imperfections present in Turkey as in many other emerging economies.

The Turkish state encouraged the proliferation of business groups by protecting them from foreign competition, providing cheap inputs, giving credits from state-owned banks and acting as a partner in new businesses (Buğra, 1994). The state also supported them to enter new and unrelated sectors mostly because of its wish to deal with a small number of trusted businessmen (Buğra, 1994).

Like most of the companies in Turkey, majority of these business groups are also owned and managed by a family or a small number of allied families (Yurtoğlu, 2001; Buğra, 1994; Colpan et al. 2007). Family control is enhanced by pyramidal ownership structures, cross shareholdings between and among firms, board interlocks, and family presence in management and on boards in Turkey (Claessens et al. 1999; Colpan et al. 2007; Yurtoğlu, 2001). Pyramidal ownership structures, however, put the interests of small shareholders at risk. While the minority shareholders are interested in the returns from their investment in a subsidiary company, family, as the ultimate owner focuses on the benefits from the business group as a whole and not necessarily on the benefits derived from one particular member company (Yurtoğlu, 2001). In general, the ultimate owners are more interested in profits coming from companies where their cash flow rights are higher (Yurtoğlu, 2001). The ultimate owners might try to transfer resources from other subsidiaries using non-market prices that increase the group's benefits. Thus, majority shareholders can exploit minority shareholders easily as their interests are likely to diverge from the interests of the other party.

Family business groups, as largest enterprises of Turkey, are also active in the international arena (Colpan et al. 2007). They usually tend to follow the global trends that companies in developed countries pursue not only to differentiate themselves from other companies within Turkey but also to compete with foreign competitors and to enjoy higher returns in other countries (Ararat and Uğur, 2006).

Furthermore, due to their dominant position and significant role in Turkey, corporate governance applications of these family holdings draw attention of various actors such as the media, non-governmental organizations, public, scholars and business schools (Selekler-Gökşen and Yıldırım-Öktem, 2009). Due to their high visibility, these companies are expected to feel the need to adopt globally standardized management and governance models more strongly. As the pressures to develop corporate governance applications increases, their tendency to adopt these practices may increase to ensure continuous viability and protect social legitimacy of their groups (Colpan et al. 2007).

In that respect, both because of high visibility (Khanna and Rivkin, 2001; Selekler-Gökşen and Yıldırım-Öktem, 2009) and severe competition with global and foreign competitors, these large conglomerates are expected to feel the need to adopt the codes of good governance earlier and more strongly than stand-alone, smaller, firms. Based on these assumptions, in order to analyze the early responses of Turkish companies to corporate governance reforms, affiliates of these large family holdings seem to be the proper unit of analysis.

Institutional Pressures for Change in the Research Setting

In the Turkish context, institutional pressures to increase the independence of boards in order to ensure the protection of minority shareholders are mainly exerted by the OECD, the Capital Market Board of Turkey (CMB), and non-governmental organizations including Turkish Industrialists and Businessmen Association (TUSIAD), Corporate Governance Forum of Turkey and Corporate Governance Association of Turkey (TKYD).

OECD (2004) defines corporate governance as a key to the integrity of corporations, financial institutions and markets, and central to the health of economies and their stability. OECD's work on corporate governance revolves around its Principles of Corporate Governance and the organization aims to encourage implementation of these principles in countries all over the world. OECD published the Principles first in 1999 and revised them in 2004 (OECD, 2004). In 2006, OECD published the Methodology for Assessing Implementation of the OECD Principles on Corporate Governance. Concurrently with the development of the Methodology, it was recommended to conduct a study of corporate governance in at least one country. As the Turkish authorities volunteered for the study, a pilot study based on the draft of Methodology is launched to analyze to what extent the OECD Principles of Corporate Governance are adapted in Turkey (OECD, 2006).

Capital Markets Board published the first “Corporate Governance Principles of Turkey” in 2003 and then revised it in 2005 (Selekler-Gökşen and Yıldırım-Öktem, 2009). These principles suggest that directors should be non-executive members and that the general manager and chairman of the board should be held by different individuals. Besides, the principles advocate that one third of the board be composed of independent directors who can perform their duties independently under any circumstances. Even though these principles are required, CMB does not coercively enforce these pressures. Therefore, even it might seem as CMB puts some coercive pressures on companies, this kind of pressures does not exist in the practice. Instead, CMB recommends these principles on a comply-or-explain basis. Thus, companies quoted on the ISE are required to publish corporate governance compliance reports in which they declare whether they have complied with the principles and explain cases of non-compliance. Besides, CMB supported research on corporate governance and advocated forming a corporate governance index on ISE (OECD, 2006). Regarding the corporate governance index (CGI), companies receiving a rating of at least 6 over 10 from a recognized or licensed rating agency using a methodology based on the CMB Principles are entitled to a 50% discount in their annual listing fees and will be included in the CGI, once at least five companies qualify for inclusion. The CMB has authorized two firms specializing in corporate governance assessments to carry out such rating activities. Thus, CMB aims to provide incentives for companies to adopt high corporate governance standards.

Companies might be interested in obtaining corporate governance ratings because of the reputational benefits of a good rating in addition to obtaining a discount in their listing fees. Due to the reputational benefit, these companies may have an advantage in attracting investors and commercial partners. Besides, listed banks might also be interested in obtaining good corporate governance ratings to support their credit ratings and to attract more investors.

In an effort to promote good governance, TUSIAD translated OECD's Code of Governance for the first time in 2000 (TUSIAD, 2000). TUSIAD also formed the "Task Force on Corporate Governance" consisting of TUSIAD members, professional consultants, and academicians in order to conduct work on this issue. The objective of the task force is to diffuse the principles of good governance and to ensure their internalization among companies in Turkey. Following the calls of OECD, World Bank and other international organizations for better governance, TUSIAD has also been publishing research studies and organizing seminars with ISE and CMB to improve corporate governance practices in Turkey. It also is involved in director training initiatives. TUSIAD is raising awareness about the efficiency-related and other benefits associated with empowering boards to operate effectively and objectively. Therefore, TUSIAD has been attempting to put some normative pressures on companies for conformity to the reforms.

Corporate Governance Association of Turkey (TKYD), established in 2003, has been involved in several efforts in terms of putting normative pressures to promote awareness of corporate governance standards, including the CMB Principles. The association aims to disseminate the best practices of corporate governance through developing an awareness culture so as to shape the cognitive frameworks of businessmen and to assist implementation of corporate governance principles. This non-profit organization has been conducting academic research projects to determine strategic priorities in Turkey with respect to corporate governance. TKYD has also been organizing seminars, and publishing reports and journals on corporate governance issues to increase the awareness on the issue and promote the best practices (OECD, 2006). Besides, the organization has executed board member training programs in order to train current and prospective board members on constructing a better governance structure within their organizations.

Corporate Governance Forum of Turkey was founded as a joint initiative of Turkish Industrialists' and Businessmen's Association (TUSIAD) and Sabanci University in 2003. The main objective of the forum has been to contribute to the improvements in the area of corporate governance by conducting and disseminating scientific research, supporting policy making process and building a dialog between practitioners and academicians (OECD, 2006). For this aim, the forum has organized conferences and seminars, published surveys on corporate governance issues, and executed training programs for directors of large-publicly held companies as well as small and medium size companies. These efforts, in turn, may put organizations under normative pressures.

Resistance to Change in the Research Setting

Despite the institutional pressures mentioned above, organizations have the flexibility not to adapt their structures to these pressures because of the nonmandatory nature of the calls. Therefore, organizations are able to respond to these pressures strategically, as Oliver (1991) suggests.

CMB reviewed the corporate governance compliance reports of all traded companies for the year of 2004 and published a review of these compliance reports in 2005. The report reveals that, even though CMB demands all listed companies to publish the corporate governance compliance report, 86% of the listed companies publish this report and only 63% of the all listed companies provide detailed information in their compliance reports in 2004. Only 18% of the companies report that they have independent directors. 59% of the companies declare that they take into account the criteria put forward in CMB's code of corporate governance while selecting the directors. The report concludes that the awareness of traded companies and their intentions to follow corporate governance principles is quiet low. Regarding the results of the report, it can be concluded that listed companies on ISE are inclined to use the strategy of *defiance* through ignoring the pressures on them (Oliver, 1991).

In line with the findings of CMB, the pilot study conducted by OECD to assess the existing corporate governance framework's effectiveness and efficiency also reveals the deficiencies in corporate governance applications in Turkey. This pilot study involves an assessment of each OECD principle as of February 2006. The study reveals that although some practices are improving, major challenges remain in enhancing the board independence. It concludes that few companies have implemented the CMB's recommendations regarding board independence. The pilot study also shows that companies tend to increase the proportion of professional, non-executive directors that are often current or former senior managers of group companies (OECD, 2006). Companies may appoint managers working at the holding company or at other affiliated companies of the business group to a focal subsidiary as non-executive directors since they are not serving as executives in the subsidiary.

However, since they are working in the holding company which has the responsibility to coordinate the activities of the affiliated firms, these managers cannot be seen as independent directors (Selekler-Gökşen and Yıldırım-Öktem, 2009). Besides, in family owned-businesses, since they are employed by the same family, they cannot be seen as if they have independence. Likewise, listed companies on ISE have a tendency to appoint their retired managers as independent outside directors (OECD, 2006). Even though the retired managers are not classified as insiders in CMB's code of governance, they cannot be seen as if they have full independence due to their former relationship with the managers and the owner family (Selekler-Gökşen and Yıldırım Öktem, 2009).

These two widely used practices of companies are examples of avoidance and manipulation in response to the institutional pressures. Hence, it can be claimed that, in the Turkish context, companies are in an attempt to *ignore*, *manipulate*, and *avoid* the institutional pressures on them by defying or making surface adaptations instead of conforming to the pressures by internalizing the wills and the intentions of the reforms.

In addition to the independence of board members, the pilot study indicates that disclosure about boards is another area that needs improvement in order to meet the relevant requirements. Companies' disclosures about board nominees, board members and board committees are less extensive than the disclosures recommended by OECD and the CMB. Despite the calls of CMB for disclosure, only six of the listed companies surveyed in 2005 included declarations of independence from their independent board members in connection with their 2004 disclosure documents (OECD, 2006). Instead of consistently publishing the more detailed information recommended by CMB, many companies disclose brief biographical descriptions.

CHAPTER FIVE

SAMPLE, DATA COLLECTION AND VARIABLES

This chapter focuses on selection of the sample, data collection methods, operationalization of the variables and data analysis methods.

Sample

The study covers the analyses of boards of directors of firms affiliated with family business groups on three data points- 2003, 2005, and 2007. In this study, family business is defined as a firm in which at least 50% of ownership is held by one or two nuclear families, more than 1/3 of the board at the central management unit is composed of family members and chairman position is held by a family member (Selekler-Gökşen and Yıldırım-Öktem, 2009). In selection of the six family business groups establishing the sample, three criteria were used.

First, a business group is required to have at least three firms listed on Istanbul Stock Exchange (ISE) for each data point. This criterion was used since any larger number would render the sample size quite small whereas any number below it would lead to inclusion of "slum holdings", which are established mostly to enjoy tax advantages and prestige attached to the label "holding company" (Buğra, 1994).

Second, a business group is required to have operations in at least five different industries. This criterion was used in order to pick large and highly visible business groups rather than small and less visible ones. This criterion was chosen based on the belief that as the visibility and the size of the company grow, pressures on these organizations to adapt to governance reforms increase. Thus, change is more likely to take place in such groups.

Third, business groups are required to have at least one firm in “Turkey’s Top 500 Industrial Enterprises” list. This list identifies the largest 500 industrial firms in Turkey in terms of total revenues. This criterion was used since surveys conducted in Turkey have revealed that most of the dominant business groups have significant number of firms taking place in this list (Buğra, 1994). However, one firm on this list was deemed sufficient since any larger number would cause elimination of the companies the groups that are more active in the service sector.

Once these criteria were determined, the study started with an investigation of the Company Year Book of 2003 in order to identify business groups with at least three firms quoted on the ISE. The Year Book of Companies is a book published annually by the Documentation Department of the Istanbul Stock Exchange to list the firms quoted on the stock market and to provide both financial and organizational information about them. This book provides data on ownership structures of all Turkish companies quoted on the ISE. After, ownership structures of all of the companies quoted on the Istanbul Stock Exchange in 2003 were reviewed; companies that belong to same family were categorized under the same business group. At the end of the categorization, family groups that have three or more subsidiaries were taken into sample. Then 2005 and 2007 year books were analyzed to check if these groups continued to have at least three firms quoted on the ISE. The business groups that have less than three firms in the latter data points were eliminated. On the basis of the second criterion, family groups that are operating in four or less industries were eliminated. Finally, on the basis of the third criterion, “Turkey’s Top 500 Industrial Enterprises” list was scanned to determine if selected business groups have firms taken into that list for all three data points 2003, 2005, and 2007. Through this method the number of companies analyzed differs among data points since the number of listed companies of business groups varies between years.

As a result, on the basis of the information provided by The Year Book of Companies, six family business groups were selected as the sample of the study.

Data Collection and Method

The firms that belong to the six above-mentioned business groups and are quoted on the ISE establish the sample of the study. There are 52, 57, and 52 affiliated companies for 2003, 2005, and 2007, respectively.

Lists of board members of relevant companies on each data point were obtained from ISE Company Year Books. The data were collected mainly from archival sources such as annual reports of the focal company and the business group that it is affiliated with and corporate governance compliance reports published by Capital Market Board (CMB) and focal companies. In order to find out the relation of the board members with the founding family and the business group, and to acquire background information about board members, basically annual reports and corporate governance compliance reports were used. In addition, various sources including biographies and interviews were also studied. Quantitative data regarding the export volume of the companies were acquired from company yearbooks and annual reports. In cases where annual reports and company yearbooks do not include export volume, phone contact was established with the relevant companies.

Variables and Measures

As the research question implies, this study focuses on board composition that refers to the distinction between insider and outsider members on boards (Daily and Dalton, 1993). As opposed to the definition of Daily and Dalton (1993, p.69) that describes outsiders as “the individuals who are not employed by the focal firm”, a broader scope of insider is adopted in this study. Past studies on Asian countries (e.g. Yıldırım-Öktem and Üsdiken, 2008, Tian and Lau, 2001, Zahra and Pearce, 1989, Phan et al. 2003, Selekler-Gökşen and Karataş, 2008) expanded the scope of the definition of insiders by including the immediate past top management, the families of the current top management, and managers from the parent company and other affiliates of the parent company. This broader definition of insiders fits the emerging economy context better since interlocking directorates among group firms and family and trusted professional presence on boards are quiet common in these countries (Claessens et al. 1999; Selekler-Gökşen and Yıldırım-Öktem, 2009; Yurtoğlu, 2001; Kula and Tatoğlu, 2006). Therefore, this study also includes the immediate past top management, the families of the current top management, and managers from the parent company and other affiliates of the parent company as insiders.

In this study, insiders are categorized into three groups as “family members”, “insider professionals”, and “retired professionals”. Also, in order to get more precise results from the analysis “partner firm representation” is assessed. Thus, five board composition variables are determined: “family member representation”, “insider professional representation”, “retired professional representation”, “partner firm representation”, and “outsider representation”.

In family representation, “family” does not just refer to the nuclear family as the Turkish context has a broader definition of family. Therefore, as suggested in the some past studies (e.g. Selekler-Gökşen and Üsdiken, 2001) “family” includes:

a) the spouse(s), children, grandchildren and siblings of the founder(s);
b) the spouses of these children, grandchildren and siblings;
c) the siblings of the spouses mentioned in (b);
d) the nephews and nieces of the founder; and
e) the spouses of the nephews and nieces mentioned in (d).

Thus, family member representation refers to the percentage of seats held by the above-mentioned individuals.

The second variable, “insider professional representation” takes into account the managers employed by the focal firm, the parent company of the business group and other firms affiliated with the business group. Managers employed not only in the focal firm but also in other companies of the business groups are categorized as “insiders” because of two reasons. First, these managers are employed by the same family and thus, cannot be seen as independent of the family influence (Selekler-Gökşen and Yıldırım-Öktem, 2009). Second, professional managers may be transferred from one company to another easily in business groups (Yiu et al. 2007; Khanna and Rivkin, 2001). Thus, insider professional representation refers to the percentage of seats held by the managers employed by the focal firm, the parent company of the business group and other firms affiliated with the business group.

“Retired professional representation” takes into account employees who had worked in the focal firm, parent company of the business groups and other firms affiliated with the business group. Even though they are not currently employed in the focal firm, they also cannot be perceived as independent outsiders due to their long-term relations with the owner family (Selekler-Gökşen and Yıldırım-Öktem, 2009).

Additionally, a composite variable called "total insider representation" is formed for experimental purposes. This variable consists of the total percentage of seats held by family members, insider professionals, and retired professionals. This variable enables us to see the whole representation of directors that are dependent on the owner family.

Partner firm representatives are those directors who have managerial positions in the joint venture partner of a focal firm. Therefore, "partner firm representation" refers to the percentage of seats held by the representatives of the partner firm. This variable enables us to obtain a comprehensive result for the board composition.

Finally, outsiders refer to the directors who do not and did not have employment relationships with the business group, who do not have any kinship ties to the controlling family and are not representatives of the partners (Selekler-Gökşen and Yıldırım-Öktem, 2009). In other words, outsiders are those directors who do not have any relationship with the business group other than serving as a board member in the group firms.

In addition to the variables regarding board composition, there is one more variable namely "export performance". This variable is operationalized as the share of export sales in the total sales volume of the company.

Data Analysis Method

First, frequency analyses were run to provide descriptive information about the business groups. Frequency analysis revealed general information the board structures of affiliated firms by providing statistics about board size, family member representation, insider professional representation, retired professional representation, partner firm representation, and outsider representation for three data points.

Second, t-tests were run in order to see if any change has occurred in variables between two data points. A series of t-tests was made to make dual comparisons of data points; 2003-2005, 2005-2007, and 2003-2007. Third, one-way ANOVA test was run in order to analyze the change in board composition among 2003, 2005, and 2007. Fourth, correlation analysis was made to realize if there is any association between total insider representation and export performance of companies in data points of the study.

CHAPTER SIX

FINDINGS

This chapter presents the findings in two sections. The first section focuses on the descriptive findings of the study; trying to draw a picture of the board composition in Turkish business groups. The second section presents the findings regarding the change over the period of analysis and the association between board composition and export volume. The results for the hypothesis testing are also provided in this section.

Descriptive Findings

The number of affiliated companies in this study is 52, 57, 52 and the number of directors is 386, 435, and 394 for 2003, 2005, and 2007, respectively. Below, results obtained from descriptive analyses are given for each data point.

2003

In 2003, the average board size is 7.42 and the most frequently seen board size is seven. Among 52 companies, 11 of them (21.1%) have seven board members and while 10 companies (19.2%) have boards with five directors. The smallest board has three members whereas the largest has 13. There are two boards with 13 directors one of which is a holding company.

Table 1. Board Composition of Affiliated Firms as of 2003

		Mean	Median	Max.	Min.
Insider professional representation	number	3.35 (1.69)*	3	8	1
	percentage(%)	48.20 (22.84)	50	100	7.69
Family member representation	number	1.77 (1.69)	1	8	0
	percentage (%)	22.83 (16.76)	20	61.54	0
Retired professional representation	number	0.37 (0.74)	0	3	0
	percentage (%)	4.69 (9.59)	0	37.5	0
*Total insider representation***	*number*	*5.48 (1.86)*	*5*	*10*	*2*
	percentage (%)	*75.71 (18.72)*	*80*	*100*	*28.57*
Partner firm representation	number	1.02 (1.57)	0	5	0
	percentage (%)	12.95 (19.68)	0	71.43	0
Outsider representation	number	0.88 (1.10)	1	4	0
	percentage (%)	11.34 (12.83)	11.11	42.86	0

*Numbers in the parenthesis are standard deviations.
**Total insider representation refers to the sum of family member representation, insider professional representation, and retired professional representation.

As of 2003, 92 of the 386 seats are held by family representatives. In an average board, 22.83% of the board seats are held by family members while 10 (19.2% of the sample) of the companies do not have any family members on board. There are five companies (9.62% of the sample) in which the family members hold the majority of the seats.

In 2003, 174 of the 386 seats are held by insider professionals. As shown in Table 1, 48.20% of an average board is composed of insider professionals and thus have the highest representation in the firms consisting the sample. There are no companies without any insider professionals while all directors are insider professionals in one company. Representation of insider professionals varies between 7.69% and 100%. The most frequently seen insider professional representation is 60% and this is seen in six companies (11.5% of the sample). In 22 of the 52 companies (42.30% of the sample), insider professionals hold the majority of the seats.

In total, retired professionals hold 19 of the 386 seats. In an average board, retired professionals hold 4.69% of the board seats. Among 52 companies, 39 of them (75% of the sample) do not have any retired professional on the board. The highest retired professional representation is 37.5% which is only seen in one board.

Total insider representation includes the sum of family members, insider professionals, and retired professionals on a board. Findings reveal that this representation is quiet high. In sum, 285 of the 386 seats are held by insiders. Total, insider representation varies between 28.57% and 100% with an average of 75.71% of the board seats. There are only three companies (5.8% of the sample) that have insider representations of less than 50%. Besides, strikingly, the analysis shows that the most repeated percentage of insider representation is 100%. Among 52 companies, 11 of them (21.15% of the sample) consist only of insiders.

Partner representatives hold 53 of the board seats. In the sample 21 companies (40.38% of the sample) have partner representatives on the board. Partner representation on boards varies between 0% and 71.43% with an average of 12.95%. In seven companies (13.46% of the sample), partner representation is at least 50%.

In total, there are 46 seats held by outsiders. Outsiders hold 11.34% of the board composition on average. The average number of outsiders on boards is 0.88. Among 52 companies, 25 (48.1% of the sample) of them do not have any outsiders while 15 of them (28.8% of the sample) have one outsider representative. The highest outsider representation is 42.86% and is seen only in one company. Thus, in none of the companies outsiders hold the majority of the seats. The relatively high number of firms without outsiders and the low level of outsider representation in the remaining firms reveal that outsider representation was low in 2003.

2005

In 2005, the average board size is 7.63 and the most frequently seen board size is again seven. As in 2003, the smallest board has three members whereas the largest has 13 members.

In total, there are 95 family representatives in 435 directors. As shown in Table 2, family representation varies between 0% and 66.66% with an average of 19.95% which is lower than in 2003. Among 57 companies, 15 (26.3% of the sample) of them do not have any family members. On the other hand, there are five companies (8.77 % of the sample) in the sample in which the percentage of family members on the board exceeds 50%.

Among 435 directors, 203 of them are insider professionals in 2005. There is only one company which does not have any insider professional on its board. On the other hand, boards of three (5.3%) companies are established solely of insider professionals. Thus, insider professional representation varies between 0% and 100%. In almost half of the companies -27 companies- insider professionals hold the majority of the board seats. Insider professional representation in 2005 is higher than in 2003; on average, insider professionals hold 50.34% of the seats on a board. Hence, on an average board insider professionals hold the majority of the seats.

Table 2. Board Composition of Affiliated Firms as of 2005

		Mean	Median	Max.	Min.
Insider professional representation	number	3.56 (1.62)*	3	8	0
	percentage (%)	50.34 (24.41)	50	100	0
Family member representation	number	1.67 (1.78)	1	8	0
	percentage (%)	19.95 (16.87)	20	66.66	0
Retired professional representation	number	0.39 (0.75)	0	3	0
	percentage (%)	4.56 (9.26)	0	37.5	0
*Total insider representation***	*number*	*5.61 (1.82)*	*5*	*10*	*3*
	percentage (%)	*74.86 (18.89)*	*71.43*	*100*	*37.5*
Partner firm representation	number	1.09 (1.60)	0	5	0
	percentage (%)	13.61 (19.63)	0	62.5	0
Outsider representation	number	0.93 (1.25)	0	4	0
	percentage (%)	11.53 (15.04)	0	44.44	0

*Numbers in the parenthesis are standard deviations.
**Total insider representation refers to the sum of family member representation, insider professional representation, and retired professional representation.

In total, there are 22 retired professional representatives in 435 directors. The percentage of retired professionals varies between 0% and 37.5% with an average of 4.56%. Thus, retired professional representation displays a decrease from 2003 to

2005. Among 57 companies, 42 (73.7% of the sample) of them do not have any retired professional on the board.

Total insider representation is quiet high in 2005 as well. In the sample, 73.56% (320 seats) of the seats are held by inside directors. As can be seen in Table 2, total insider representation on boards ranges between 37.50% and 100% with an average of 74.86%. There are only two boards that have total insider representation less than 50%. Besides, the analyses show that the most frequently seen insider representation is 100% as in 2003. Among 57 companies, 13 of them (22.8% of the sample) consist of only insiders.

There are 62 partner representatives in 435 directors. In the sample 24 companies (%42 of the sample) have partner representatives on the board. Partner representation on board ranges between 0% to 62.50% with an average of 13.61%. There are nine (15.79% of the sample) companies in which partners hold at least 50% of the seats.

In total, 53 of the 435 seats (12.18% of the seats) are held by outsiders. Among 57 companies, 31 of them (54.4% of the sample) do not have any outsiders while 11 companies (19.3% of the sample) have one outsider representative on their boards. Thus, the companies that have at most one outsider on their boards establish 73.7% of the sample. The highest number of outsiders on the board is four which is only seen in three companies. Outsiders do not establish the majority in any of these boards. In terms of percentage, outsider representation on the board varies between 0% and 44.44% while the average percentage of outsider representation in the sample is 11.53% which is higher than that in 2003. However, as in 2003, the relatively high number of firms without outsiders and the low level of outsider representation remain to be low in 2005.

2007

In 2007, the average board size is 7.58 and the most frequently seen board size is once more seven. Among 52 companies, 17 (32.7% of the sample) of them have seven board members. As in 2003 and 2005, the smallest board has three members whereas the largest has 13 members.

Table 3. Board Composition of Affiliated Firms as of 2007

		Mean	Median	Max.	Min.
Insider professional representation	number	3.27 (1.55)*	3	8	0
	percentage (%)	46.84 (24.39)	43.65	100	0
Family member representation	number	1.67 (1.77)	1	6	0
	percentage (%)	20.27 (17.91)	16.67	60	0
Retired professional representation	number	0.33 (0.62)	0	2	0
	percentage (%)	3.77 (6.94)	0	22.22	0
*Total insider representation***	*number*	*5.27 (1.96)*	*5*	*10*	*1*
	percentage (%)	*70.88 (21.96)*	*71.43*	*100*	*16.66*
Partner firm representation	number	1.33 (1.71)	0	5	0
	percentage (%)	16.80 (21.79)	0	66.66	0
Outsider representation.	number	0.96 (1.14)	1	3	0
	percentage (%)	12.32 (14.42)	10.56	42.86	0

*Numbers in the parenthesis are standard deviations.
**Total insider representation refers to the sum of family member representation, insider professional representation, and retired professional representation.

In total, there are 87 seats held by family members. As depicted in Table 3, the number of family members on board varies between zero and six with an average of 1.67. Most often, firms have one family representative on board. The percentage of family representation varies between 0% to 60% and on an average board, family representatives hold 20.27% of the board seats. Among 52 companies, 14 of them (26.9% of the sample) do not have any family representatives on the board while in five (5.7% of the sample) companies, family members hold majority of the seats.

In 2007, 170 of the 394 seats are held by insider professionals. Insider professional representation on an average board displays a decrease from 2005 to 2007 to a point below its 2003 level. However, it is still quite high. Insider professionals hold 46.84% of the seats on an average board. In 23 (44.23% of the sample) companies insider professionals establish the majority on the board. There is only one board that does not have any insider professional. Likewise, there is only one board that consists of only insider professionals.

In total, retired professionals hold 17 of the 394 seats. The number of retired professionals ranges between zero and two with an average of 0.33. 39 (75% of the sample) of 52 companies do not have any retired professionals on the board. Retired professionals hold 3.77% of an average board which is the lowest level among all data points. The highest percentage of retired professionals 22.22% and this is seen only in two companies.

Total insider representation includes the sum of family members, insider professionals, and retired professionals on board. In sum, 274 of the 394 seats are held by insiders of different types. That variable displays a consistent pattern; decreasing between all data points. In the sample, total insider representation ranges between 16.66% and 100% with an average of 70.88% lower than in 2005 and 2007.

However, it is still quite high. There is not a single company the board of which does not have any insider director while there are 11 (21.2% of the sample) companies the boards of which are composed of only insiders. As for 2003 and 2005, the analysis shows that the most repeated percentage of insider representation is 100%. In 44 companies (84.62% of the sample) insider professionals hold the majority of seats.

In 2007, 69 of the board seats are held by partner representatives. Partner representation ranges between 0% and 66.66% with an average of 16.80%. Among 52 companies, 27 of them (51.9% of the sample) do not have any partner representative on the board. There are 10 (19.23% of the sample) companies in which partners hold at least 50% of the seats.

In total, 50 of the 394 board seats are held by outsiders. As can be seen in Table 3, the number of outsiders ranges between zero to three reaching to an average of 0.96, which is the highest level among all years. Among 52 companies, 25 (48.1 % of the sample) of them still do not have any number of outsiders as in 2003. Besides, 13 (25% of the sample) companies of 52 companies have only one outsider representative. Thus, 73.1% of the companies have at most one outsider on their boards. The highest outsider representation on the board is 42.86%. On an average board, outsiders hold the 12.32% of the board seats. This is still below the recommendations of Capital Market Board (CMB).

Study Findings

In this section, hypotheses put forward at the end of Chapter 3 are tested. As can be seen in Table 4, board composition displays some extent of change between 2003 and 2007.

H1: There will not be an increase in the percentage of outside directors on the board.

Outsider representation displays a consistent increase over time; the percentage of outsiders increases from 11.34% in 2003 to 11.53% in 2005 and to 12.32% in 2007. However, t-tests reveal that the changes between 2003 and 2005, 2005 and 2007, and 2003 and 2007 are statistically insignificant ($p>0.10$ for all). Additionally, one-way ANOVA also does not reveal any variety among the three years of analysis ($p>0.10$). Therefore, H1 which suggests that a significant increase will not occur in the representation of outside directors on the board is supported.

H2: There will be a decrease in the percentage of family members on the board.

In this study, it was expected that there would be a decrease in the family representation over time. In line with this expectation, the average percentage of family representatives decreased from 22.83% in 2003 to 19.95% in 2005. However, there is an increase to 20.27% in family representation between 2005 and 2007. Yet, t-tests show that the changes in family representation between the data collection points are statistically insignificant ($p>0.10$ for all). One-way ANOVA does not reveal any statistically significant difference among the years of analysis either. Therefore, the expectation, regarding a decrease in the percentage of family members in H2 is not supported.

H3: There will be an increase in the percentage of retired professionals on the board.

An increase in the percentage of retired professionals on boards is another expectation on this study. Contrary to the expectations, the average percentage of retired professionals fell from 4.69% in 2003 to 4.56% in 2005 and to 3.77% in 2007.

However, t-tests reveal that the changes between 2003 and 2005, 2005 and 2007, and 2003 and 2007 are statistically insignificant (p>0.10 for all). Additionally, one-way ANOVA does not display any statistically significant difference among the three years of the analysis either. Hence, H3 is not supported.

Table 4. Board Composition of Affiliated Firms in the Sample

	2003	2005	2007	% of change (2003-2005)	% of change (2005-2007)	% of change (2003-2007)
% of insider professionals	48.20*	50.34	46.84	4.44 (0.637)**	-6.95 (0.456)	-2.82 (0.771)
Number of insider professionals	3.35	3.56	3.27	6.27 (0.498)	-8.15 (0.338)	-2.39 (0.809)
% of family members	22.83	19.95	20.27	-12.61 (0.374)	1.60 (0.924)	-11.21 (0.453)
Number of family members	1.77	1.67	1.67	-17.7 (0.758)	0 (0.985)	5.65 (0.777)
% of retired professionals	4.69	4.56	3.77	-2.77 (0.946)	-17.32 (0.617)	-19.61 (0.579)
Number of retired professionals	0.37	0.39	0.33	5.41 (0.886)	-15.38 (0.656)	-10.81 (0.774)
*% of total insiders****	*75.71*	*74.86*	*70.88*	*-1.12 (0.813)*	*-5.32 (0.312)*	*-6.38 (0.230)*
Number of total insiders	*5.48*	*5.61*	*5.27*	*2.37 (0.707)*	*-6.06 (0.343)*	*-3.83 (0.574)*
% of partners	12.95	13.61	16.80	5.10 (0.860)	23.44 (0.424)	29.73 (0.347)
Number of partners	1.02	1.09	1.33	6.86 (0.822)	22.01 (0.452)	30.39 (0.341)
% of outsiders	11.34	11.53	12.32	1.68 (0.944)	6.85 (0.781)	8.64 (0.716)
Number of outsiders	0.88	0.93	0.96	5.68 (0.842)	3.23 (0.890)	9.09 (0.726)

*Means are given in the cells.
**Numbers in the parenthesis are p-values.
*** "Total insiders" refers to the sum of family members, insider professionals, and retired professionals.

H4: There will be an increase in the percentage of insider professionals on the board.

The expectation of this study was to identify an increase in the percentage of current professional managers on boards. In line with the expectation, the analysis shows that from 2003 to 2005, the percentage of professional managers increased from 48.20% to 50.34% by 4.44%. Yet, in 2007, the percentage fell even below the level of 2003 (46.84%). A series of t-tests points out that there is not any significant change between 2003 and 2005, 2005 and 2007, and 2003 and 2007 ($p>0.10$ for all). Besides, one-way ANOVA does not display any variety among the three years of analysis ($p>0.10$ for all data points). Therefore, the expectation regarding an increase in the percentage of professional managers on the board is rejected as well.

In sum, among all categories of variables, insider professionals have the largest degree of representation on an average board. Among all three years, insider professional representation does not fall under 46.84%. After that, in all data points, family member representation holds the second highest degree of representation with 22.83%, 19.95%, and 20.27% on an average board, respectively. Retired professional representation, on the other hand, does not have a high degree of representation and even it decreased from 4.69% in 2003 to 3.77% in 2007. Sum of these three variables results in total insider representation. Total insider representation in 2003 is 75.71% and decreased to 74.86% in 2005 and to 70.88% in 2007. Thus, total insider representation has a decline of 6.38% from 2003 to 2007. Even though, that decline may seem promising, the type of representation that offsets this decline matters. As seen in Table 4, outsider representation only increased from 11.34% to 12.32% by 8.64% whereas partner representation has increased from 12.95% to 16.80% by 29.73%. Hence, the decline does not insider representation is not only resulted from an increase in outsider representation; rather it resulted more from a significant increase in partner representation. Besides, strikingly, the average number of outsiders on board is not even one in any of the data points. However, the small increase in outsider representation presents a consistent trend in the years of the analysis. Moreover, the amount of increase is also increasing; while the change is 1.68% between 2003 and 2005, and 6.85% between 2005 and 2007.

H5: There exists a positive association between total insider representation and export performance.

In 2003, the correlation analysis reveals no association between export volume and the different categories of board members ($p>0.10$ for all variables). In 2005, however, there is a positive association between insider professional representation and export volume ($p<0.10$). In 2007, correlation analysis reveals more statistically significant relationships compared to 2003 and 2005; there is a positive correlation between insider professionals representation and export volume ($p<0.10$) and also between total insider representation and export volume ($p<0.10$). The positive association between total insider representation and export volume in 2007 is likely to stem from the strong correlation between insider professional representation and export volume, which has also offset the negative correlation between family member representation and export performance.

Findings reveal that although statistically insignificant, there is a consistently negative relationship between family member representation and export volume. Since exporting is one of the basic and primitive internationalization modes, export decisions might have lost their strategic nature and become operational and therefore, may have been delegated to the insider professionals of the company. Therefore, family members may not be feeling the need to take place on the boards of the companies that are involved in exporting. Instead, family members may be willing to have seats on boards in which more strategic internationalization decision are taken. Therefore, if more complicated internationalization modes had been taken into account in the analysis instead of exporting, a positive correlation might have emerged between family member representation and export performance.

Table 5. Export Performance and Board Composition

	Insider professional representation	Family member representation	Retired professional representation	Total insider representation	Partner representation	Outsider representation
Export performance 2003	.179 (.275)	-.031 (.852)	-.176 (.283)	.100 (.546)	-.021 (.900)	-.125 (.448)
Export performance 2005	.281 (.068) **	-.196 (.208)	.029 (.855)	.203 (.192)	-.078 (.617)	-.161 (.303)
Export performance 2007	.456 (.005) ***	-.254 (.129)	-.092 (.586)	.305 (.067)*	-.070 (.679)	-.313 (.059)*

* p<0.10
** p<0.05
*** p<0.01

On the other hand, findings reveal that there is a negative correlation between outsider representation and export volume ($p<0.10$) in 2007 together with negative but statistically insignificant correlations in 2003 and 2005. This negative correlation may be emerging as owning families see outsiders as a tool to obtain legitimacy and appoint them on the basis of the legitimacy they may bring to the company, disregarding their managerial experience and expertise.

Overall, it can be stated that the Hypothesis 5 that proposes a positive association between total insider representation and export performance is partially supported as only the findings for 2007 reveal statistically significant relationships.

CHAPTER SEVEN

CONCLUSION

This study set out with two objectives in mind. The first objective was to investigate if they changed along the years of analysis as a consequence of the pressures to increase outsider representation. The second objective, on the other hand, was to find out if there is any association between the board compositions and export volumes of business group affiliates.

Corporate governance has recently become a popular field of study (Tirole, 2001; van Ees et al. 2003). The attention attributed to corporate governance practices has increased due to the financial crises in East Asia, South America, and Russia and corporate scandals like Enron, WorldCom, and Pramalat. As markets have become more integrated and dependent on each other, these crises and scandals had widespread impact. This, in turn, revealed that corporate governance problem should be a global concern. Hence, leading supranational organizations such as the OECD, IMF, and the World Bank have aimed to improve corporate governance applications all over the world and to diffuse the principles of good governance published by OECD.

Among these principles, those related to the board of directors have drawn a significant amount of attention and increasing outsider representation has become a recommendation commonly made by both national and international organizations. According to OECD (2004), board members should be independent of management to fulfill their duties objectively. In order to be independent, board members should not be employed by the company, its affiliates or its parent company and should not be closely related to the company or its management through significant economic, family or other ties. In line with the OECD's principles, the principles of Capital Market Board of Turkey (2005) also recommend that the board be composed to comprise independent members and at least one third of the board members be independent directors who can perform their duties independently.

On the other hand, in many emerging economies including Turkey, business groups arise as the dominant economic actors because of the market imperfections and state policies in these countries (Yurtoğlu, 2000). Since affiliated firms are linked to each other with either formal or informal ties, they can exchange capital and human resources among one another. Besides, they may provide inputs to one another and thus, protect themselves from the weak contract enforcement in input markets (Colpan et al. 2007). The Turkish state helped the proliferation of business groups by protecting them from foreign competition, providing cheap inputs, giving credits from state-owned banks and acting as a partner in new businesses (Buğra, 1994). The state also supported the growth of business groups by encouraging them to enter new and unrelated sectors mostly with an intention to deal with a small number of trusted businessmen (Buğra, 1994). Thus, Turkey, as an emerging economy, has witnessed the proliferation of business groups.

The business groups in Turkey are most of the time owned and controlled by a family or a small number of allied families. According to Yurtoğlu (2000), in Turkey, families own more than 80% percent of all traded companies and retain majority control. Board of directors is one of the tools owner families use to maintain control (Selekler-Gökşen and Yıldırım-Öktem, 2009; Yurtoğlu, 2000; Yıldırım-Öktem and Üsdiken, 2008; Selekler-Gökşen and Karataş, 2008). To this end, owner families usually appoint inside directors who are family members or insider professionals working for the focal company, the parent company, or other firms affiliated with the parent company (Selekler-Gökşen and Yıldırım-Öktem, 2009; Selekler-Gökşen and Karataş, 2008; Yıldırım-Öktem and Üsdiken, 2008). Consequently, these directors have relations with the founder family other than just being a board member in one of their companies. Thus, prevailing board composition in Turkey contradicts with the board composition that the reforms have been calling for. Therefore, conformity to these codes and reforms requires fundamental changes in board composition of companies in Turkey. Thus, the main objective of this study has been to investigate whether and if yes to what extent change has been actualized.

Findings reveal that the insider dominated board composition of business groups has not gone through a major change between 2003 and 2007. In line with the expectation of the study, family member representation displays a consistent pattern; it decreases between all data points, leading to an 11.21% decrease from 2003 to 2007. However, t-test and one-way ANOVA reveal that this decrease is statistically insignificant. Although the decrease of 11.21% in family member representation is not small, family members still establish approximately one fifth of the board composition in 2007. The decrease in family representation was expected to be accompanied with an increase in insider professional representation and retired professional representation. However, contrary to the expectations, retired professional representation has also shown a consistent, yet statistically insignificant, decrease from 2003 to 2005 and to 2007. Likewise, although an increase in insider professional representation is expected, the percentage of insider professionals shows a decrease from 2003 to 2007, despite of an incremental increase from 2003 to 2005. Thus, although statistically insignificant each of the insider director categories has shown a decline from 2003 to 2007 while the highest decline occurred in family member representation. As a result, total insider representation decreases gradually from 75.71% in 2003 to 74.86% in 2005 and to 70.88% in 2007.

However, the change does not mean much in terms of increasing outsider representation since the decrease in total insider representation is not followed by a significant increase in outsider representation. Instead, partner representation increases by 29.37% from 2003 to 2007. Yet, outsider representation shows an increase of 8.64% from 2003 to 2007. However this increase in outsider representation may have a promising character since the rate of increase gets stronger over time; 1.68% between 2003 and 2005, and 6.85% between 2005 and 2007. Therefore, this increase in outsider representation may be pointing out to a potential for change in the coming years.

Nevertheless, it should also be noted that almost half of the companies in the sample do not have even one outsider on their boards in any years of analyses. At all data points, insider professionals have more seats than all other groups of directors and furthermore they hold the majority of board seats in an average company in 2005. In all years of analyses, retired and current insider professionals establish the majority on an average board. All insiders, on the other hand, hold three fourth of the seats on a board. It seems that business group boards remain to be family dominated due to significant representation of directors dependent on the owner-family on boards. Thus, the board composition prevailing as of 2007 is far behind the intentions of the codes of governance. Such an insider dominated board composition may not be deemed capable of protecting minority shareholder rights.

In this study, companies were expected to use the strategy of *manipulation* by increasing the retired professional representation on the board because they are not categorized as insiders by CMB despite their relationship with the owning family.

However, as the findings display, the retired professional representation has decreased. Besides, as another example of *manipulation*, an increase in the insider professional representation was also expected mostly through the appointment of professionals not working for the focal firm but working for other affiliated firms of the business group. However, inconsistent changes in the insider professional representation –first an increase and then a decrease- make it difficult to say that this expectation is supported. Therefore, it can be stated the strategy of *manipulation* has not been pursued.

However, in spite of all the pressures and efforts to increase outsider representation, companies have clearly *ignored* the pressures and have not made changes in their board compositions. Since business groups tended to *ignore* these pressures and maintain the conventional insider dominated board composition, total insider representation is still quite high in the sample. There is only a limited decrease in insider representation and this is mainly because of an increase in partner firm representation; the increase in outsider representation is quite limited. The decline in total insider representation may be seen as an example of *window-dressing* by increasing the number of outsiders without really changing the balance of power on the board. The very limited number of outsiders on boards, which is approximately one outsider on an average board, may be insufficient to avoid decisions that are to the disadvantage of minority shareholders. Overall, the strategies of *defiance* through *ignorance* and *avoidance* through *window-dressing* seem to have emerged. However, the objectives of protecting shareholder rights and giving them power to affect the decision making process can be accomplished with more dramatic and substantial changes.

Hence, even though different types of institutions including supranational organizations and non-governmental organizations have involved in several types of work so far, increasing outsider representation on boards seems to need more effort. A significant change in the board composition also seems to be unlikely to occur in the short term due to three main reasons. The first reason is the lack of government intervention, in other words coercive pressures by the state. The second reason is the unwillingness of institutional actors because of their vested interests in the current board composition. Finally, the third reason is the conventional cognitive framework of the institutional actors.

First, the efforts, so far, have a significant flaw: lack of legal enforcement. Neither the state nor the CMB or the ISE put coercive pressures. Instead of legally enforcing the principles, CMB recommends the principles on a comply-or-explain basis. The possibility of the implementation of the principles is negatively influenced by the lack of legal enforcement. Thus, not only recommendations regarding outsider representation but also other corporate governance principles have not been thoroughly followed by the companies. For instance, even though the CMB demands all traded companies to publish corporate governance compliance reports, 86% of the listed companies publish this report and only 63% of the all listed companies provide the necessary information in a detailed format in their compliance reports in 2004 (CMB, 2005).

Mandatory pressures could have contributed to a larger increase in outsider representation. According to Oliver (1992) coercive pressures from the state and other governmental organization that the companies are highly dependent on might more forcefully push companies to conformity. The state, considering its importance in the context, could have taken a more active role and exerted coercive pressures to implement the reforms accordingly. It could have supported outsider representation in many ways varying from issuing a threat of more stringent regulation to providing assistance and to promoting the reputation of first adopters. The positive results enjoyed by the early adopters may encourage other firms to imitate them. Hence, a chain effect could have been created; a company might change its board composition based on the belief that the reputation and the legitimacy of the adopters have increased by increasing outsider representation. Thus, coercive pressures of the state could have stimulated mimetic pressures exerted by companies on other companies (DiMaggio and Powell, 1983).

Second, current pressures ignore the fact that insider dominated board composition serves to the vested interests of the owner families. The OECD Principles do not take into account institutional and cultural peculiarities of different countries and imposes the same pressures on all of them. The OECD principles, especially the ones related to board composition, can be perceived as a reduction in the power of families and insider professionals who have used insider dominated boards traditionally as a mechanism to serve to their interests. As these organizational actors have vested interests in the form of traditional insider dominated boards, it seems hard for them to initiate a radical change in the board composition.

Third, appointing insiders on boards has become an institutionalized practice, which is characterized by repetitiveness, resistance, and endurance since it has been used for a long time. Thus, this pattern is likely to be taken for granted by organizational actors due to fact that their ideas are also shaped by the institutionalized structures. Hence, the need to increase outsider representation is probably not appreciated by them. For that reason, the cognitive frameworks of organizational actors should be enriched and enlarged. Changing cognitive frameworks of people is necessary because organizational actors may perform otherwise surface adaptation without really internalizing the essence of the reforms. However, the problem is that changing cognitive frameworks of people cannot be actualized immediately; it may require longer-term efforts. Therefore, TUSIAD, CMB, Corporate Governance Forum of Turkey, trade associations, universities should have been involved in more efforts to promote awareness of corporate governance standards. In this regard, they should more actively conduct academic research projects, organize seminars, and publish surveys on corporate governance issues, and execute training programs for directors of companies in the future. As the cognitive frameworks of the businessmen, owner families and the management change, the principles may be adopted and implemented by the companies in Turkey. However, considering the long time those normative pressures may require, coercive pressures should be imposed as an initial effort to stimulate a change in board composition. Thus, coercive pressures followed by normative pressures such as seminars, trainings, workshops may be more influential in creating the desired change. Additionally, mimetic pressures may accompany coercive and normative pressures and facilitate change.

Besides, the possibility of change may also increase with global competitive pressures. As the intensified competition over scarce resources and the importance of international institutional investor increases, organizations may feel the need to improve their board composition. Thus, they may distinguish themselves from their competitors and attract more investors with their appeal of outsider-dominated boards.

The second aim of the study was to find out if there is an association between board compositions and export performances of the companies. A positive association was expected between total insider representation and export performance in this study. In line with that expectation, findings show that total insider professional representation and export volume co-vary in all years of the analysis although the relationship is statistically significant only in 2007 ($p<0.10$). This association, on the other hand, is likely to stem from the strong correlation between insider professional representation and export volume in 2007. Findings reveal a positive correlation between insider professional representation and export volume in all years of the analysis and the relationship is significant in both 2005 and 2007 ($p<0.10$ for 2005 and 2007). These findings are in line with the literature. The literature claims that managers who have experience, expertise, knowledge, and managerial skills have a positive effect on the export performance of the companies. In parallel with this line of thought, the correlation between insider professionals and export volume supports the past findings as insider professionals also hold managerial positions in the companies.

On the other hand, family member representation and export volume display consistently a negative correlation in all the years of the analysis although statistically insignificant. That negative association may be because families delegate export decisions to the insider professionals of the company and may prefer to be on board where more complicated internationalization modes are preferred.

Furthermore, outsider representation and export volume display consistently a negative correlation in all the years of the analysis although only statistically significant in 2007 ($p<0.10$). That negative correlation may be because outside directors are usually appointed on boards due to the legitimacy they provide rather than their managerial experience and expertise. Considering that companies in Turkey usually aim to use outside directors as a tool to obtain legitimacy, it renders the above reasoning more down to earth.

Limitations of the Study

This study has some limitations. First of all, it has been conducted only in one country. Therefore, so as to generalize the findings, other countries should also be analyzed. However, since the Turkish context share similar characteristics with most of other emerging economies, findings of the study may be generalized to other emerging economies. Second, three data periods are covered and therefore, business groups may be analyzed for longer periods in order to investigate the change in the board composition. Yet, it sheds light on the initial response of the business group affiliates towards the pressures. Third, this study only covers companies affiliated with business groups. Responses of stand-alone companies may also be studied. Finally, mostly the business groups operating in the industrial sector are analyzed due to the criteria of having at least one company in the “Turkey’s Largest 500 Companies”. Therefore, this study does not include business groups serving only in the service sector. On the other hand, since the context does not include many business groups serving only in the service sector, this limitation may be depreciated.

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