THE COMPOSITION & FUNCTIONING OF THE TURKISH CORPORATE BOARDS: AN EMPIRICAL STUDY

MBA THESIS

BY

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ANKARA, MARCH 1994

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A THESIS
SUBMITTED TO THE FACULTY OF MANAGEMENT
AND
GRADUATE SCHOOL OF BUSINESS
ADMINISTRATION
OF BİLKENT UNIVERSITY
IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS
FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION

BY
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MARCH 1994

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.

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ABSTRACT

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BY

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MARCH 1994

This study focuses on the composition and functioning of the Turkish corporate boards to better understand the roles undertaken by the boards while steering the companys' into the future. The research sample consists of 20 organizations that include 9 holdings, 3 joint ventures, 4 small firms, and 4 independent cases. These independent cases refer to those organizations that do not fit into any of the subgroups listed above. The results are based on the responses of the board members to the open-ended questions during 30-40 minute interviews. The comparative evaluation and discussion of the observed board practices in each subgroup are presented in full detail. The compatibility of the findings with the research perspectives used in previous studies are pointed out. In spite of the limited sample size, the findings enable the generation of valuable research hypotheses which can be tested by more extensive studies in the future.

ÖZET

TÜRKİYE'DE ANONİM ŞİRKET YÖNETİM KURULLARININ BİLEŞİMİ VE İŞLEYİŞİ ÜZERİNE DENEYSEL BİR ÇALIŞMA

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Bu çalışma, Türkiye'de anonim şirket yönetim kurullarının şirket gelecegini etkilemekteki rollerini daha iyi anlayabilmek amacıyla, bu tarz şirketlerdeki yönetim kurullarının bileşimi ve işleyişleri üzerinde durmaktadır. 9'u holding, 3'ü ortak girişim, 4'ü küçük firma ve 4'ü de bağımsız vaka olmak üzere toplam 20 organizasyon ele alınmıştır. Bağımsız vakalar, diğer grupların hiç birine dahil edilemeyen firmaları içerir. Sonuçlar, bu organizasyonların yönetim kurulu üyeleri ile yapılan 30-40 dakikalık mülakatlardan elde edilen bilgilere dayandırılmıştır. Her gruptaki şirketlerdeki yönetim kurulu uygulamaları ve bu uygulamaların karşılaştırmalı değerlendirmeleri detaylı olarak sunulmuştur. Bulguların önceki çalışmalarda kullanılan araştırma perspektiflerine uyumluluğu da tartışılmıştır. Kullanılan örnekleme grubunun kısıtlı büyüklüğüne rağmen, bu çalışmadan elde edilen bulgular, gelecekte yürütülebilecek daha geniş kapsamlı çalışmalara ışık tutacak bir takım hipotezlerin geliştirilmesini olası kılmıştır.

ACKNOWLEDGEMENTS

I wish to take this opportunity to thank Assoc. Prof. Oğuz N. Babüroğlu for bringing this interesting and engrossing subject to my attention in the first place. I am also indebted to him for his supervision and constructive comments that have served as guidelines for the progress of this study. I would also like to express my thankfulness to each and every board member and executive, who have contributed to the conclusion of this research. Last but not least, I am grateful to my family and friends for their never ending support, trust, and patience.

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I. INTRODUCTION

As the family businesses are gradually replaced by publicly owned enterprises, board of directors is perceived as a bridge and mediator between the company top management and the stockholders. Effective boards are expected to

- ensure and strengthen the firm's relations with its environment,
- contribute to the formulation of the firm's mission, goals and objectives,
- provide counseling service to the top management in the generation and evaluation of the strategic alternatives,
- monitor the company and CEO performance and check the conformity of the top management decisions with the stockholders' long range profitability,
- analyze the impact of the top management decisions on the survival, profitability and the image of the company, raise criticisms and apply sanctions where necessary.

Numerous empirical studies conducted in US have indicated that effective and participative boards contribute to the improvement of the company performance.

In spite of the critical and ever increasing importance of the subject in the corporate world, research that has been conducted on the nature and performance of the Turkish boards has remained rather limited. We strongly believe in the benefits of an empirical research that will first create a comprehensive database about the typology of the Turkish boards and then test the validity of the proposed relationship between board involvement and the company performance. The findings of such a study are expected to contribute the evolution of duty conscious boards that not only support and counsel but also monitor top management performance and ensure that the company activities are conducted in conformity with the shareholders' interest. These findings, in turn, will enable the derivation of guidelines for the adoption of a more participative and informed management approach.

This study can be perceived as the initial phase of such a comprehensive effort. The results are based on the interviews conducted with the board members of twenty organizations. Although accessibility of the directors has played a significant role in the constitution of the sample, special care has been shown to include organizations that are different in size, stock ownership structure, field and scope of the business activities.

The first section of this paper summarizes four perspectives that have guided the research on the board of directors. As the discussion unfolds, both the flaws and the complementary nature of the arguments become more apparent, leading us to an integrative model, based on Zahra and Pearce (1989).

The second section provides a full description of this integrative model, listing its virtues over the four partial approaches discussed before. This integrative perspective is then used to group and discuss the findings of the past research on the board of directors. These previous studies are critically evaluated, compared and contrasted. The reasons underlying the contradictions in the findings are sought.

The third section discusses the scope and methodology of this exploratory research. It provides an introduction to the research sample. A comprehensive list of the open ended questions used is also provided.

The forth section includes a short summary of the related articles of the Turkish Law of Commerce, together with their interpretations. Next, detailed descriptions pertaining to the structure and functioning of the boards of the organizations examined are provided. These organizations are divided into sub-groups and examined on the basis of the variables of the integrative model.

The last section evaluates the findings of the study and proposes content and methodology related guidelines for future research.

II. RESEARCH PERSPECTIVES ON THE ROLES OF BOARD OF DIRECTORS

Four distinct theoretical perspectives have shaped the research on the roles of boards of directors (Zahra and Pearce, 1989). These perspectives differ substantially in the discussion of the mission and the duties of the boards, the board attributes that are considered and the criteria used to evaluate the boards' contribution to company performance. Below we provide a comparative and critical description of each perspective.

II.1. Legalistic Perspective

Advocates of the legalistic perspective claim that boards, armed with the power provided to them by the corporate law, influence the company performance by carrying out their legally mandated duties. Within this perspective, boards do not interfere with day-to-day operations, leaving them to the hands of the CEO and senior executives.

Boards' responsibilities include

- representation of shareholders' interests
- election and replacement of the CEO
- counseling top management
- monitoring managerial and company performance

The legalistic view emphasizes four board attributes: *composition, characteristics, structure* and *process.*

Composition includes

- board size (the number of board members),
- number and relative proportions of outsiders and insiders (where an outsider is defined as a member who is not affiliated with the company except through his/her board membership),
- minority representation (which stands for the representation of females and ethnic minorities on the board).

Characteristics encompasses

- directors' background (age, values, technical expertise, management experience, ability to provide special economic services (through affiliation with suppliers, buyers, creditors, government etc.), level of economic sophistication (involvement in career related and/or other organizations, publications), image (frequency of appearing in media, volunteer duties undertaken), etc.,
- board personality (independence, level of interest shown to organizations' activities, stock ownership, eagerness to represent shareholders' interests, ethical conduct, etc.).

Structure refers to

- board organization, and committees (variety, purpose, time dimension (permanent vs. temporary), composition, election and task assignment procedures, flow of information, etc.),
- leadership (unitary vs. dual, where unitary refers to the case where the CEO is also the chairman of the board).

Process consists of

- board meetings (purpose, frequency, duration, atmosphere, program, level of formality, etc.),
- CEO-board interface (level of participation, avoidance, competition, collaboration, compromise, etc.),
- evaluation (the extend to which the board is interested in self-evaluation.

In the legalistic view, composition, characteristics, structure and process attributes determine the accomplishment of the level of *service* and *control* roles. The *service* role consists of interacting with the firm's external environment, improving company reputation and counseling the top management. The *control* role, on the other hand, relates to the monitoring and evaluation of the company and CEO performance, with the idea of protection of the shareholders' rights in mind.

The legalistic perspective points out to two internal contingencies as additional determinants of the performance of the two roles described above:

- ownership concentration: When the company stock is held by fewer owners, these owners (or their representatives) on the board will be more actively involved in securing the company's viability and effectiveness in order to maximize their wealth.
- firm size: Small firms are likely to require less board control compared to the larger ones where complexity of operations increase the need for better organization and co-ordination.

The legalistic perspective includes *financial, systemic* and *social* dimensions of company performance. Here, *financial* performance is evaluated on the basis of accounting and market-based criteria. *Systemic* performance relates to the firm's survival and growth and the *social* performance dwells on the firm's responses to the ever-changing expectations of the society.

Since the legalistic perspective claims that the boards should not be actively involved in strategy formulation, boards' influence on the company performance is expected to occur in an indirect way. In the aforementioned interaction, board attributes shape company performance via the service and control roles.

II.2. Resource Dependence Perspective

The resource dependence perspective defines the basic duty of the board as enabling access to resources by using prestige and personal contacts. Utilizing these contacts, boards provide senior executives with accurate information on a timely basis. Interlocking, that occurs when a person serves on more than one boards at the same time, has been a special concern of the research based on the resource dependence perspective. An interlocking director can use his/her membership in other boards as a means to gather crucial information, establish profitable business contacts and tie up important resources for the company.

The resource dependence view considers two board attributes: *Composition* and *characteristics*, However, it adds *strategy* role of the board to the *service* and *control* roles described before. Accordingly, this view supports the active involvement of the board in strategy formulation through the conduct of in-depth analysis and suggestion of alternatives. Note that the inclusion of the *strategy* role brings more variety and activity into board duties defined by the legalistic view. The company performance is measured using the *financial*, *systemic* and *social* dimensions.

The following contingencies are listed:

- nature of the external environment: Establishment of strong and sustainable links with the environment becomes especially crucial when a hostile and volatile environment is encountered.
- phase of the company life cycle: Research has supported that boards emphasize different roles at various points of the life cycle.
- type of the firm: Boards of for-profit firms tend to be less active since they are held legally liable for their decisions.

II.3. Class Hegemony Perspective

The class hegemony perspective, rooted in Marxist sociology, views the boards as means of domination of the ruling capitalist elite. Accordingly, only the most prestigious people are asked to serve on the boards. The remaining parties are deliberately eliminated so that the values and the interest of the ruling capitalists are protected.

This view, which is backed up by limited empirical evidence, considers *composition*, *characteristics* and *process* as the board attributes and emphasizes *service* and *control* roles. Only the *financial* and *systemic* dimensions of the company performance are taken into consideration.

The contingencies listed are:

- ownership concentration (discussed before)
- CEO style (board input is valuable only when it is compatible with CEO's goals and preferences.)
- ruling capitalist values

II.4. Agency Theory Perspective

Agency theory revolves around the relationship between the agents (executives) and the principals (owners). The executives who have significant power and independence can act along the ways that lead to the achievement of their own objectives, which may be in contradiction with the shareholders' interest. Hence, the board should act as a control mechanism to protect the principals' interests.

All four board attributes (*composition, characteristics, structure* and *process*) are considered with more emphasis given to board decision making process, compared to the legalistic perspective. Agency theory takes *control, service* and *strategy* roles into account with special focus on the control role. Performance is evaluated using *financial* (market based measures) and *systemic* criteria.

Two contingencies are:

- ownership concentration
- external environment

both of which have been discussed below. Advocators of the agency theory emphasize the direct link between board roles and company performance.

III. AN INTEGRATIVE MODEL

Zahra and Pearce (1989) have combined the four perspectives discussed above to come up with an integrative three dimensional model (See Figure 1). This new model encompasses all four board attributes (*composition, characteristics, structure* and *process*), three board roles (*service, strategy* and *control*) and all three dimensions of performance (*financial, systemic* and *social*). Contingencies are classified as external and internal, based on their dependence on the environmental and firm related factors, respectively.

Note that not only the direct and indirect (via roles) links between attributes and company performance are realized, but also the interactions among the board attributes themselves are brought into consideration. By indicating that the board attributes are shaped in accordance with the internal and external contingencies, the model introduces a multidimensional approach. These contingencies, by influencing the mix of board attributes, affect the performance of the board roles and hence the company performance.

The model also suggests a step-wise interaction among the board attributes. Board composition affects board characteristics which influence board structure and board structure influences board process and decision making. If there are too many insiders on the board, for instance, the board is likely to act passive and more dependent on the CEO. Unitary leadership is likely to be observed and the board meetings tend to turn into perfunctory gatherings which accomplish no more than rubber-stamping CEO's proposals.

Below, we will review the scope and findings of related research using this integrative framework.

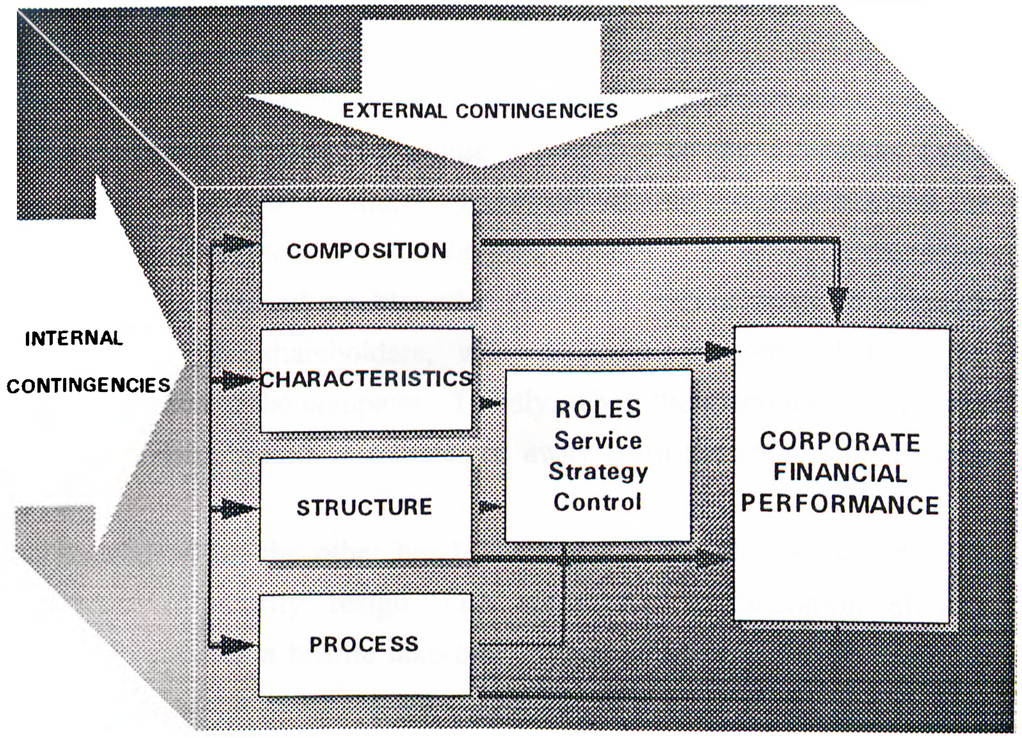

Figure 1. An Integrative Model.

III.1. Influence of External and Internal Contingencies

III.1.1. External Contingencies

Environmental Trends: Advocates of the agency theory define the primary role of the board as controlling the company executives' activities to protect the shareholders' interests. In this respect, the theory draws attention to the effect of the external environment on the relationship between owners (principals) and executives (agents).

Recently, a significant increase in the number of hostile take-overs has been realized in US. This intimidating trend made most management more interested in short-term returns. This short-term orientation, in turn, caused most company management to accept to pay greenmail, implement golden parachutes and issue poison pills.

A company's private repurchase of a block of its stock from a shareholder by paying a premium above the market price is called greenmail. It is a defensive measure taken to fence off the raiders, especially when there is an explicit or rumoured threat that a substantial stockholder plans to challenge the company management in a take-over.

From the agency theory perspective, greenmail decision contradicts with the shareholders' interests. Firstly, by giving a premium to the substantial stock owner, the management discriminates against the smaller stockholders and the corporate mission to protect all shareholders' interests is severely damaged. Secondly, paying greenmail enables the company management to cleverly eliminate the minority shareholders, who constitute a potential threat to management's control of the company. Thirdly, when the greenmail payment is financed through debt, wealth is transferred away from the small shareholders (Kosnik, 1987).

Golden parachutes, on the other hand, are a perquisite that enables the top management to voluntarily resign with significant remuneration after a triggering event, such as a hostile take-over. Opponents of golden parachutes perceive them as indicators of top management interest to maximize its own utility, rather than the shareholders' wealth. Some critics even claim that there is not much ethical difference between golden parachutes and theft. Conversely, others view golden parachutes as a means to attract and keep managerial talent and to maintain the objectivity and loyalty of the top management team, especially when a hostile environment exists (Cochran, et al., 1985).

Poison pills are extra stock issued by the company management to thwart a hostile take-over attempt. The resulting effect on the shareholders' wealth originates from a probable decline in the stock price.

The above changes in the market have been coupled with non-negligible differences in the profile of the stock owners. From 1970 to 1987, the percentage of all corporate stock in US that is held by institutions have risen up to 30% from a moderate 17.5% (Power, 1987). The implications are significant as the institutional investors can not simply sell their stock and quit when they are unsatisfied with the performance of the company. An attempt to unload their shares will, with no doubt, push down the stock price. With such stakes in the industry, the institutional investors choose to stay and voice their dissatisfaction with the company management.

Not all institutional investors have long term horizon, however. In fact, they make about 70% of all stock trades in Wall Street (Nussbaum, 1987). Most of these transactions are realized by mutual fund managers and investment advisers who replace about 60-65% of their portfolios every year. Company executives blame these institutional investors for forcing them to focus on short term earnings in order to keep the stock prices up. Interestingly enough, the same CEOs often compel their money managers (who are in charge of the companies' pension funds) to outperform the market index. A vicious circle forms in which those who get hurt from short term orientation contribute to its sustenance.

Increased shareholder awareness and activism have enabled the shareholders to voice their opinion and demand to be consulted before strategic decisions that will have a major impact on their wealth are made. Recently, the number of law suits filed against the directors have increased rapidly, forcing the boards to be more conscientious about the performance of their control role (Sahlman, 1990).

Legal Requirements: New legal measures have been activated in US to ensure the existence of a certain proportion of outsiders on the boards to facilitate the protection of the shareholders' interest. This interaction is a contemporary example for the influence of an external contingency on the board composition.

Social trends like consciousness for environmental protection, movements to defend consumer rights, increased sensitivity toward job security and working conditions also force directors to be more involved in the pursuit of their service role. As a safeguard against increased public concern for race and sex discrimination, boards may include female members and/or minority representatives in order to signal belief in equality and human rights.

III.1.2. Internal Contingencies

Stock Concentration: Research conducted by Hill and Snell analyzes how stockholder and management interests conflict in research intensive industries (Hill & Snell, 1988). From agency theory point of view, top management is perceived as an agent interested in the maximization of its own utility, where the utility function consists of power, security, status, wealth, etc. Accordingly, management is after diversification in order to decrease its employment risk. When too worried about short-term performance, top management is very likely to try to engage in extensive and unrelated diversification. Stockholders, on the other hand, back up innovation strategies for the maximization of their long run profits.

The results indicate that as the stock concentration increases, i.e., stock is collected in fewer hands, research and development (R&D) expenditures (chosen as indicator for level of innovation) increases (Hill & Snell, 1988). Hence, higher stock concentration enables the board to exert more control over the top management in order to ensure protection of shareholders' long term profitability.

Three years later, another research on the influence of stock ownership on corporate R&D strategy has been published (Baysinger et al., 1991). This time three measures for stock concentration are used. The first one is an overall measure, the second one emphasizes stock holders with larger holdings and the third one includes separate indicators for individual and institutional investors.

The results show that different indicators can lead to different results. A positive relationship is found between the overall indicator and the level of R&D spending, whereas no statistically significant relationship is observed between the second indicator and the dependent variable. As for the third measure, a positive relationship is observed for the case of institutional investors only. This result can be attributed to the possible long term commitment of the institutional investors. Individual investors, on the other hand, have more difficulty to diversify the risk and hence are more likely to opt for lower risk strategies, rather than giving support for R&D expenditures.

Company Size: The legalistic approach emphasizes the firm size as a major internal contingency. As we have noted before, in small firms, the board's service role comes to the foreground and the control role becomes underutilized. In larger firms, due to the increased complexity of the operations, boards tend to act as major control mechanisms.

Company size also affects board composition. Larger firms tend to have larger boards. Besides, owing to the need to co-ordinate considerable variety and complexity, larger companies tend to have high proportion of board members with above average level of technical and managerial expertise.

Small firms attract the greedy market raiders, whereas the probability of a hostile take-over decreases for larger firms. Accordingly, it has been shown that there exists a significant negative relationship between the firm size and the incidence of golden parachutes (Cochran, et al., 1985).

Corporate Resource Situation: Corporate resource situation of a firm can play a major role on board composition since it may affect the decisions of the candidate board members who have been invited to serve on the board. It has also been shown that the proportion of debt financing and the acceptance of golden parachutes are negatively related (Cochran, et al., 1985). This relationship can be attributed to the reluctance of the market raiders to attack the companies that are heavily financed by debt.

CEO Style: CEO style is a major factor that influences board attributes and involvement. A dominant CEO who wants to thwart board involvement, can act to nominate and select amiable insiders for the board so as to have full control over the board's decisions. Such a CEO can prevent free flow of information to the board, leaving the directors without any means to conduct analysis to check and/or evaluate top management proposals and decisions.

Pearce & Shaker (1991) drive four different typologies for the boards, taking different combinations of the CEO and board power:

Statutory boards

- are characterized by high CEO power as opposed to low board power,
- are dominated by CEO,
- lack thorough examination of top management proposals,
- are stricken by lack of information and expertise,
- can not go beyond rubber-stamping CEO decisions.

Caretaker boards

- are characterized by low CEO and board power,
- lack corporate leadership,
- exist only as a legal necessity,
- are dominated by company executives and include very few outsiders,
- have informal and superficial proceedings and ceremonial decision making processes with the sole purpose of approval of CEO' suggestions.

Participative boards

- are characterized by high CEO and board power,
- enable extensive discussion, debate and disagreement,
- resolve conflicts through voting; a majority role prevailing,
- consist of large number of outsiders.

Proactive boards

- are characterized by low CEO power and high board power,
- act as true instruments of corporate governance,
- employ many outsiders to enhance board expertise, independence, objectivity and the representation of significant constituents of the society,
- divide board responsibilities among committees,
- meet frequently to facilitate timely dissemination of information and healthy decision making.

III.2. Direct and Indirect Influence of Board Attributes on Company Performance

Board attributes can have a direct effect on company performance. Similarly, they can determine the performance of the boards' service, control and strategy roles and hence influence the company performance in an indirect way. Below, we will concentrate on each board attribute and discuss its impact on the performance measures. Findings of related research will also be provided together with possible interpretations of the results.

III.2.1. Effects of Board Composition on Company Performance

Indirect Effects: Recall that board composition refers to the board size, the number and proportion of outsiders, representation of females and ethnic minorities. The existence of outsider majority enables the establishment of more viable links with the environment. The outside members tend to use their affiliations with crucial private/public institutions and their personal contacts to secure resources for the organization. For non-profit organizations, such linkages can also be exploited for fund raising purposes. Hence, there seems to be a positive relationship between the proportion of outsiders and the performance of the board's service role.

Links between the board size and the performance of the control role have attracted much attention. Larger boards tend to resist managerial domination and be more actively involved in monitoring and evaluating both CEO and company performance. However, research results have shown that when the board size exceeds a threshold level, due to the cluttering effect, board proceedings and discussions become less effective (Patton & Baker, 1987). Board meetings turn into slide shows or theatricals delicately outlined by the chairman. Deliberately increasing the board size, is perceived as a cunning CEO tactic that aims to decrease the individual influence of board members (Johnson, 1990).

A study that focuses on the impact of relative proportions of outsiders and insiders on the board's giving its approval to a greenmail decision, reveals interesting relationships (Kosnik, 1987). The results of this study indicate that boards that reject paying greenmail have high proportion of outsiders and/or higher proportion of outsiders with executive experience. Similarly, boards that successfully resist greenmail decisions have low proportion of insiders who are members of the executives' families.

Agency theory defines the board as a major control mechanism. In the above case, the board's pursuit of its control role (by rejecting to pay greenmail at the stockholders' expense) is contingent upon the board composition. The presence of higher proportion of outsiders enables the achievement of board's objectivity and independence and results in the fulfilment of the control role. Note that this interaction between the board composition and the control role takes place via board characteristics. This results from the implicit assumption that infers that more independence is brought into board personality by the outsiders.

Another study that examines the relationship between the proportion of insiders and the implementation of golden parachutes, provides counter intuitive results (Cochran, et al., 1985). This study computes the proportion of insiders by using three distinct definitions of an insider. The first proportion, INSIDER 1, includes all members of the board who are also employees of the company. The second proportion, INSIDER 2, encompasses everyone in INSIDER 1 together with all directors who have worked in the firm at some time in the past. The third proportion, INSIDER 3, is a much broader one that not only includes everyone in INSIDER 2, but also all other board members who are employees of the firm's suppliers, buyers, creditors and/or work in parent or subsidiary companies.

The results show that no matter which definition is used, a significantly negative relation is observed between the proportion of insiders and the implementation of golden parachutes. The findings are in contradiction with the agency theory that assumes that top management is interested in the pursuit of its own interest in the first place.

The findings of the study suggest that further research should be conducted to reveal the relationship between the insider proportion and the consumption of other managerial perquisites to see whether the same pattern unfolds. The controversial results may also indicate the need to incorporate other variable into the analysis to highlight the real nature of the interactions. More specifically, the relationship between the proportion of insiders and the activation of managerial perquisites is likely to be dominated by other factors such as board personality, CEO style and external contingencies. Using one dimensional frameworks that considers variables in pairs, can lead to misleading inferences.

The relationship between relative proportions of insiders and outsiders and the board's control strategy is also analyzed (Baysinger & Hoskisson, 1990). The authors claim that the presence of insiders on the board enables the activation of effective internal controls, which prevent the managers from being penalized for the negative outcomes over which they have had no control. Since insiders, in general, are more informed about the day-to-day operations, they tend to employ *strategic control*, which focuses on the strategic desirability of the decision taken by the top management and the flow of the events that follow the implementation. The system of strategic control, obviously, requires more information input and engagement in a more diligent evaluation of managerial performance. The system of *financial control*, on the other hand, focuses on the outcome only. Outsiders, in the pursuit of their control role to protect shareholders' interests, may keep top management responsible for undesirable outcomes even when an unexpected external impact has caused the failure.

The authors claim that the financial controls correlate managerial performance with short term variations in the market value of the firm and hence cause managers to focus on the short term profits. Adoption of a short term horizon decreases the incentives to take risks and the effort is transferred away from high risk- high return strategies that are favored by the stockholders.

The analysis contributes to our understanding of the board's control role in the corporate world by drawing upon board's responsibilities to the top management in addition to its duties to protect shareholders' interests. Nevertheless, insider domination may support CEO opportunism in spite of the severity of the liabilities awaiting.

Larger boards with more outsiders and minority representatives tend to enable appropriate circumstances for free debate and discussion of company mission, goals and strategies. Also the proportion of outsiders is shown to be positively related to the likelihood of board involvement in strategic restructuring (Johnson, et al., 1993). This result conforms with the common personification of the outsiders as the guardians of shareholders' wealth. Being more objective and independent, outsiders are expected to stand for shareholders' rights.

Congruent results are obtained from a research that focuses on the changes in hospital services during a fixed time period (Goodstein & Boeker, 1991). The hospital sector is chosen as a representative of industries that are characterized by significant turbulence and increased competition. The number of service additions and divestitures are taken as the measures of strategic change.

The results indicate that increases in the proportion of outsiders and the increase in the number of service additions are positively associated. However, no significant relation is found between the proportion of outsiders and the number of service divestitures. Considering the intensity of the competition among the hospitals and the rivals interest in providing new services, one can infer that most strategic change is likely to be reflected in the service additions, rather than service divestitures which are most likely to raise too much resistance.

Direct Effects: Literature surveys reveal contradictory results on the direct effect of board size on company performance. Some associate small board size with higher rate of bankruptcy, whereas others claim that large boards inhibit effective performance (Chaganti et al., 1985; Provan, 1980; Zahra & Stanton, 1988).

We may hypothesize that an inverted U shape relationship exists between board size and company performance. Up to a threshold level, performance increases with board size under the influence of the diminishing returns principle. Beyond the threshold level, cluttering gets in the way and performance starts declining with the inclusion of each additional member.

Research conducted in research intensive industries indicates a negative relation between the proportion of the insiders and the financial performance measured by return on assets (ROA) (Hill & Snell, 1988). Other studies report that no relationship is observed between the proportion of outsiders and the firm's financial performance (Chaganti, et al., 1985; Zahra & Stanton, 1988). Contradictory results can be attributed to inconsistencies in variable definitions and the lack of validity check for some underlying assumptions.

There is apparent lack of uniformity in the definition of an insider and an outsider, for instance. In addition, some studies are based on the absolute number of outsiders, others use proportions and some others utilizes both measures. Some studies claim that a high proportion of outsiders is not sufficient to guarantee outsider effectiveness, hence they suggest a new measure for outsider dominance.

No significant relationship between female and minority representation and corporate performance is found (Zahra & Stanton, 1988). This result can be attributed to the limited presence of both groups on the boards.

III.2.2. Effects of Board Characteristics on Company Performance

Indirect Effects: Recall that board characteristics are made up of two components: Directors' background and board personality. The higher is the proportion of board members with high economic sophistication, credible public image and strong affiliation with institutions crucial to the firm, the more is the service role legitimized.

In this framework, interlocking directorates act as vehicles for inter organizational co-ordination or control. With such a significant impact, interlocks constitute a major research topic, especially for advocators of the resource dependence perspective. Nevertheless, it is pointed out that research on the identification of interlocks between competitive firms in the same industry has overestimated the number of interlocks and hence overemphasized their influence on inter organizational linkages (Zajac, 1988).

Zajac claims that past research has either double counted the linkages between the firms or used broad categories in grouping firms. He shows that, after regrouping and proper counting, one can not find a significant difference between the links among a group of competing firms and those among randomly selected ones. As a concluding remark, Zajac also suggests that individuals do not always accept multiple board membership in order to arrange the firm's interaction with its environment; personal reasons like economic incentives, desire for prestige and career objectives can constitute the underlying motives.

Stock concentration of directors has frequently been taken into account as a determinant of the board's performance of its control and strategy roles. Directors' interests are expected to be more aligned with those of shareholders if they hold considerable stakes in the firm. The directors are predicted to get more motivated to monitor the CEO and company performance and be more involved in formulating strategies that will enable maximization of the long run profits.

Supporting evidence comes from a study that reports that increased board involvement is positively associated with the board's equity holdings (Johson, et al 1993). Conversely, a significant positive relationship is observed between outsiders' equity holdings and the boards' giving its approval to a greenmail proposal (Kosnik, 1987). The author explains this counterintuitive result by pointing out that director equity holdings are much smaller than those of managers. Such small proportions, most probably, fall short of motivating the directors to be deeply involved in steering the company into the future.

Direct Effects: Vance(1968) attempts to determine measurable traits of the board members and use them to analyze the functionality of the board. He concentrates on technical expertise, management experience, special economic services, broad economic sophistication, image, asset impact, interlocking and owners' equity to describe board characteristics.

Vance rates each board member on the basis of these eight criteria and sums up individual points in order to evaluate the board as a whole. From another perspective, he analyzes individual ratings of the board members to observe whether uniformity exists. Boards are expected to be dominated by the influence of a minority if a minority group (or a particular member) with significantly high ratings exist(s). If all the individual ratings fall within an acceptable range, the board personality is expected to be more democratic.

An application of the Vance model for six real life organizations is provided in Mirze (1989). The main flaw of the model stems from the difficulty in rating the board members. The ratings are severely limited by the knowledge, common sense and subjective beliefs of the rater. Besides, the model is of utmost value only when it is used to compare two or more boards or analyze the changes in a board's characteristics over time. When the comparison is among different boards, it is hard to find a rater with sufficient knowledge on each of the boards examined. Raters' bias may get in the way when different raters are used for each board.

Another research conducted by Vance (1978) on 40 large manufacturing corporations indicates that performance (measured by total return to investors, changes in Fortune rankings and return on stockholders' capital) is positively associated with the degree of insider representation and negatively related to external expertise and increased focus on interest groups.

Drawing on the fact that board members have to deal with internal concerns as well as external contingencies, Pearce (1983) aims to replace the traditional insider/outsider classification with a new one based on the board's inclination to undertake internal and external duties. His results indicate a strong association between board's internal orientation and the firm's financial performance.

III.2.3. Effects of Board Structure on Company Performance

Indirect Effects: Establishment of board committees has become a common practice in recent years. Committees not only enable healthy distribution of the workload, but also give way to specialization. Due to the variety and complexity of board duties and responsibilities, boards can easily turn into ineffective and inefficient management units if decentralization and authority delegation can not be carried out.

Committees enable better utilization of human resources when strong association is established between the purpose of each committee and the expertise of its participants. Through division of the workload, especially outside members gain more time to conduct in-depth analysis about certain issues. Involvement and individual contribution are expected to increase.

Committees differ in purpose (nominating, auditing, etc.), durability (temporary vs. permanent), nature (counseling vs. execution) and composition. Their effectiveness and efficiency depend heavily on each of these factors and the interactions among them. Board committees can turn into expensive timekilling mechanisms, if committee composition can not lead to synergy. Also when committee members confine their board membership responsibilities with the committee assignments, board integration becomes seriously at stake.

Kesner (1988) points out that in spite of the fact that most board decisions are made at the committee level, researchers keep concentrating on the overall composition and characteristics of the boards. Accordingly, she attempts to conduct a study on the composition and the characteristics of the board committees.

Kesner's findings reveal that there are disproportionately more outsiders than insiders on major board committees (auditing, nominating, compensation, executive). This can be attributed to the interference of the US regulatory agencies, which have brought obligations to increase the number of outsiders on the boards. The results also show that board committees include disproportionately more business executives than individuals with nonbusiness occupation. Such a result is expected since expertise is sought in committee member nomination. The findings also reveal that board committees consist of disproportionately more directors with long tenure than directors with short tenure. This suggests that directors with long tenure are assumed to possess a deeper understanding of the firm and its operations and are asked to channel this accumulation to the committee proceedings.

Fulfilment of the directors' information requirements is a major prerequisite for the pursuit of the board roles. Especially, outside members need to be well-informed about company's operations and be equipped with necessary means that will enable them to conduct their own analysis to check on the top management's proposals. Boards in deprive of accurate and timely information about the issues of concern, can go no further than rubber-stamping CEO proposals.

Board members should be provided with in-depth information about the following issues: (Bacon & Brown, 1975)

- capabilities and the influence of the top management,
- mission, goals, objectives and strategic management of the company,
- equity structure, liquidity, cash flows,
- organizational strengths and weaknesses,
- policies regarding to the interaction between the company and its legal/social environment,
- social responsibilities of the company.

Research has identified five different methods that can be used to meet the information requirements of the board of directors (Rockart, 1979):

- By-Product Technique: Directors/managers are provided with a report prepared by dumping all data in the company's operational database. The data pertain to inventory, sales (cash or credit), payments account receivable and wages, etc.
- Null Approach: Directors are informed verbally by trustworthy expert counselors.
- Key Indicator System: Initially key indicators that reflect the overall company performance are selected. The realized value of each key indicator is compared with its expected value and directors/managers are only informed about the key indicators that show discrepancies.
- Total Study Process: Directors/managers are questioned about their information requirements. Their input is then used to modify the existing information system.
- Critical Success Factor: The information requirements of directors/managers are determined by taking the critical success factors into account. Critical success factors are defined in such a way that the firm's high performance in each of there activities can lead to overall performance improvement. Since such activities are so crucial for firm's survival and success, managers/directors are continuously provided with related information.

Direct Effects: Research has focused on the effects of board leadership (unitary vs. dual) on company performance. Recall that dual leadership occurs when the CEO serves as the Chairman of the Board as well. Intuition suggests a positive association between dual leadership and better performance since effective checks and balances are in place.

Unitary leadership is shown to have a negative effect only on one of the four performance measures taken into account (Berg & Smith, 1978). Chaganti et al. (1985) reports that no association is found between board leadership and the occurrence of bankruptcy, which is used as a specific measure for performance.

III.2.4. Effects of Board Process on Company Performance

Indirect Effects: Boards hold periodic meetings to discuss and decide on various issues pertaining to the company and CEO performance. The frequency, duration, purpose, content and the general atmosphere of these meetings determine the level of board contribution.

Board meetings can be classified into four groups based on their purpose : (Jay, 1976)

- Information Meetings: aim to provide directors with information on the company activities.
- Decision Meetings: aim to decide "what to do".
- Orientation Meetings: aim to answer "how to do" type of questions.
- Procedural Meetings: aim to discuss changes in organizational and operational policies and procedures.

In order that board meetings will not turn into unorganized assortments of arbitrary discussions, board members should be well-informed about the content and the purpose of each meeting in advance. Such practice will enable directors to attend the meetings well prepared and facilitate individual contribution.

Direct Effects: The number of empirical studies concerning board processes is limited. This may stem from the difficulty in accessing the boards frequently enough to enable full description of the ways the board meetings are conducted. Previous analysis suggests that the influence of board processes on company performance occurs via board roles most of the time. Hence, shifting the focus on the indirect effects is suggested (Zahra & Pearce, 1989).

IV. ANALYSIS OF TURKISH BOARDS: EMPIRICAL RESEARCH

At the initial phase of an empirical study that has been designed to prepare the groundwork and guidelines for an extensive study on the typology of the Turkish board of directors, though informed about the composition and the functioning of the US boards, we felt somewhat clueless about those of the Turkish boards. Related previous research remained limited in both scope and dimension, since it has either focused on the legally mandated duties of the boards only, or remained confined with the analysis and evaluation of a few corporate boards (Doğanay, 1994; Mirze, 1989). Under these circumstances, we started out with the purpose of concluding the introductory stage of a more comprehensive future research on the composition and the functioning of the Turkish boards.

Although one could access to the annual reports to obtain some data concerning the composition of the boards of those companies that have gone public, in order to collect data about the characteristics, structure, and processing of the boards, we had to communicate with the board members themselves.

We chose to prepare open-ended questions and arrange face to face interviews with the board members in order to facilitate the degree of mutual communication, and enable the accumulation of valuable knowledge. It was not difficult to come up with an original list of open-ended questions: The literature survey we have conducted has provided the guidelines, together with the attributes and roles specified in the integrative model (explained above).

We strongly believed in the advantages of face to face interviews in such circumstances. Not only would such interactions enable us to test the significance and validity of our questions for the Turkish boards, but would also help us uncover special practices pertaining to the constitution and functioning of the Turkish boards. The accumulated knowledge would, in turn, enable the modification of the list of questions which could then be used in other interviews or questionnaires for more extensive research.

Below, we provide a comprehensive list of the open-ended questions we have started with. The questions are subgrouped based on the variables of the integrative model, just to facilitate organization and flow.

IV.1. Interview Questions

External Contingencies:

- Has any legal sanctions altered the composition of the boards?
- How do you compare the overall level of board involvement in this industry with that of others? Do you believe that board involvement is associated with the nature of the industry in which the firm operates in? If so, how does this association work?

Internal Contingencies:

- Who are the shareholders?
- What are the proportions of institutional or individual investors?
- How do the approaches (short term vs. long term orientation) and attitudes (demanding to voice its opinion vs. ignorant) of these shareholders differ?
- How has the equity structure of the company changed over the years?
- Do you recall any occasion where the shareholders' claim for the protection of their rights has lead to an increased involvement of the board?
- Do you believe that CEOs favor strong boards? Why/why not ?
- How do you think the CEO style and attitude affect board effectiveness? Do you recall an instance which can exemplify this interaction?
- How do you evaluate the managerial experience and technical knowledge of the top management team? How does it affect board composition and involvement?
- Do you believe that increased stock concentration triggers the top management to be more interested in the long run profitability of the firm?
- Do you believe that increased stock concentration triggers the directors to be more interested in the long run profitability of the firm?

Composition & Characteristics:

About the board size:

- Has the size of the board changed in the recent years? If yes, what were the reasons that caused the increase/decrease in size?
- How do you think the size of your company's board is related to its effectiveness?

About the insiders & outsiders:

- How has the insider/outsider ratio changed over the years? What were the influencing factors?
- Who are the insiders on your board? How are they elected?
- Who are the outsiders on your board, if any ? How are they elected?

  For companies whose boards constitute of insiders only:

  - Why do you think the board has no outsider members?

- How do you personally evaluate the contribution of the outsiders? Do you think they can bring in fresh blood if they are asked to serve on the board?

For companies whose boards constitute of both insiders and outsiders:

- How do you compare the independence of the insiders with that of outsiders?
- How do you compare the contribution of the insiders with that of the outsiders?
- How is the interaction between insiders and outsiders?
    - How eager are the insiders to transfer operational information to the outsiders?
    - Do insiders believe in or try to block the outsider contribution and effectiveness?
    - Are insiders open to debate and criticisms?
    - How much power do the insiders have on the nomination and election of the outsiders?
    - Do special personal affiliations exist among the insiders and the outsiders? If so, do you think such affiliations hinder the level of independence and the objectivity of the outsiders?

- Do the members of your board hold multiple board membership? If so, how do you think, it affects the efficiency and contribution of the directors?
- Do you think the information requirements of the outsiders are thoroughly fulfilled?
- Are the outsiders, most of the time, contended with the information supplied to them or do they actively seek more ?
- Are the outsiders eager to learn about the company activities?
- How do you evaluate the outsiders' contribution to management control?

About general characteristics:

- How do you evaluate the eagerness of your board members to involve in strategy formulation and implementation?
- How do you evaluate the overall competence of your board members in familiarity with company operations?

- How do you evaluate the outside linkages and personal contacts of your board members? How do you think, they contribute to the profitability or credibility of the company?

The answers to these questions are expected to shed light on the past and present compositions of the Turkish boards, profiles of outsiders and insiders, the extend to which outside members are used, the nature of the interaction among the insiders and the outsiders, and the performance and contributions of insiders and outsiders.

Past research on the association between the number and proportion of outsiders and the company performance has reported contradictory results. As pointed out before, these studies have remained one-dimensional most of the time and have ignored other aspects of the big picture. The above analysis is expected to provide us with a more realistic and multidimensional perspective that will facilitate our understanding of the interactions among the variables.

Structure:

- Which type of leadership (unitary vs. dual) applies to your company? What are the pros and cons?
- How do you evaluate the existing information system?
  - Are the procedures formal/informal?
  - How are the board members informed about the company activities ?
  - Is the information content, frequency and quality satisfactory?
  - Is this information flow sufficient to enable directors sufficient means in monitoring and evaluating the top management proposals?

For companies with already established committees:

- How has the number and the types of the board committees changed over the years? What factors influenced such changes?
- What is the current situation?
  - How many committees are there?
  - What are their functions and missions?
  - Are they temporary or permanent?
  - How do you define their responsibility/authority balance?

- What is the procedure followed in forming a new committee? How is the need assessed? How does the nomination and election mechanisms work ?

- How does the board composition differ from committee composition ?
- How do you evaluate the contribution of the committees to the board effectiveness?
- Do you believe that the directors' experience and knowledge can best be utilized through committees? Why/why not ?
- How do you evaluate the flow of information and the level of co-ordination among the existing committees?

For companies without board committees:

- Why do you think no board committees have been established so far ?
- Do you personally feel the necessity for the establishment of board committees? If yes, which ones ? If no, why not ?

Process:

About the board meetings:

- How often do board meetings take place?
- How do you evaluate the participation level ?
- What is the duration ? Is working overtime a common practice?
- What are the frequencies of
    - informative
    - decisive
    - orienting
    - procedural meetings?
- What is the general environment like? (overhead projector, slides, handouts, verbal communication, etc.)
- How is the atmosphere? (industrious, friendly vs. hostile, debate oriented, aggressive, consensus vs. power driven, diligent vs. perfunctory, formal vs. informal, etc.)
- Are the directors informed about the program of the meeting in advance?
- Are the directors given sufficient time to examine related data and documents?
- Do the directors come prepared?
- Do the meetings follow a well-defined program ? Are there last minute additions/deletions?
- How do you describe and evaluate the decision making process?
    - quick vs. slow
    - informed vs. uninformed

    - impulsive vs. deliberate, etc.
- How do you describe and evaluate the board's self evaluation mechanisms?

IV.2. Scope, Research Sample & Methodology

The purpose of this research is to conduct a pilot study to reveal the typologies of the Turkish corporate boards. In order to define and describe these typologies, we concentrate on the board attributes (composition, characteristics, structure, and process), together with the board roles (service, strategy, and control). Our major concern is to account for the interaction among the board attributes and roles. The determination of the identity and impact of the internal and external contingencies on this interaction constitutes a supplementary issue.

Our preference is biased towards accessing as many corporations as possible rather than focusing on how the board practices have changed within a few corporations over time. Such a decision has originated from the priority attached to enabling the accumulation of knowledge on the current board practices. We believe that once the current situation is truly and thoroughly understood, the evolution of the corporate boards can be better evaluated.

Concentration on the current situation of the boards, however, prevents us from considering the performance aspect within the scope of this study. Since the corporate performance evolves as the outcome of the interaction among the contingencies, board attributes and roles over a period of time, evaluation of the links among the performance and the other elements can not be based upon the observations taken at one point in time.

For instance, the financial performance of a corporation as of today will not only be related to the current composition and the functioning of its board, but will also rely on the past board practices. Even when the financial data for a period is captured, the analysis can not be completed unless the changing board attributes and roles within the same period are also taken into account. Such accounts of history require conducting interviews with the past board members in addition to the current ones. Due to these limiting factors, we choose to defer the inclusion of the performance dimension to the analysis for the time being and concentrate on the attributes, roles and contingencies only.

With such scope defined, we attempted to access to the board members of the private corporations. Our emphasis was toward more institutionalized corporations, since we hoped to encounter more developed board practices there. Needless to say, the contents of our sample were seriously affected by the accessibility of the board members. There was absolutely no way of getting in contact with some of the directors, due to their busy schedules. Special references had to be furnished in most cases, before the interviews were scheduled.

The members of the sample were not defined ahead of time, neither were the members classified into subgroups. As we proceeded with our interviews, we observed that certain groupings would be beneficial. Once these subgroups became apparent, we started selecting the remaining members of our sample, taking the distribution of the members of the sample among these subgroups into account. When we felt that emphasizing the board practices of a certain subgroup would be worthwhile, we attempted to increase its size.

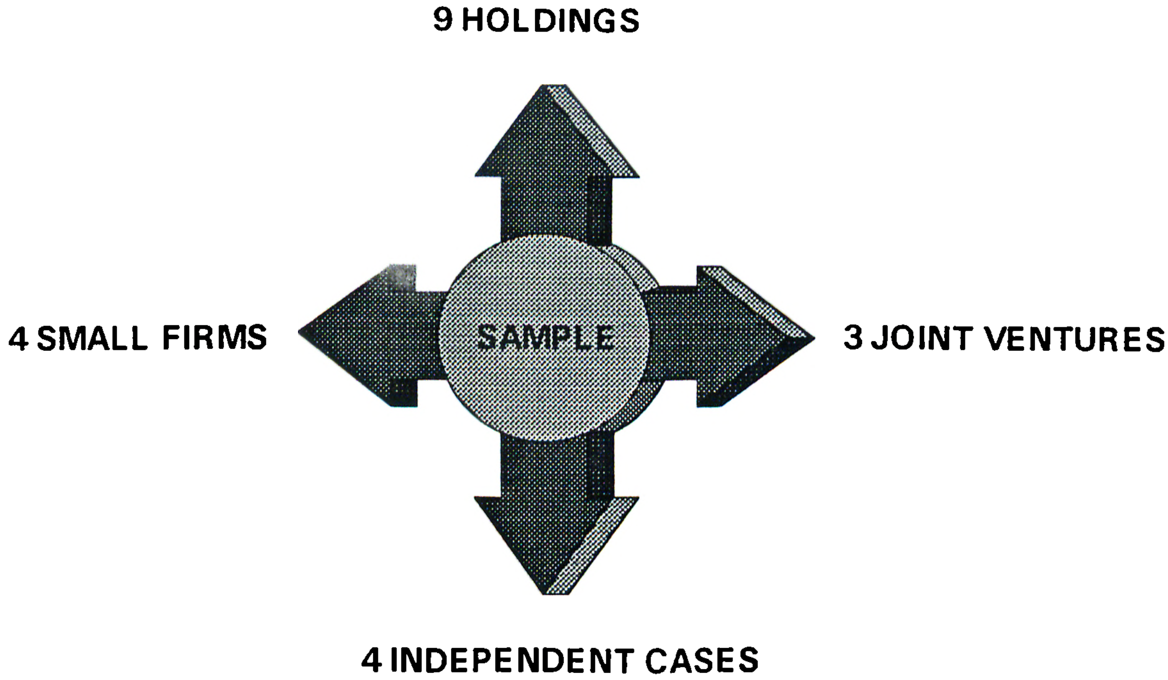

Figure 2. The Research Sample

Three members of our sample, though all were corporations, showed some very special features. Therefore, we have chosen to consider them separately as independent cases. We also included a foundation within our sample, in order to compare and contrast its board practices with those of the corporations. With the foundation, the number of independent cases increased to four.

Figure 2 depicts how the 20 elements of our sample is distributed among the subgroups. From now on, in compliance with the confidentiality required by some of the board members we have interviewed, we will use a special code for each member of our sample. Each code will start with a letter (or two) symbolizing the subgroup of this member belong to (H for holdings, JV for joint ventures, IC for independent cases), followed by a sequence number. For instance, the first holding we will describe will be called H-1, the third joint venture we will talk about will be referred to as JV-3, and the second independent case will be designated by IC-2. Small firms are held as exceptions, since all four of them are examined together.

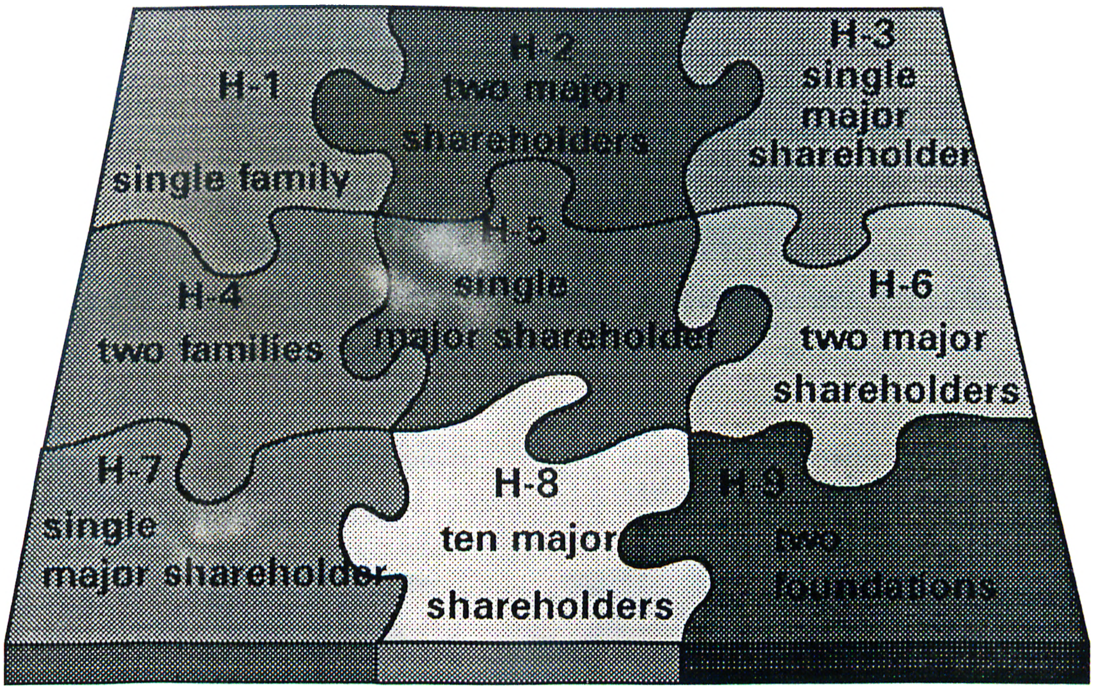

Figure 3. The Stock Ownership Structure of the Selected Holdings

Note that even within these subgroups, the members are not identical in many aspects. In fact special care has been shown to include corporations of different sizes, ages, and stock ownership structure. Table I in Appendix presents a short introduction to the selected holdings and outlines the core business areas. Figure 3 provides information about the stockownership structure of these holdings. Figures 4 and 5 briefly describe the selected joint ventures and independent cases. Detailed information pertaining to each member will be provided in the following section.

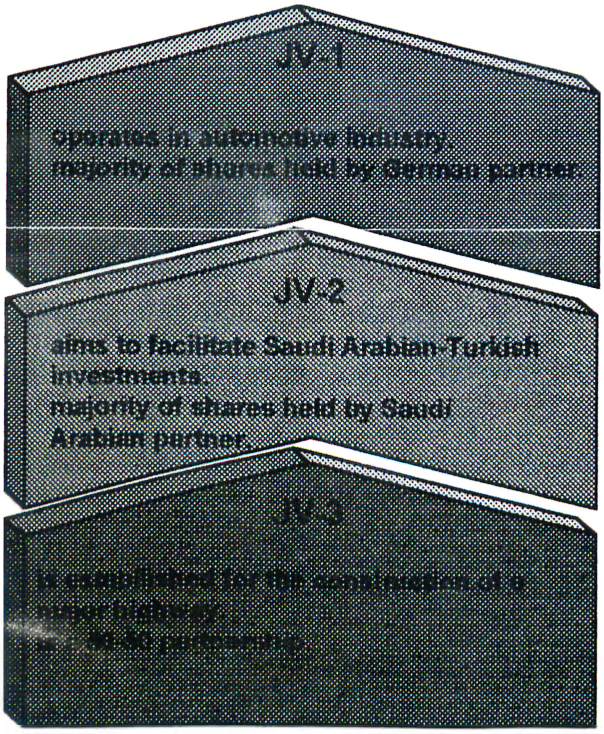

Figure 4. The Stock Ownership Structure of the Selected Joint Ventures.

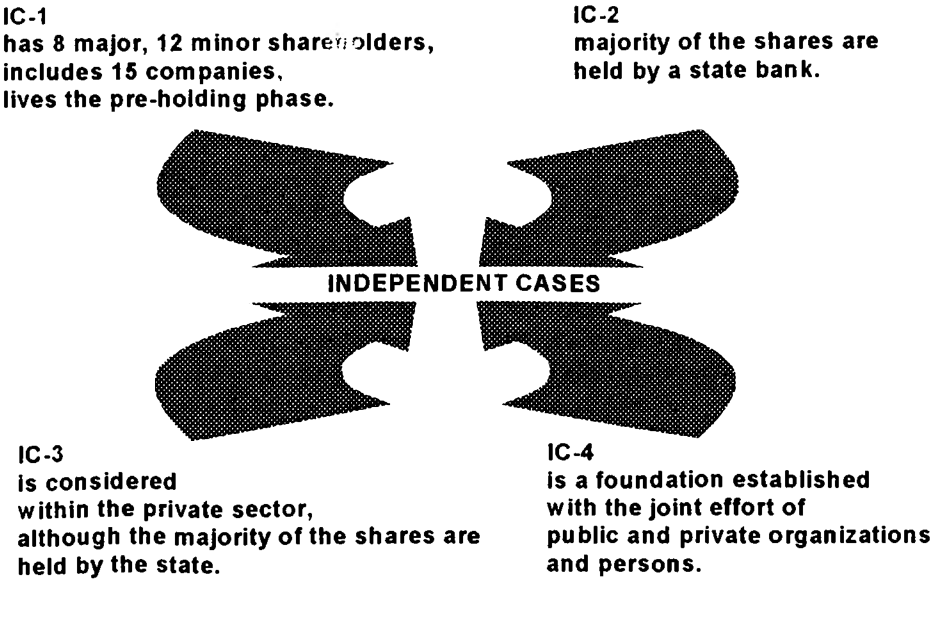

Figure 5. The Stock Ownership Structure & Special Features of the Selected Independent Cases.

IV.2. Interviews

All interviews started with a brief introductory speech of the interviewer, which was designed to inform the board member about the purpose and the scope of the study. Most of the directors' first reaction was to emphasize the significance of the topic and express pleasure upon the initiation of a related research. Next, the director was asked to provide general information about the scope of the business activities of the corporation. This step helped most directors to warm up and facilitated a smooth transition to the questions about the organization of the corporation.

The questions pertaining to the composition of the board were asked first, since their straightforward nature comforted the directors and enhanced the flow of mutual interaction. The first critical questions related to the outsiders' existence on the boards. The conversation was later lead towards the discussion of the board characteristics.

Most directors were reluctant to talk about the board meetings, and attempted to use phrases like. "all meetings are arranged as stated in the Turkish Law of Commerce". Most of them declined to understand that we were more interested about the general atmosphere of these meetings, rather than the legal restrictions that determined their frequency.

Although a list of questions has been prepared in advance, the specifics of the board and the attitude of the board member significantly influenced the direction of the interview. For instance, when the board member mentioned that the board consisted of insiders only, who were at the same time the major shareholders, and the top management did not believe in the contribution of the outsiders, he/she automatically blocked the questions pertaining to the outsiders and the CEO-board interface.

Some questions were initially designed to enable comparison of the past board practices with the current ones. However, some of the directors interviewed were new members, and did not know about the past applications. Hence, the related questions remained unanswered.

Interestingly enough, additional questions evolved during the interviews. These questions were related to the common practices shared by the members of the same subgroup, and contributed a whole lot in uncovering the actual roles of the board, the Executive Committee, and the professional managers. We will talk more about these new questions in the coming sections.

V. LEGAL ENVIRONMENT

In compliance with most directors' remarks about the Turkish Commercial Law, we will provide paraphrazed versions of the most significant articles concerning the corporate boards, followed by short interpretations.

V.1. Articles Concerning the Constitution of the Boards

Turkish Commercial Law contains the following issues concerning the composition and processing of the corporate boards (Eriş, 1987):

Boards of the corporations consist of a minimum of three members who must also be shareholders of the company. Those who are selected as directors but do not own company shares can start serving on the board only after they become shareholders (article 312).

Accordingly, corporations are free to have more than three directors on their boards upon receiving the authorization of the shareholders through specification in the Articles of Association. Also a symbolic share ownership is sufficient to fulfill the above requirement about the stock ownership of the directors. Nevertheless, these shares can not be transferred or sold back until the elected directors are acquitted by the company shareholders.

The members of the boards of the corporations are elected for a maximum of three years. Unless specified in the Articles of Association, they can be reelected (article 314).

In case a board membership position is vacated, the board has the authority to elect a new member who fulfills the legal requirements. In the following shareholders meeting, the board asks for the approval of the new member. When a board member is charged with penal servitude or sentenced due to forgery, breach of confidence, theft or fraud, his/her board membership is cancelled (article 315).

Note that if the number of vacated membership positions is too large to inhibit the functioning of the board with the remaining members, an extraordinary shareholders meeting is called for and elections are made.

Board memberships can be ceased by the decisions made at the shareholders meetings. The dismissed members do not posses the right to seek compensation (article 316).

V.2. Articles Concerning the Management & Representation Roles of the Boards

Corporations are managed and represented by their board of directors (article 317).

Accordingly, the board of directors represents the corporation against both the shareholders and the third parties. Boards can be assigned with extra duties, other than those specified by the law, through designation in the Articles of Association. The boards are authorized to file lawsuits, give up claims and to receive any lawsuits filed against the corporation.

Each year the board elects a Chairman and a Deputy Chairman (to act in the absence of the former) among its members. The board is free to form as many board committees and commissions as needed in order to monitor the company activities, report on crucial matters like the allocation of the budget and to follow-up with the applications of the decisions taken (article 318).

The management and representation roles of the board can be delegated among the members of the board according to the specifications in the Articles of Association. At least one member of the board is given the authority to represent the corporation (article 319).

The management and representation authority of the board can be totally or partially delegated to one of the board members, to a group of members (committees or commissions) or to a third party who is not a board member (CEO in some cases).

V.3. Articles Concerning the Board Meetings

Unless stated otherwise in the Articles of Association, one more than the half of the members should be present, at minimum, for the board to take a decision. Provided that this requirement is fulfilled, the decisions are based on majority vote. In case of a tie, the decision is deferred until the next board meeting (article 330).

The commercial law does not strictly define the place, the time and the program of the board meetings. Corporations are supposed to design their own arrangements and state them in their Articles of Association.

Recall that the minimum number of members in a corporate board is three. For a board with three members, all directors should be present for the board to take a decision. In the absence of one member, the remaining two can not decide even though they both agree on the issue.

Board members have the right to ask the company managers to attend the board meetings in order to inform the board on certain issues about the company activities. The board of directors has the authority to demand the submission of the related documentation to the board for examination. Each board member has the right to ask the Chairman of the board (using written media) to assemble the board (article 331).

VI. CONTENT ANALYSIS

Content analysis is defined as "a research technique for making replicable and valid inferences from data due to their context" (Krippendorff, 1980). The replicability aspect requires that when the same technique is applied to the same data by different researchers at different times, the results obtained will be identical.

A researcher conducting content analysis, places the data communicated from the sender within a context that he/she defines based on his/her knowledge of the surrounding conditions. The inferences are made by using the researcher's knowledge of the stable factors of the system considered. The results (in the form of inferences) should represent some feature of the real system.

Content analysis includes design, execution, and reporting activities. However, the relationship among these activities is not necessarily temporal. Design updates can take place even when one is in the execution stage, just like our modification of the open-ended questions after we have started conducting the interviews. Similarly, just like our arranging additional interviews with the members of the subgroups that have not been sufficiently covered, the execution phase can be revisited even when engaged with the reporting activity.

Below we consider each member of our sample one by one, and provide a detailed description of the board composition, characteristics, structure and processing. Note that due to the reasons explained in the *Interviews* section, different characteristics may be emphasized for different subgroups. Tables in Appendix summarize and compare the board structure and practices among the members of the same subgroup.

VI.1. Holding Companies

As we have already pointed out, new interview questions originated as we proceeded with our interviews with the board members. As for the holdings, we observed that the influence of the major shareholders on the boards was a primary concern. Hence, we rephrased our questions on board attributes to reveal the level of authority held by these shareholders and the degree of influence they have on the other board members.

Another point of concern was the relationship among the holding board and the boards of the subsidiary companies. The penetration of the major shareholders into the company boards and the intergroup interlockings came into the picture at this point.

We also realized that the Executive Committee showed up as a very powerful managerial organ and asked questions to understand its composition and functions. Lastly, upon observing different functions assigned to the Coordinator position, we attempted to explore the duties and responsibilities of the Coordinator.

The results of our interviews with the members of the holding boards lead us to emphasize the following issues in our evaluation:

For the holding boards:

- the composition of the board, with particular emphasis on owners' representation
- the stock ownership structure of the board members
- the insider/outsider ratio
- the level of authority provided to the outside members
- the election criteria for the outsiders
- the affiliation of the outsiders with the company owners
- the owners' opinion about the degree of the contribution of the outsiders
- the identity of the insiders
- the level of managerial and technical expertise of the board
- the degree of boards' involvement in the company activities

- the existence and functioning of the Coordinator position
- the existence, composition, and authority of the Executive Committee
- the degree of authority delegated to professional managers
- the level of penetration of the owners' influence to the company boards
- the degree of formality of the board meetings

For the boards of the companies within the group:

- the general managers' board membership
- the degree of inter group interlocking
- the owners' board membership
- the outsiders' board membership
- the degree of formality of the board meetings

Below, we provide a detailed description of the board practices in each holding within the framework drawn using the points listed above.

Holding 1:

H-1 is one of the oldest and most outstanding corporations of Turkey, which has celebrated its 50th anniversary in 1992. The headquarters is located in Istanbul. The companies within the group are organized in three main divisions: Pharmaceuticals, Building Materials, Paper Products Divisions. The remaining activities pertain to investment and securities, welding electrodes, finance, insurance, information systems, market research and foreign trade.

H-1 top management defines the mission and the responsibilities of the holding as follows: "The holding is responsible for long-range planning, financial management, auditing and new project evaluation for the companies within the group. It also acts as a consultant for all the organizational work of the group. The holding analyzes international developments in production, technology and marketing, assisting the companies within the group to achieve modern economies of scale through new ventures or international partnerships."

In practice, the holding board assumes a more autocratic management style and adopts a highly centralized organization. The holding board consists of eight members, four of which are members of the owner family. Three of these four people also act as the directors of the three major divisions listed above. The forth family member is the general manager of one of the companies within the group. The remaining four directors are outsiders and academicians.

The outsiders have been elected on the basis of their knowledge, experience, background, and reputation. The owners admit that the presence of these outsiders contributes to the image and prestige of the holding. Nevertheless, the capacity of the outsiders is underutilized since they are expected to serve as consultants only. A more active contribution is neither encouraged nor desired.

The holding board meetings take place four or five times within a year. The directors evaluate the performance reached and discuss future scenarios and objectives. The outsiders are asked to interpret the economic indicators and comment on their possible influence on the business activities of the group of companies. The strategic decisions are taken by the owners under the light of the information provided.

Although the companies within the group have their own boards, formal board meetings are not held most of the time. The size of these boards ranges from four to eleven. The boards meet once a month to fulfill the requirements of the Commercial Law, but orders are dictated from the holding level and a tight coordination exists among the companies. Intergroup interlocking is very common.

The boards of the joint ventures are somewhat more independent. Formal board meetings take place where issues are discussed in full detail. The group is represented by carefully selected insiders at the joint venture boards. The joint ventures usually have Executive Committees to which the board authority is delegated to a certain extend.

Holding 2:

H-2 is an Istanbul based corporation engaged in a wide range of business activities including manufacturing (of heating and cooling equipment, and the machinery and equipment for the industry investments), undertaking of turn-key projects, construction of houses and offices, finance and tourism. 75% of the holding shares pertain to two major shareholders and the rest is the traded at the Istanbul Stock Exchange. The holding shares were first quoted in the stock exchange in 1987, and from then on they have been valued to 147 fold.

The holding board consists of eight members, two of which are the two major shareholders. The rest of the membership positions are filled out by professional managers, who have worked with the group for many years. The holding board gathers once a month due to the requirements of the Law of Commerce.

Informally, the authority and the power lie in the hands of the Executive Committee. The members of this committee constitute 75% of the holding board. More specifically, the two major shareholders and the heads of the major divisions are included in the Executive Committee.

The Executive Committee meets one to three times per week. The programs of the meetings are usually prepared ahead of time so that the members can come prepared. In case a delay occurs in the preparation of the program, the meeting is postponed. The strategic decisions are made at the committee level and approved at the board meetings most of the time.

The top management sincerely believes in the need for an outsider eye, that will use a broad perspective in evaluating the company activities. It is admitted that the executives are swamped with the details most of the time and may fail to see the big picture. However, the holding management has serious doubts about the possible level of involvement of an outsider. The outsider's contribution is expected to be limited because of the time he/she can allocate to the corporation.

One of the two major shareholders serves on the board of another corporation outside the group. H-2 top management believes that the presence of this shareholder on the board brings a lot of advantages to that company, since the vast business experience, personal contacts and credible public image of this director can be easily capitalized on. It is also reported that H-2 would be willing to offer a board membership position to such a personality to make use of similar advantages.

The division heads in the Executive Committee are also the Chairman of the boards of the associated companies. Intergroup interlocking is very frequent. The composition of the company boards are designed in such a way that managers, financial analysts and technical members will all be included. However, due to the nature of the business activity, the directors with technical experience usually prevail.

The company boards are expected to prepare their own budget in conformity with the general framework provided by the holding management. These budgets are then presented to the holding board for approval.

The professional managers claim that H-2 has gone a long way towards institutionalization. It's been reported that both the board and the committee meetings have a democratic atmosphere; personal comments are welcomed as long as they are supported by logical rationale, criticisms are taken at ease, and when validated, the proposals of the professional managers are seriously considered.

Holding 3:

H-3 is an Istanbul based corporation engaged in various business activities in financial services, tourism and the media. The holding was established in 1992 to establish coordination among subsidiary companies and to prepare the basis and the organization that will facilitate collaboration. It aims to achieve effective involvement in the fields of project development and project financing, in addition to the evaluation of the opportunities for mergers and acquisitions

The holding board is composed of the sole owner, his wife and a professional manager from the group. Interestingly enough, the owner is the Chairman of not only the holding board, but also of all the boards of the companies within the group, including those of the joint ventures. He has no other occupations and allocates all his time to closely following up the activities of his companies.

There are no outsiders serving on the company boards. Intergroup interlocking is very common and used as a means of coordination. The general managers are members of their associated companies and also serve on the boards of other companies within the group. The demands of multiple membership together with the duties undertaken as general manager severely limits the time allocated to each activity. Such managers/directors tend to spend more of their time on the companies they manage and hence act more passive during the board meetings of the other companies. Since such a structure imposes substantial limits on the functionality and involvement of the boards, the holding management is planning to enable some professional managers to undertake multiple board memberships only and let the general managers concentrate on their company's activities.

Formal board meetings are held at the company level. The program of the meetings is usually prepared in advance and distributed to the members. The general manager reports to the board and answers question raised by the board.

Holding 4:

H-4 is one of the leading holdings in Turkey, engaged in various business activities in petroleum, tourism, ship building, financial services and food industries. Its headquarters is located in Istanbul. H-4 is owned by two families. Three representatives of these two families serve on the holding board. Two of these shareholders work full time at the corporation and follow up with the daily activities as well. The third shareholder resides in United States and is closely affiliated with a large company there. However, he attends to each board meeting where he transfers his accumulated experience to facilitate the board proceedings. His efforts are perceived as valuable contribution by the other board members.

The other board members are made up of one insider, who is a professional manager that has worked with the company for many years and three outsiders. Two of these outsiders are university professors; one being an expert in law and the other in finance. One of these professors is closely affiliated with one of the owner families, who has also introduced the second professor to the family and later to the board. The third outsider is a famous identity from the finance industry. He is also the owner of a bank, a well-known personality, and his presence in the board is highly appreciated by the members of both families.

The presence of general managers at the holding board is deliberately avoided because the owners believe that the decision makers and implementators should be separated. They perceive the board as a powerful managerial unit that will monitor, criticize and correct the steps taken by the general manager.

The board meetings take place once a month. The program is usually determined in advance. However, there are last minute additions most of the time. Ideally, the programs are received by the directors three days before the meeting. Nevertheless, on certain occasions, the programs reach the directors minutes before the meeting.

The Chairman of the board and the board member responsible for informing the board on the operational activities, work full time at the holding, as well as the professional manager who serves on the board. All these people are extremely knowledgeable on the day-to-day activities and hence are capable of solving the operational level problems as well. They work on project proposals and investment plans and leave the routine work to the general managers once the basics are clearly determined.

The two professor outsiders also provide consultancy service to middle level management and hence are involved in the activities of the corporation. Offices are also provided to these people to facilitate their involvement and contribution. The owners appreciate the contribution of these outsiders and emphasize that these people do not merely act as consultants but (are expected to and) do contribute as much as insiders. The third outsider, because of time restrictions, can not allocate too much of his time to the corporation. However, his background, personal experience, knowledge and image constitute valuable assets for the corporation.

The owners usually penetrate to the boards of the companies within the group. However, intergroup interlocking is very rare and in fact is deliberately avoided in most cases. H-5 has established a formal reporting and budgeting system through which the general managers report to the holding board. Being responsible for the performance of the activities within the proposed budgets, the general managers are asked to account for any discrepancies.

Holding 5:

H-5 was originated in 1958 with the establishment of a transportation and contracting company. Today the business activities embrace publishing, television and radio, automotive, banking, insurance, trade and tourism. H-5 is based in Istanbul.

The holding's role is to develop projects in new areas of investment and to provide consultancy on investment, finance, organization, management and marketing to the companies within the group. The holding board consists of nine members, including the owner, his wife and seven professional managers. Currently, there are no outsiders, but the top management reports that there is no deliberate avoidance. However, the presence of the outsiders on the holding board is not perceived as a crucial necessity at this point.

The holding also has an Executive Committee consisting of the owner and four professional managers. These four professionals also constitute the top management of the major companies in the group. Since all five members of the Executive Committee are also directors of the holding board, the Executive Committee meetings more or less simulate the board meetings. The existence of the professionals enable coordination and communication among the companies of the group.

The Executive Committee does not deal with the day-to-day activities of the companies. It is authorized to concentrate on strategic decisions, like the approval of the company budgets and investment plans, for instance. The professionals claim that the Executive Committee meetings have a very democratic style where criticisms and comments are welcomed by the owner. Once their budgets are approved, the companies are allowed to act on their own. However, discrepancies are monitored and questioned by the Executive Committee.

The owner of H-5 serves on the boards of the most important companies only. Other membership positions are filled out by professional mangers within the group. The general managers serve on the boards of the associated companies and sometimes on the board of a smaller company within the same group. The latter happens when a certain percentage of the stock of the smaller company is owned by the first company. When stock ownership linkage does not exist, intergroup interlocking is usually not observed.

One of the companies of the group is engaged in publishing one of the most popular daily newspapers of Turkey. This company's board is made up of the owner and the top management of the newspaper. Due to the dynamic nature of the business, the board unofficially meets everyday. In contrast to the common practice, the newspaper board deals with day-to-day activities in addition to the strategic issues.

H-5 owns the majority of the shares of a company that produces original equipment and spare parts for the automotive industry in Turkey. The remaining stocks of the company is owned by another large holding and the rest is sold to public. The company board, consequently, includes professional managers from H-5 group of companies, in addition to a member of the other holding and a simple citizen representing the public shares. The owner of H-5 is not present in this company's board.

The board of the bank in H-5 group of companies includes an outsider who has been elected for his vast experience in finance and banking. The general manager of the bank, according to the Law of Banks, is a natural member of the board. The remaining positions are allocated to the professional managers. The meetings take place twice a month. The programs are prepared in advance and sent to the directors 2-4 days before the board meeting.

Holding 6:

H-6 has been founded by two partners in 1959. The current business activities can be grouped into three categories: The first one includes construction, machinery and erection, the second constitutes of textiles and chemicals and the third one is made up of prefabricated housing and minority interests. The headquarters is located in Istanbul.

The holding board consists of seven members, four of which are the two founders themselves and their family members and the remaining three are ex-employees of H-6. These ex-employees have worked with H-6 for many years and know the corporation well. Along with their knowledge and experience, they bring in their personal contacts. We have chosen to denote these people as insiders due to their close and long lasting affiliation with the holding.

In contrast to the centralized structure of many holdings examined, H-6 assumes a democratic style and prefers to delegate more authority to the top management of the subsidiary companies. In this sense, the holding is more involved in coordinating the business activities in the most general sense; undertaking the role of a mediator when conflicts arise, enabling the application of consistent policies (for agreements with the labor unions, for instance), increasing the credibility of the subsidiary companies in the financial arena through stock ownership.

H-6 organization used to include a Coordinator, who was supposed to enable healthy information flow among the company boards and the holding board. However, this position has recently been eliminated since the Coordinator started acting like the general manager of all subsidiary companies, which in turn, shook the authority of the individual general managers. In present, the coordination among companies is established via intergroup interlocking.

The two founders do not necessarily take place in the company boards, except for crucial businesses where the Chairman position of one founder, together with his personal contacts contribute to the success of the projects undertaken.

The company boards consist of seven members all of which are professional managers. The general managers are natural members of the associated company boards. Intergroup interlocking is very common and special concern is shown to establish a multi-skilled board composition made up of members who are either knowledgeable in financial and legal affairs or are engineers.

Except for joint venture boards, the number of company board meetings do not exceed two or three within a year. The general manager possesses the authority to dictate his decisions as if they are the outcomes of the board meetings. There usually are no conflicts among the board members and the general manager's proposals are frequently approved by the board. (The specifics pertaining to the composition and the processing of one of the joint venture's board will be provided in the Joint Ventures section.)

Holding 7:

H-7 has originated from a one-man army company established to act in consulting and representation arenas and evolved into a holding with twenty-four subsidiary companies. Today these companies are operating in several businesses including petroleum, trade, construction, manufacturing and services businesses. The geographical scope of the subsidiary companies includes Russian Federation and Turkish Republics together with Germany and Bulgaria. The headquarters is located in Ankara.

95% of the shares of the holding belongs to one person and the remaining shares are owned by his relatives. The holding board consists of four members, where the main shareholder undertakes the role of the Chairman and the remaining shareholders hold the three other membership positions. Such a composition for the holding board leads to informal board meetings for the holding. In fact, the major shareholder possesses full authority to make strategic decisions for the holding and the twenty-four companies and is the only board member who is actively involved in the daily business activities of the holding.

It has been stated that both the owners and the top managers of H-7 do not appreciate the possible benefits outsiders can bring. Instead, H-7 management chooses to utilize the personal contacts of the major shareholder with the bureaucrats and the members of the parliament. Interestingly enough, the top management assumes a very skeptical approach towards the academicians, stating that the university professors' consultancy do not help much since the professors' perspectives are severely bounded and their background lacks practical experiences.

The strategic apex includes an Executive Committee made up of the major shareholder and the general managers of the most important subsidiary companies. All general managers are expected to report to this committee on matters related to the businesses under their management. In turn, the Executive Committee makes the strategic decisions and reports them to the general managers, who are then assigned with the implementation task.

No formal board meetings are held at the company level. The general managers present the projected budget, activities plan and cash flows to the Executive Committee for approval. The Executive Committee checks the validity of these future proposals and also evaluates the rate of realization of the past projections by comparing the expected data with the realized ones. The general managers are asked to report on the reasons behind any discrepancies.

Once a project proposal is submitted by the general manager of a subsidiary company, the general managers in the Executive Committee comment on overall issues and do not get involved in the specifics. More specifically, they try to transfer the related experience they have to this company management and warn the general manager against possible risks. For instance, they can list the points to be taken into account while doing business in a certain Turkish Republic, avoiding the repetition of a mistakes that have been made before. They can devote their experience and personal contacts in that country to the disposal of the general manager who proposes the project.

The Executive Committee also enables the achievement of self-appraisal and coordination among the member companies. Through mutual information flow, it becomes possible to uncover the weaknesses and to discover the strengths of the group. Informed decision making leads to a more radical and coordinated management.

When necessary, the so-called "Extended Board Meetings" are held. All general managers are invited to such occasions in addition to the directors. Such meetings are reported to assume a very democratic atmosphere and evolve into means of recharging, especially for professional managers.

Intergroup interlocking is very common in H-7. Most of the time, the general manager of a Turkey-based subsidiary company serves on the board of a joint venture company. This manager/director is usually praised and motivated with stock ownership.

In spite of the existence of the Extended Board Meetings and the Executive Committee, the top management admits that most of the time, the joint decision of the general manager and the major shareholder determines the fate of a subsidiary company. As one of the top managers puts it, "the organization has failed to catch up with the rapid growth encountered".

Holding 8:

H-8 is one of the largest holdings based in Ankara. Having started in the construction business, H-8 has rapidly extended the scope of its business activities and become engaged in tourism, health, commerce and insurance industries as well.

The holding board consists of ten members who are also shareholders of the corporation. Neither professional managers nor outsiders serve on the board. The management is highly centralized and all ten shareholders are fully involved in the activities of the corporation. In fact, all ten shareholders hold executive positions in the corporation in addition to their board memberships.

It has been stated that the shareholders do not deliberately avoid having outsiders on the board. Nevertheless, the expected contribution of an outsider is limited with establishing crucial contacts through lobbying efforts and enabling the improvement of the public image of the corporation. Consequently, probable candidates are likely to be selected among ex-bureaucrats or ex-ministers.

All ten shareholders do not serve on all subsidiary company boards. In fact, different businesses are assigned to one shareholder (or a group of shareholders), where this shareholder (or the group) becomes a member of the boards of all subsidiary companies in this business. These assignments are based on the background and related experience of the shareholders.

The Chairman of the holding board acts as the Coordinator as well. The Coordinator has two assistants who are also shareholders of the corporation. These three people and two professional managers form the Executive Committee, which constitutes the key unit in the organizational structure. These three shareholders in the Executive Committee are members of the boards of all subsidiary companies.

The strategic decisions of a subsidiary company are taken by the members of the Executive Committee, together with the participation of the shareholders responsible for that particular business. Next, these decisions are rubber-stamped at the monthly board meetings of the associated company. Such a mechanism endows the two professionals in the Executive Committee with considerable authority compared to those shareholders who are not members of the Executive Committee: These two professionals contribute to the strategy formulation for all businesses whereas the aforementioned shareholders usually concentrate on strategies for the businesses that are assigned to them.

Intergroup interlocking is not very common among the boards of the subsidiary companies. However, interlocks are used as a means to achieve coordination and strategic consistency among the subsidiary companies which are in the same business.

General managers are members of the associated company boards. Nevertheless, their authority is severely limited since the strategic decisions are made at the upper levels of the organization. Besides, since all of the shareholders work full time at the corporation, the activities of the general managers are closely monitored.

Holding 9:

H-9 encompasses about 40 companies. The scope of the business activities of the group includes machinery, construction, defense, electricity, communication, etc. The group has business contacts in international markets like Malaysia, Libya, Russian Federation and Yemen, in addition to its businesses in Turkey.

H-9 has been originated by two founders who are both above the age of 85 today. In order to enable the survival of the group of companies over the years and generations, these two owners have decided to engage in institutionalization efforts and have left the management of the group in the hands of professional managers. Two educational foundations have been established and are financed by the profits generated by the group of companies.

In present, these two foundations are the shareholders of the holding. Accordingly, the board members of the holding are elected by the boards of these foundations. Only one of the founders is a member of the board of one of these foundations.

H-9 seems to have gone a long way toward institutionalization. A group of leading principles, called Magna Carta among the members of the group, shapes the management of the group. The H-9 Magna Carta declares that

- no shareholder can hold a board membership,
- no general manager can hold a board membership,
- boards define the general framework, formulate strategies, make investment decisions and budget approvals,
- the implementation of the board decisions is undertaken by the general managers, no board can interfere with the execution phase,
- intergroup interlocks can occur, however the number of board memberships hold by a person can not exceed three,
- the holding board consists of outsiders,
- the members of the company boards are professional managers who do not hold managerial positions within the group.

The holding board is made up of outsiders only, since it has been proven by experience that the insider members tend to interfere with the execution phase. These outsiders are university professors, top level managers of other corporations, and retired general managers of financial institutions. Knowledge and experience in finance and/or law are the criteria for election, personal affiliations with the owners is not a critical issue. In present, the board size is set to seven.

The holding board meets twice a month. The date of the following meeting is scheduled at the end of the former, so that a consensus can be reached and the gathering of the majority is enabled. Although all members are outsiders, absenteeism is not that frequent to hinder the board proceedings.

Monthly reports are sent to the holding members. Except the periods in which the company budgets are evaluated, the general managers are not invited to the meetings of the holding board. There are coordinator positions within the holding, however, these are designed for the handling of the bureaucratic activities only.

Interestingly enough, no board member has stock ownership. In fact, the motivation of the board members with stock ownership was a method tested by H-9 in the previous years. However, it has been noticed that such a practice leads to inner conflicts as those with higher shares tend to seek more authority and interfere with the execution phase. Consequently, H-9 has chosen to constitute its holding and company boards of professional managers only.

The general managers are not board members, however they attend to all board meetings to report on certain issues. The company boards meet at least once a month. The frequency of these meetings are increased with the intensity of the business activities.

The members of the company board do not hold other managerial positions within the group. Nevertheless, multiple memberships are allowed as long as they are limited to three. The main reason behind interlocking is not the achievement of coordination among the companies, but better utilization of the human resources. In this framework, only the professional managers with the strongest background and vast expertise are asked to serve on multiple boards.

All companies have an Executive Committee made up of the general manager and his/her deputies. Execution Committees have their formal meetings where they make decisions concerning the implementation of the board decisions. The general manager is responsible from putting the committee decisions into application.

VI.2. Joint Ventures

During our interviews, we realized that the joint ventures have powerful Executive Committees and hence concentrated on the composition and functioning of these committees. We chose to include the status of the joint venture as an internal contingency since we observed its impact on the board structure. In addition, we asked questions pertaining to the absenteeism problem of the joint venture boards together with the measures taken to facilitate consensus among the member parties. The results of our interviews with the members of the joint venture boards lead us to emphasize the following issues in our evaluation:

- the status of the joint venture
- the associated shares of the parties
- the existence of a board or a similar council
- the existence, composition and the authority of the Executive Committee
- the difficulties encountered in gathering the board members
- the measures taken against the absenteeism of the board members
- the application of alternate membership concept
- the measures taken to facilitate consensus
- the formality of the board meetings
- the existence of well-defined programs for the meetings
- the board membership of the general managers

Below, we provide a detailed description of the board practices in each of these joint ventures.

Joint Venture 1:

JV-1 was founded in 1967 in Istanbul. The initial mission was the production of busses and minibuses to meet the transportation vehicles need of Turkey. 36% of the shares were held by one of the most famous German transportation vehicle firms, and the rest belonged to two Turkish corporations. In 1984, JV-1 became the General Representative of all the products of the aforementioned German firm. Meanwhile, a Turkish foundation joined the list of the shareholders.

Shortly after, one of the initial shareholders sold its shares and another Turkish corporation, a private bank, a state institution and a Grand Cayman based corporation owned by a Saudi Arabian entrepreneur became shareholders. At the same time, the German partner became the owner of about 65% of the shares. With this new arrangement, the number of shareholders increased to seven.

JV-1 has extended its scope of business activities and got involved in the production of diesel motors and trucks. The number of its personnel has reached to 2300. In present, the shareholders are the same as listed above, except the private bank who has recently sold his share.

The changes in the number of shareholders has been reflected to the size of the board and the organization of the strategic apex over the years. During the foundation years, when there were three shareholders only, the board had three members. When the number of shareholders increased to seven, the number of directors was increased to twelve. Succeedingly, a management organ called the Directors Committee was established.

The Directors Committee acts more or less like an Executive Committee but it possesses more authority since it is endowed with all (except the non-transferable) rights of the board. With the current distribution of the shares, the Chairman of the Committee is German. The German members of the Directors Committee do not hold other managerial positions within the organization.

The committee consists of five members with equal voting power. However, in case of a 3 to 2 voting score, where the minority group includes the Chairman of the Committee, the preference of the Chairman determines the result. Such a system is brought in to seek collaboration and avoid the occurrence of bottlenecks in the decision making units. The organization also includes a General Coordinator who organizes the interactions of the firm with its environment.

The company board, which has delegated a good deal of its authority to the Directors Committee meets twice a year. Since the German directors of the board hold top level managerial positions within the parent German firm, it becomes very difficult for these people to arrange their schedule in order to attend the board meetings in Turkey. The solution to this problem has been found in alternate membership. In very simple terms, when the director can not attend the meeting his/her alternate is invited.

In fact, according to article 312, the concept of alternate membership for corporation boards is in contradiction with the Turkish Law of Commerce (Eriş, 1987). The General Coordinator of JV-1 reports that this item has been introduced to avoid the delegation of all the board authority to one member and hence to eliminate the danger of an authoritarian management within the board. He admits that such a rationale may have been valid when the Commercial Law has been prepared, but points out that the circumstances of today's business world requires alterations. He also recalls submitting a related proposal during the period of Turgut Özal government. Nevertheless, no modifications have been made as of today and JV-1 has elected alternates for the German members only.

Joint Venture 2:

JV-2 is established with 60 % Saudi and 40% Turkish capital participation. The shares of the Turkish party are held by two state banks, some businessmen and private corporations whereas the Saudi shares are owned by 60 Saudi Arabian businessmen and a special public investment fund.

The organization aims to promote trade and investments between Saudi Arabia and Turkey. The headquarters is located in Istanbul. The objectives are stated as participation in the capital and management or the formation of joint ventures to undertake all types of commercial, industrial, real estate investments, or financial transactions and services. The corporation has a number of equity participations in the industrial and service sectors and is engaged in a number of trade deals between the two countries.

The board consists of ten members. Four of these members are from Turkey and the rest are from Saudi Arabia. Of these four Turkish members, two are the representatives of the first shareholder bank, one represents the second shareholder bank, and one comes from a shareholder corporation. The Chairman of the board has resided in Turkey as the ex-ambassador of Saudi Arabia, and therefore is familiar with the domestic circumstances.

The shareholder state banks are represented by their general manager at the JV-2's board. This situation has lead to unstability in the composition of the company board, since the general manager of one of these banks have changed three times, and the other four times in the last five years. Naturally, political considerations constitute the underlying reason for such short duration of service. This unstability in the company board has seriously disrupted the flow of the business activities, and has limited the contribution of these two shareholder banks.

The board meetings used to be held in every month. In present the gatherings happen once in three months. The top management emphasizes the cost of these meetings to the company, pointing out that the airfares and first class accommodations of six Saudi Arabian members do cost a good deal. The general manager sadly records that the annual costs of these board meetings exceed 30% of the total company expenditures. He believes that unless prompt measures are taken, such extravagant expenditures will get somewhat institutionalized.

There also exists an apparent inconsistency between the number of employees of the company (4), and the number of board members (10). The general manager states that the company has a lot to gain by shrinking its size to half. Such an arrangement will not only ease reaching a consensus but also decrease the cost of the board meetings.

The general manager of the company is not a member of the board. However, both the general manager and his deputy are present during the board meetings to provide detailed information and bring explanations on the questionable issues. The board meetings have a well-defined program, which is sent to the members a week before the meetings.

Communication problems and cultural differences may hinder the processing of the board: The official language of the board meetings is English. However, especially when the discussions get steamy, the Turkish members end up gathering in one corner discussing among themselves in Turkish. The atmosphere is democratic and exciting discussions take place most of the time.

Another problem stems from the differences in the mind-sets of the members: It usually is difficult for the Turkish bureaucrats to understand the Saudi Arabian businessmen, and vice versa. The Saudi Arabians are usually more pro-active, they enable the company to make use of their personal contacts, easing procurement and sales activities. On the other hand, the Turkish shareholder banks, too busy with changing general managers, have been reluctant to use their credible images and contacts to secure resources for the company.

Since it is both expensive and difficult, hence impractical, to have frequent board meetings, an Executive Committee has been established. This committee has two Saudi Arabian and one Turkish member. One of the Saudi Arabian members is the Chairman of the board, who spends most of his time in Turkey. Both the other Saudi Arabian member and the Turkish member have alternates, since they are both businessmen with busy schedules.

The Executive Committee executes the action plan prescribed by the board. It is authorized to make decisions within the framework provided by the board, but it can not alter the framework. This committee also evaluates probable projects and proposes the feasible ones to the board.

Joint Venture 3:

JV-3 was originated with the agreement of one Turkish corporation (H-6) and one US company to jointly undertake a highway project. The joint venture will be disseminated after the project is completed. The partners have 50% share each.

JV-3 has embodies an Execution Committee that works like a board. This committee consists of four members, two from each company. Although companies are represented by two members, each company has a single vote. Such an arrangement is used to avoid interruptions that can block the decision making mechanism due to the absenteeism of the members.

In this system, the score of any voting is either 1 to 1, or 2 to 0. In the former case, i.e. when a tie occurs, the leading company has the advantage to make the decision. The leader firm is the Turkish firm in this joint venture, as stated in the joint venture contract. Note that the notion of "leader firm" makes sense for the case of a 50-50 partnership, since the partner with the majority of the shares prevails otherwise.

The initial joint venture contract also assigns the role of the referee to an impartial organization. The referee organization is the Switzerland Chamber of Commerce, in this case. When unsatisfied with the decision taken by the leading firm in case of a 1 to 1 score, the other partner can apply to the referee organization within thirty days. If the referee decides that the leading firm has done wrong, either the decision is taken back or the losses of the partner are compensated by the leading firm.

The Executive Committee holds formal meetings with well-prepared programs. The date of the next meeting is either decided at the end of the prior meeting or announced by formal invitation. The meetings usually last a few days, since the committee visits the construction site to control the progress of the project.

During each meeting, the Project Manager presents a detailed report to the committee about the completed stages of the project, accounting for any delays. He also informs the members on the cash flows, the debt situation and on other financial indicators. The decisions to be taken for the progress of the project are also proposed together with rationale.

Sometimes, due to the nature of the project undertaken, it becomes very crucial to take prompt decisions. The Project Manager makes a proposal and asks for the approval of the committee members of the leading firm. Unless rejected by these members, the proposal is faxed to the foreign members of the committee.

Upon their approval, the action is taken as if the related decision has been made at the committee meeting.

VI.3. Small Firms

Four small corporations have also been included in the scope of this exploratory research in order to examine the composition and functioning of the boards and the degree of institutionalization accomplished. Two of these companies operate in the mining industry and the remaining two are construction firms.

The outcomes of our interviews have enabled the derivation of a profile for the management of these small corporations. Naturally, the sample is far too small to give way to generalizations, but still the following items can provide a starting point for more extensive research.

The small corporations that have been selected can be characterized as follows:

- They are basically family businesses, disguised in the corporation identity.
- The board consists of the shareholders only. In most instances, the founder gives minority shares to his family and relatives, so that the legal requirement for the existence of a minimum of five shareholders will be fulfilled.
- The general manager position is occupied by the major shareholder. When there actually is one founder, as described above, he automatically becomes the general manager. In case of multiple major shareholders, one becomes the general manager, and others assist.
- There are not any professional managers. Mostly due to the age of the organization, qualified personnel has not been raised yet.
- As a natural consequence of the above situation, centralization is at its peak.
- The existence of the board arises from a perfunctory need to fulfill the legal requirements.
- There are no formal board meetings. In most instances, the decisions are taken on the spur of the moment and then recorded as if they are the outcomes of the board meetings. In this system, the meetings documents (that are supposed to contain the contents of each meeting together with the decisions made) are replaced by management's diaries, where the decisions are recorded after the related actions are taken.

VI.4. Independent Cases

We have also included four organization with different ownership structures and board practices into our sample. The special features of these organizations (referred to as independent cases) are provided in Figure 5. Below, we provide detailed descriptions of each of these cases.

Independent Case 1:

Our first case (IC-1) relates to a certain group of companies that have originated from the same core business, but have not been coordinated by a holding yet. Nevertheless, the organization and management shows a good deal of parallelism with those of the holdings we have focused on and one feels the existence of a latent holding within the structure. In fact, the owners also indicate that they are seriously considering the establishment of a holding company that will orchestrate all the business activities of the companies in the group.

IC-1 is a leading name in housing construction in Turkey. It is well-known with its concern for quality and after sales service. IC-1 has the capacity to produce 2000-4000 houses/year and meets both the domestic and the international demand.

The core company of the group has eight major shareholders who jointly hold 75% of the shares. The rest is distributed among twelve other shareholders. The board of this company consists of five members who are all major shareholders. The owners do not seem to expect much of the outsiders.

An interesting point about the company relates to the identity of its owners. Of the first founders of the company, only one person has kept his shares and is still a member of the board. The others have sold their shares to managers who have worked for many years in this company. Since the majority of the shareholders are at the same time past/present employees of the company, they are highly involved and extremely motivated.

Three members of the board form the Executive Committee as well. One of them is the general manager, the other two are his deputies. One of the members of the board points out that the Executive Committee has not been formally established, instead it has evolved spontaneously. Since the three members of the Executive Committee were the only board members who worked full time at the company, they became more involved in the details of the business activities and later in time acquired the authority to make decisions on the spot.

Although the other board members appreciate the contributions of the Executive Committee, they believe that the embedding of the Executive Committee within the board leads to a good deal of inconvenience, especially when the performance of the top level management is discussed and evaluated on the board. However, they note that the middle level managers are not sufficiently trained and experienced to take over. Once these managers are prepared, the owners are willing to delegate authority to a younger generation of professional managers and separate the responsibilities of the owners and the managers. Such a delegation is also expected to endow the owners with extra time which they can then use to develop visions and formulate strategies.

IC-1 encompasses a separate managerial unit, Higher Council of Shareholders that is positioned above the board in the organization chart. This unit consists of eight major shareholders and two minor shareholders and acts like a latent holding, coordinating the activities of the companies within the group. Each major shareholder in this council holds a membership in the boards of one or more of the companies in the group and hence enable mutual communication. The owners try to make sure that this council defines the general framework only and does not get involved with the operational specifics of the companies.

The company boards consist of a major shareholder, a minor shareholder and a few professional managers from within. The general managers are not members of the board, however, they attend the meetings to report on operational issues.

The board of the core company meets in every two weeks, whereas the other boards gather once a month. The frequency of these meetings are arranged due to the intensity of the activities during the year. All meetings are formal with pre-defined programs. Members come prepared and have the right to propose the discussion of additional items during the meeting.

A General Coordinator position does not exist within the organizational structure. However, different coordinators for electricity, machinery, equipment and projects have been assigned to facilitate the allocation of resources among the construction sites.

Independent Case 2:

Our second choice for an independent choice is a corporation operating in the food industry. The mission of the company is to enable exportation of the agricultural products of Manyas-Gönen region. Originally, the majority of the company stock (67%) belonged to a leading state bank and its equity participations, the remaining portion was owned by the farmer citizens of the region. Recently, the aforementioned bank has transferred its shares to the Public Participation Fund, which resulted in substantial changes in the composition of the board due to political considerations. Here we choose to describe the structure and processing of the company board before this change in the ownership structure to exemplify how the representation of a state enterprise at a company board unfolds.

The above distribution of the shares endows the shareholder bank with the authority to have its representatives elected to the board. Accordingly, the board is made up of seven members, six of which are the top level employees of the bank. Note that unlike many directors of the private corporation boards, these representatives' earnings are not correlated with the profits of the company. No matter how the company performs, their compensation paid by the shareholder institution does not change. One member is a well-known businessman, whose board membership has been linked to political considerations.

The frequency of the board meetings are held once a month. Extra meetings can be scheduled when required. Although not a board member, the general manager attends all board meetings, informs and reports to the directors. The assistant general managers or other top level employees of the company can also be invited to the board meetings to help highlight certain issues.

The general manager proposes the program of the board meetings. The Chairman of the board determines the contents based on this proposal. All directors are sent a copy of the program of the meetings in advance, so that they will get prepared.

The burden rests on the shoulders of the Chairman of the board and the general manager. They work like an informal Executive Committee to implement the decisions of the board. Although the Chairman holds an executive position in the shareholder bank as well, he has to allocate time to continuously keep in touch with the general manager, monitor his performance. The credibility and special contacts of the bank is also utilized to secure resources for the company, extend the scope of its business activities both in domestic and international markets.

Independent Case 3:

This case is concerned with one of the most important mining corporations in Turkey that was financed by The World Bank during its foundation. The World Bank has then stipulated the establishment of an organization that will rest on the warranty of the state on one side, and act free from state intervention at the same time. Accordingly, a special law has been prepared for this corporation, identifying it as a private enterprise no matter what percentage of its shares are held by the state. Hence, no organization of the state has the authority to audit this corporation's activities. This special status of the corporation has made its managerial structure worthwhile to analyze.

Although the state intervention has been avoided as described above, it is not totally eliminated since the government owns 51% of the shares of the corporation. The remaining shares are distributed among numerous individual stockholders. Since it is very difficult for these individual investors to agree upon a certain candidate, the state does not encounter much resistance in having its candidates elected to the board.

The state influence on the determination of the board members leads to the reflection of the present government structure to the company board. More specifically, the followers of the governing political party occupy the board membership positions. One ex-manager in the corporation sarcastically remarks that the current composition of the board depicts a micro model of the coalition government.

One of the ex-Chairman of the board of this corporation reports that the board meetings have been as frequent as once a month, depending on the intensity of the business activities. He also voices interesting comments on the board membership of the general manager: During the period of his membership, the board has approved the membership of a certain general manager. This situation hindered in-depth discussions on the performance of the company and the general manager, since some members hesitated to raise criticisms in his presence. Later in time, the board decided to appoint somebody else as the general manager because they were unsatisfied with the performance of the former one. According to the law, the board had the authority to dismiss the general manager, however his board membership could not be cancelled since he was elected by the shareholders at the annual meeting. Hence, the directors were forced to continue working with this ex-general manager until the following elections. Naturally, both the morale and the efficiency of the board was damaged.

Independent Case 4:

This case is concerned with a foundation that was established in 1991, with the joint efforts of public and private enterprises, and in accordance with the agreement signed by The World Bank and the Turkish government. In present, the foundation has a capital of 1.5 billion TL, in addition to a 43.3 million US dollars, that have been transferred from The World Bank.

The organization aims to

- empower the scientific and technological infrastructure of the country
- support and motivate the R&D efforts of the Turkish industrial institutions
- define, monitor and support the high priority fields for scientific and technological R&D
- capitalize on the interlinks among the public organizations, private firms and the universities

The foundation has 38 founders; 23 private enterprises, 8 persons, 4 chambers and associations, and 3 public institutions. 51% of the foundations capital is financed by the private sector, 39% by the public, and 10% by the chambers and associations. These founders elect the board members for a period of three years.

The board has nine members. According to the Articles of the Association, a minimum of five members should represent the private sector. Six representatives have been selected to the first board of the foundation. All of these people are the directors of the most important chambers and associations of the country. The founders have deliberately made such a selection to enable the integrity and support of the main interest groups. Some of these members are not even founders, and some of them pursue their board membership although during the last three years they have left their positions within the aforementioned associations or chambers. (At the time this interview was conducted, the new elections were about to be made.)

The remaining three members of the board represent the public sector. One member represents the Treasury, the other is from Turkish Scientific and Technological Research Institution, and the last is from Small and Medium Industry Development Organization. The representative of the Treasury has a privileged vote; no decisio s taken unless approved by this member. The origins of this privilege can e traced back to the capital that is transferred to the state from The World Bank, for the disposal of the foundation.

The board meets only o   e in every two months, since all members are top managers with busy schedules and it usually gets very difficult to align the conflicting schedules. Absenteeism is a serious problem for the board since it blocks the board proceedings. The adoption of the alternate membership application will be proposed in the following meeting of the founders.

The foundation also has an Executive Committee consisting of the Chairman of the board, Director of the Turkish Scientific and Technological Research Institution, and the Secretary General of the foundation. Formally, the board owns the authority. Nevertheless, it delegates this authority to the Executive Committee with the consensus of the board members. The Secretary General of the foundation is not a member of the board, yet in practice, he possesses as much authority as the other two members of the Executive Committee. The agreement of two of the members of this committee is usually sufficient to take even the most crucial decisions.

Board meetings last about four hours. Since all members are very knowledgeable people with vast expertise in their particular fields, they always have too much to say and enjoy talking with each other. The unusual composition of the board necessitates close interaction of bureaucrats and businessmen. Apparently, a cultural difference prevails. However, contrary to what is expected, the bureaucrats turn out to be more flexible, whereas the businessman favor more paperwork. The Secretary General of the foundation explains this paradox by pointing out that the bureaucrats on the board represent the younger generation, who have quickly climbed the steps toward the strategic apex. The businessmen on the board, however, come from an older generation that is more conservative and formalist. Besides, its the businessmen who show the most absenteeism, and it is the bureaucrats who keep the board going.

A major difference of this foundation board from the other boards we have studied concerns with the compensation of the directors. The directors receive no compensation, and on top of that, they have to pay for their traveling expenses themselves.

In every three months, the foundation sends a report to the board members, informing them on the status of the financed projects. In addition, all meetings have a pre-defined program that is mailed to the directors before the meetings, enabling them enough time to get prepared. However, businessmen members most probably do not spend too much time with analyzing the details, due to time restrictions. They rely on the judgement of the Executive Committee most of the time.

VII. EVALUATION

Below, we provide an evaluation of our findings together with possible interpretations of the phenomena observed. The first section pertains to the board attributes and the second relates to the roles of the boards.

VII.1. Evaluation of the Board Attributes

Table II in the Appendix enables the comparison of the 9 holding boards and their associated company boards, on the basis of the features determined before.

The analysis of the table shows that only 3 out of 9 holding boards have outsider members. Moreover, in one of these 3 boards, the outsiders serve as consultants only, and are not included into the strategy formulation process. The outsiders serving on the other two boards fully contribute, in fact the board consists of all outsiders in one of these two cases.

Expertise in finance, law and economic is usually the most significant prerequisite for eligibility of the outsiders. Nevertheless, the affiliation of the outsiders with the owners of the corporation also plays an important role.

University professors tend to be the first group, the companies in search of outsider board members turn to. Leading names from the finance industry, and top managers of other corporations constitute the other origins for the outsiders.

Most owners and top managers have expressed their doubts about the outsiders' contribution. Most of them believe that the contribution of the outsiders will be severely limited by the time they can allocate to the activities of the corporation. Few owners/managers have sincerely admitted that they do not believe in the virtues of the outsiders at all.

All holding boards considered posses significant managerial and technical expertise. This potential might constitute the underlying reason for the reluctance of the company management toward including outsiders.

As depicted in Figure 2, the holdings studied have a few major shareholders in general. Hence, owner representation in the board is extremely high. 3 of the 9 holding boards consist of owners only, and 4 boards consist of owners and professional managers. Only one holding board has accepted the principle of having no owners on the board, and one has elected the ex-managers of the group and the owners as the board members. (Note that the ex-managers are also considered as insiders in Table II.)

The degree of board involvement records high for 7 out of 9 holding boards. The remaining boards include the family member(s) of the significant shareholder who is the key member of the board. In one of these two cases, only this key member engages in the business activities of the corporation, leading to a partial board involvement. In the second case, both the key member and the professional managers on the board are involved, however, the attempts still remain partial.

In 5 out of 9 cases, the holding companies include a Coordinator position within their organization. However, the functions of the Coordinator varies among these 5 organizations, and ranges from technical tasks to bureaucratic ones.

Again in 5 out of 9 cases, the existence of an Executive Committee has been observed. In 2 out of these 5 cases, this committee gets very powerful, and can even use most of the authority of the board. In both of these cases, the committees are made up of the owners and the professional managers, who are also the members of the board.

6 out of 9 holding companies hold formal board meetings. In the two holdings mentioned above, the decisions taken at the meetings of the Executive Committee prevails. Since these committees consist of those members who work full time at the corporation, the remaining members of the board tend to approve their initiative.

When the boards of the companies within the groups are considered, a striking observation pertains to the general manager's board membership. Only in a single case, are the general managers deliberately kept out of the company boards.

The company boards do not generally include outsiders, except for the case of partnerships or joint ventures. Only in 1 of the 9 cases, the board consists of professional managers who do not hold executive positions within the group.

In 7 out of 9 cases, formal board meetings are held. In one of the remaining two cases, the sole owner takes all decisions, with the counseling of the general manager. In the other case, the general managers have great authority and independence, and make significant strategic decisions with the consent of the owners.

The owners seem to use their board membership as a means of controlling the subsidiary companies. In 5 out of 9 cases, the owners serve on the boards of at least one of these companies. The owners generally choose to take place in the boards of the core businesses. In one extreme case, the owner is the chairman of all the boards of the subsidiary companies. In case of multiple major shareholders, the board representation can be allocated among the members based on their level of expertise and interest.

Intergroup interlocks seem to serve as a means of establishing coordination among the companies. In 7 out of 9 cases, interlocking is a common practice. In 1 out of these 7 cases, there is a limit on the maximum number of board memberships a director can hold.

Table III in the Appendix enables the comparison of the 3 joint venture boards on the basis of the features determined before. Note that two of these joint ventures refer to actual companies, while the last joint venture's life ceases at the end of the project undertaken.

The analysis of the table reveals that the Executive Committees play a leading role in the management of the joint ventures. In JV-1, the Executive Committee possesses all except the non-transferable rights of the board, while in JV-3, such a committee totally replaces the board.

The most significant problem of the joint venture boards tend to be the absenteeism of the board members. Since the directors of the joint venture boards have significant managerial positions within the parent companies most of the time, they have very busy schedules, and it usually becomes very difficult to agree upon a meeting date. In 2 out of 3 cases, alternate membership has been used to remedy any inconvenience that can arise. In JV-3, the voting system is arranged in such away that the absence of the representatives will cause the minimum interruption in the flow of the decision making process.

In contrast to the holding boards, the joint ventures hold formal meetings with pre-determined programs. Besides, the general managers are not given board memberships. However, they are asked to attend the board meeting to report on the questionable issues.

Since the small firms and the independent cases have already been evaluated on the basis of the board attributes in the previous section, the related issues will not be repeated here.

VII.2. Evaluation of the Board Roles

Table IV in the Appendix comparatively explains how and to what extend the service, control, and strategy roles are executed by the selected holding boards.

Recall that the service role of the boards consists of interacting with the company's external environment, improving company reputation and counseling the top management. In 8 out of 9 cases considered, the service role of the board rests upon the shoulders of the owners, and realized through their personal contacts, prestige, and credibility. The major emphasis is on enabling interaction of the firm with its environment, and securing the crucial resources. In the remaining case, where the board consists of outsiders only, the emphasis of the service role lies on counseling the top management only. Basically, the outsider members are asked to use their experience and knowledge to consult the top managers.

The control role, on the other hand, relates to the monitoring and evaluating the performance of the company and its top managers. In 2 out of 9 cases, this role is conducted via the Executive Committee. However, since the Executive Committees include top managers as well, the overall mechanism works more like a means for self-control. In 4 other cases, the owners attempt to use their membership at the company boards to attain control over the top managers. In these cases, the board's control role is totally delegated to the owners. In 2 cases, where the general managers possess considerable authority, the control role of the board is not fully carried out. In the remaining case, where the holding board consists of all outsiders, the control mechanisms relate only to the general issues. As for the specifics of the business activities, the general managers are controlled by the associated company boards.

Recall that the strategy role supports the active involvement of the boards in the strategy formulation process. In 6 out of 9 cases studied, all members of the board seem to contribute to the process of strategy formulation. However, these 6 cases, also include the holding boards that are made up of owners only, which in turn, means that the owners determine the fate of the corporation after all. In two other extreme cases, in spite of the existence of the board, the major shareholder of the corporation makes all strategic decisions. Strangely enough, the owners of one holding company insist on keeping the strategic decision making process as a family matter and do not let the outsiders interfere.

Table V in the Appendix comparatively evaluates how and to what extend the service, control, and strategy roles are executed by the selected joint venture boards.

The emphasis of the service role seems to rest on different aspects for the three joint ventures examined. In JV-1, for instance, the technical and managerial experience of the board members are used to counsel the top management. The Saudian partners of JV-2, bring in their business contacts to facilitate the company's access to crucial resources. The Turkish party in JV-3, being a member of a well-known group of companies, devotes its strong relationships with the members of the same group to this joint venture's disposal, making the external environment less volatile for the organization.

The control role, on the other hand, does not seem to be fully performed. Since at least half of the members of the board reside in other countries, the physical distance gets in the way. Besides, most of these directors are employed elsewhere and hence have very busy schedules. Due to time limitations, they may not be able to follow up with the details of the activities of the corporation. These boards usually rely on Executive Committees to carry out these business activities. The control mechanisms work as these committees or the general managers present formal reports to the board and attend the board meetings to answer question. Only for JV-3, the control mechanism seems to be more strict due to the nature of the project undertaken.

The strategy role is taken very seriously by the joint venture boards. Decisions taken reflect the results of the participative effort shown. Directors of each party realize that they are elected as representatives of their corporation and act with consciousness and deliberation.

Table VI in the Appendix evaluates how and to what extend the service, control, and strategy roles are executed by the boards of the small firms and the independent cases.

As mentioned before, the management of the small firms exhibit one man domination, where the owners act both as the decision makers and the implementators. Even these owners confess that centralization, coupled with the lack of formal control mechanisms, lead to suboptimal performance. However, most owners remark that their organizations are too young to reside well-trained managers, and delegation of authority to the unprepared personnel can lead to disasters.

Recall that IC-1 refers to a group of companies that experience the pre-holding period. As also noted before, the structure and managerial style shows similarities with those of the holding companies considered. Table VII in the Appendix lays out these commonalties by providing an evaluation of IC-1 based on the board attributes.

Similar to many holding boards examined, the service role of the IC-1 board is realized via the personal links of the owners with the environment. The control role is performed through the assignment of the board members to the company boards. The strategy role, on the other hand, is undertaken seriously by all board members.

As for IC-2, the representative of the shareholder state bank holds the chairman position, and performs the service role of the board by activating the special contacts and accountability of the state bank. The control role of the board also rests substantially on this director, since the other board members usually do not follow up with the specifics of the execution. Similarly, the strategy role of the board tends to be delegated to the collaboration of the chairman of the board and the general manager.

The shares owned by the state play a crucial role on the performance of the roles of the board for IC-3. On one side, the board members' affiliation with the government facilitates the conduct of the service role. On the other side, the strategic decisions may be influenced to show alignment with the government preferences. The proper execution of the control role is severely restricted by the general manager's assignment of a board membership.

The performance of the strategy role for the board of IC-4 is enhanced with the presence of very powerful bureaucrats and businessmen at the foundation's board. These people not only contribute via the accumulation originating from the positions they occupy in various state and private enterprises, but also through enriching the board proceedings by transferring their experience and knowledge. The board usually does not hesitate to delegate authority to the Executive Committee and mostly rely on this committee's discretion. All board members fully contribute to the strategy formulation process.

VIII. RESEARCH PERSPECTIVES REVISITED

At this point, it seems worthwhile to compare our results for each subgroup and independent case examined with the premises of the different research perspectives outlined in the first section. We do accept the limitations of a small sample, yet we feel that evaluation of the findings from a theoretical point of view will contribute to our understanding of the situation.

All research perspectives mentioned have mainly considered corporations that have gone public, and are owned by numerous individual and institutional investors. Accordingly, the shareholders, or their representatives, voice their opinion on the board, and the board decisions are executed by the CEO and other top managers. Usually the number of shareholders is high and even though the top managers may hold company shares, their stock ownership does not constitute a significant amount. In such corporations, the individual and institutional shareholders do not get involved in the day-to-day operations.

These perspectives have also focused on the short-term horizons of the investors which lead the top managers toward engagement in maximizing the profits in the short run. Related research has dealt with how this short-term orientation results in conflicting benefits for the managers and the corporation itself.

Since the corporations we have studied are owned by a few major shareholders only, such problems do not come into the picture. Besides, the major shareholders not only hold board memberships, but are also involved in the daily operations. The dominance of the major shareholders become more significant within the holdings. Via the establishment of powerful Executive Committees, these owners undertake the duties of the managers in most instances.

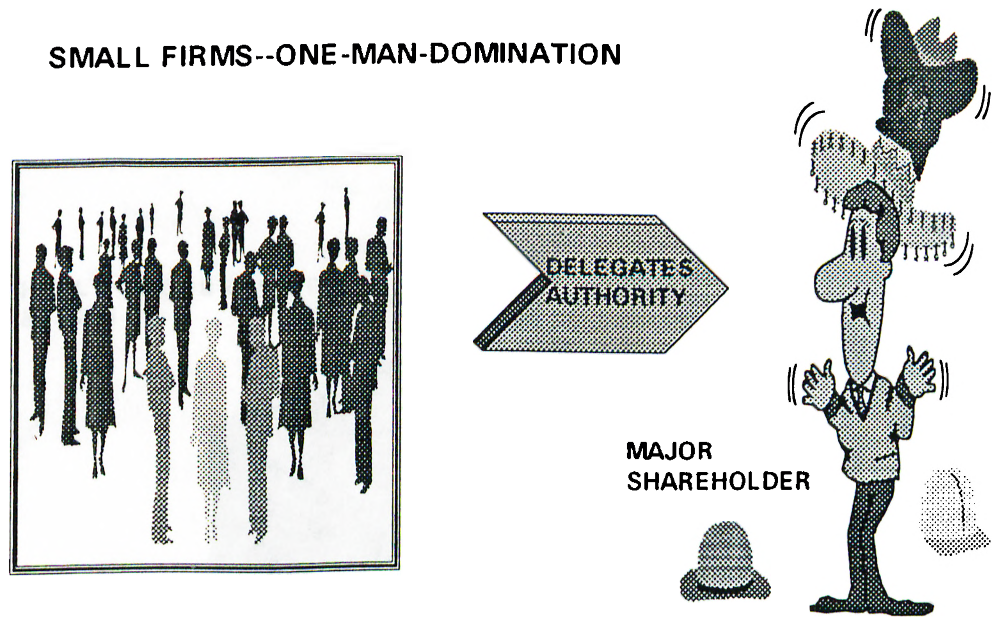

Figure 6. The Board Practices within the Small Firms.

An extreme category considered includes the small firms studied. Since these firms are owned by a single major shareholder in most instances, the board is established as a legal necessity. Actually, all responsibilities of the board is taken over by a key person, who is both the owner and the manager (as shown in Figure 6). For such cases, talking about the board attributes and roles do not make much sense, since the performance of the firm is directly linked to the competence of the key person in pursuing the service, strategy and self-control roles.

The organizational age, firm size and the ownership structure can be listed as the major contingencies that lead to such a structure. Most of these small firms are young organizations lacking well-trained professional managers. However, the firm size enables proceeding with one-man domination. Usually the minority shareholders are members of the family and have been granted their shares just to fulfill the requirement for the minimum number of shareholders a corporation should have. Hence, they do not tend to interfere with the management of the company.

The observations listed above suggest that some aspects of the Legalistic Perspective can be used to explain the board practices within the small companies. As suggested by this perspective, the boards exist to undertake their legally mandated duties and do not get involved with strategy formulation. Besides, the two contingencies listed by this perspective, namely the firm size and ownership concentration have also been identified for the small firms we have studied. We have added the organizational age as a third contingency.

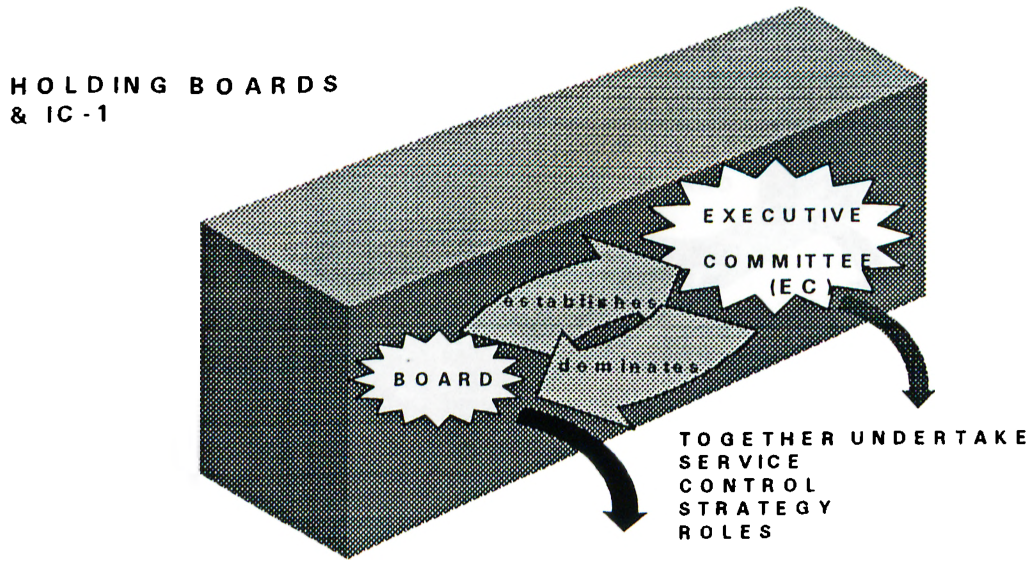

Figure 7. The Board Practices within the Holding Companies & IC-1.

In spite of the above parallelisms, discrepancies among the Legalistic Perspective claims and our findings exist. Firstly, although the board does not follow up with the daily activities, as also stated by this research perspective, the control role of the board remains very limited. Besides, the major shareholder acts as the CEO, who takes over all the board roles in most instances. Hence, we can conclude by claiming that a pseudo-legalistic perspective applies to the small firms.

@ The Legalistic Perspective, on the other hand, can not be applied to other cases studied, since it claims that the boards do not interfere with the daily activities of the corporation, but fulfill their legally mandated responsibilities. Such a description substantially contradicts with the board practices for the holding and subsidiary company boards examined. The major shareholders and the professional managers within the holding boards do deal with the daily activities of the corporation. As for the subsidiary companies, the general managers who are involved with the execution phase, serve on the boards in most cases. Figures 7 and 8 depict the board practices within the holding and subsidiary companies, respectively. The Executive Committee depicted in Figure 8 belongs to the holding company, and a different (circular) notation is used for the company board to symbolize the informality embedded in both the board meetings and the overall functioning of this board.

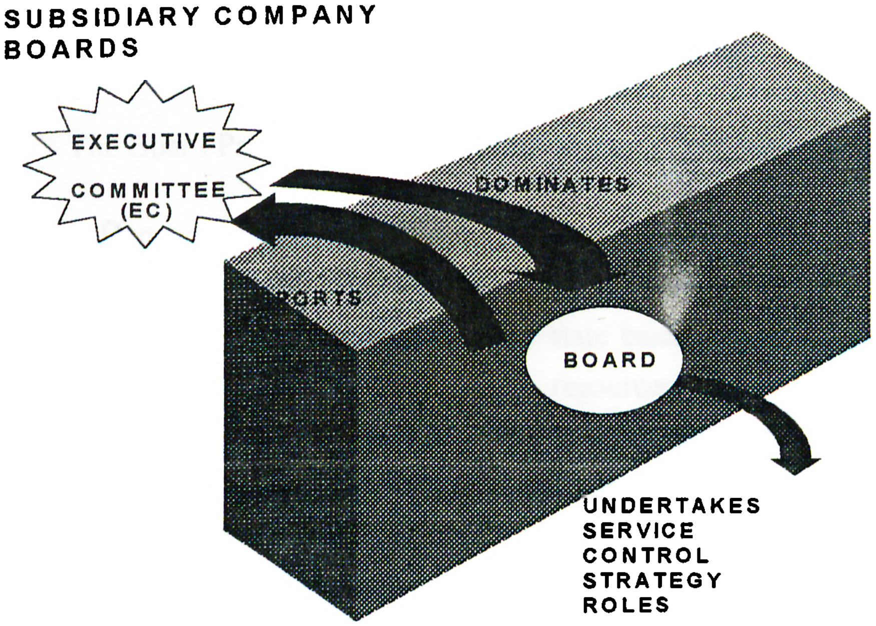

Figure 8. The Board Practices within the Subsidiary Companies.

The Legalistic Perspective does not mention the strategy role of the board. However, both the holding and joint venture boards, together with IC-1, IC-3 and IC-4 boards engage with formulation of strategies. Therefore, the application of this perspective remains limited with the small firms only. Figure 9 shows how the joint venture and IC-4 boards interact with the Executive Committee.

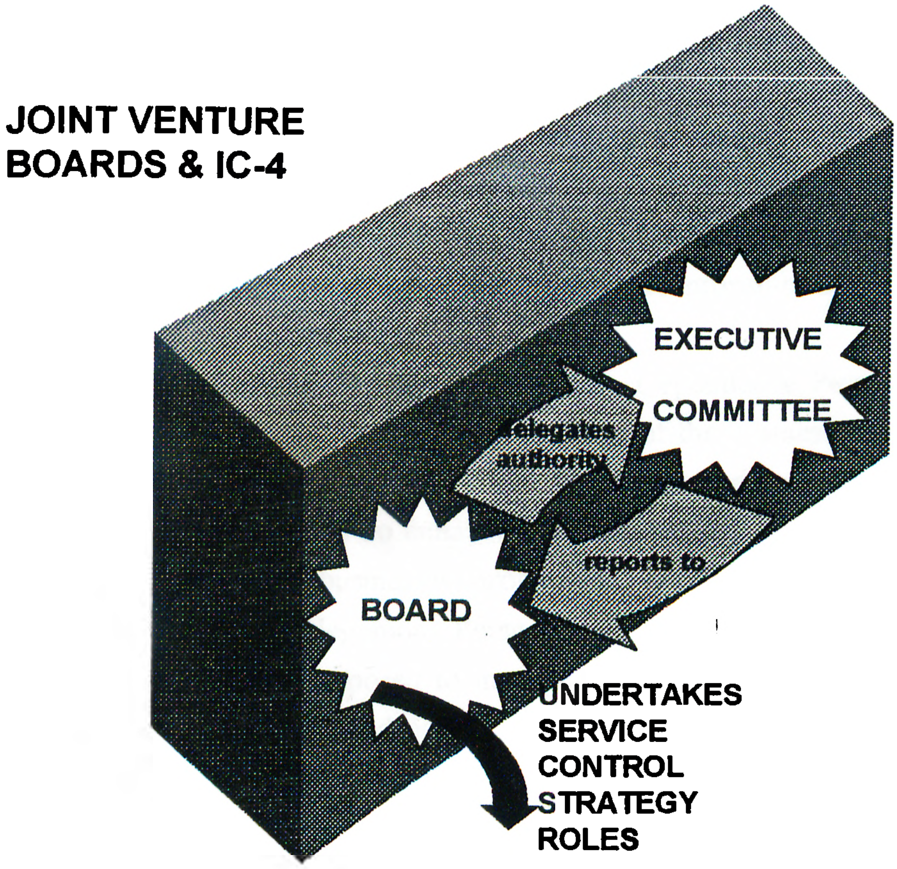

Figure 9. The Board Practices within the Joint Venture Companies & IC-4.

The Resource Dependence Perspective emphasizes the interaction of the board members with the outside world. This approach may fit to the board practices of IC-2, where the representative of the shareholder state bank utilizes the credible image and special links of this bank to secure resources and to create new business opportunities for the corporation. As mentioned before, the board structure and processing do not play a significant role for IC-2 management, since the burden rests on the shoulders of the Chairman and the general manager.

Similar points can be observed for the joint ventures, since the board members do use their special personal and organizational contacts with the parent companies to tie up resources for the company. The closeness of the board members to the government can be used to facilitate securing resources for IC-3.

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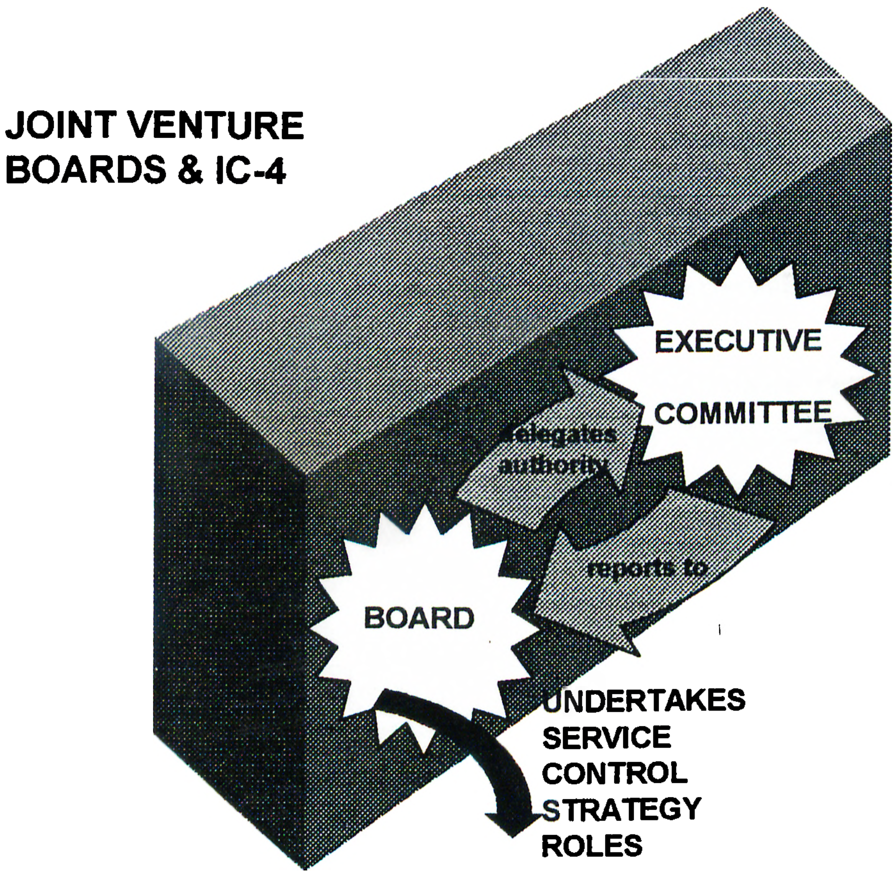

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Similar points can be observed for the joint ventures, since the board members do use their special personal and organizational contacts with the parent companies to tie up resources for the company. The closeness of the board members to the government can be used to facilitate securing resources for IC-3.

Similarly, the members of the IC-4 board, who occupy important positions within both the public and private organizations, also can contribute a good deal in enhancing the foundation's interactions with its environment.

Nevertheless, the board structure and process should also be taken into account for these organizations, since these board attributes contribute to the performance of the strategy and control roles. The Resource Dependence Perspective falls short in this respect, since it totally ignores the structure and process dimensions.

Interorganizational interlocks, which constitute a major concern for the Resource Dependence Perspective, have not been frequently observed except for the group of companies orchestrated by a holding company. Intergroup interlocking among these subsidiary companies is very common in most instances. Although control seems to be the major motive behind such a structure, the interlocking facilitates the improvement of relationships and sharing of the resources among the companies.

The three contingencies identified by the Resource Dependence Perspective; external environment, company life cycle, and the type of the business, have not been recorded as major determinants for the cases covered. Nevertheless, closeness to the parent companies do enhance the manoeuvring capability of the joint ventures under ambiguous business environments.

The major flaw of the Class Hegemony Perspective lies in the priority attached to the ideological rationale as opposed to in-depth analysis (Zahra and Pearce, 1989). The emphasis on wealth and power is too excessive to prevail over the objective evaluation of the current board practices. Due to these limitations, we choose not to elaborate on this perspective.

The basics of the Agency Theory stem from the separation of ownership, which donates the CEO and the senior management with considerable freedom and power. As already mentioned, such is not the case for the corporations we have studied, since the initiative is held by the major shareholders. Only H-9 holding board does not include any owners and the management is left to the hands of the professionals. Nevertheless, no complaints on the mismatch between the management and corporation benefits have been raised during our interview.

Of the two contingencies specified by the Agency Theory; external environment and the ownership concentration, the second one has been a major determinant for the cases we have studied. The concentration of the ownership on fewer hands has shaped the board practices for the holdings, and the same contingency has substantially affected the management of the joint venture companies.

Our analysis shows that not all board attributes are of equal importance for different corporations. For instance the structure and process attributes constitute crucial aspects of the board functioning for the joint ventures, due to problems of absenteeism and the need for special arrangements to facilitate consensus. However, such attributes are of minor importance for the IC-2 board, where the strategic decisions are taken by the Chairman and the general manager in most instances.

The board roles, on the other hand, can be delegated to a group (Executive Committee, for instance), or a single person (as in the case of small firms). In some instances, there is non-uniformity among the board members' authorities, which, in turn, prevents full involvement. For instance, the outsider board members of H-1 are not allowed to involve in strategy formulation.

The nature and the influence of the contingencies also vary with the organization considered. For instance, the style and mentality of the major shareholders might be a major determinant for the organization of the board practices for the holding boards, since it directly affects the level of authority delegated. The same contingency might not be that significant for the joint venture boards, since the board members tend to be professional managers rather than owners in most instances.

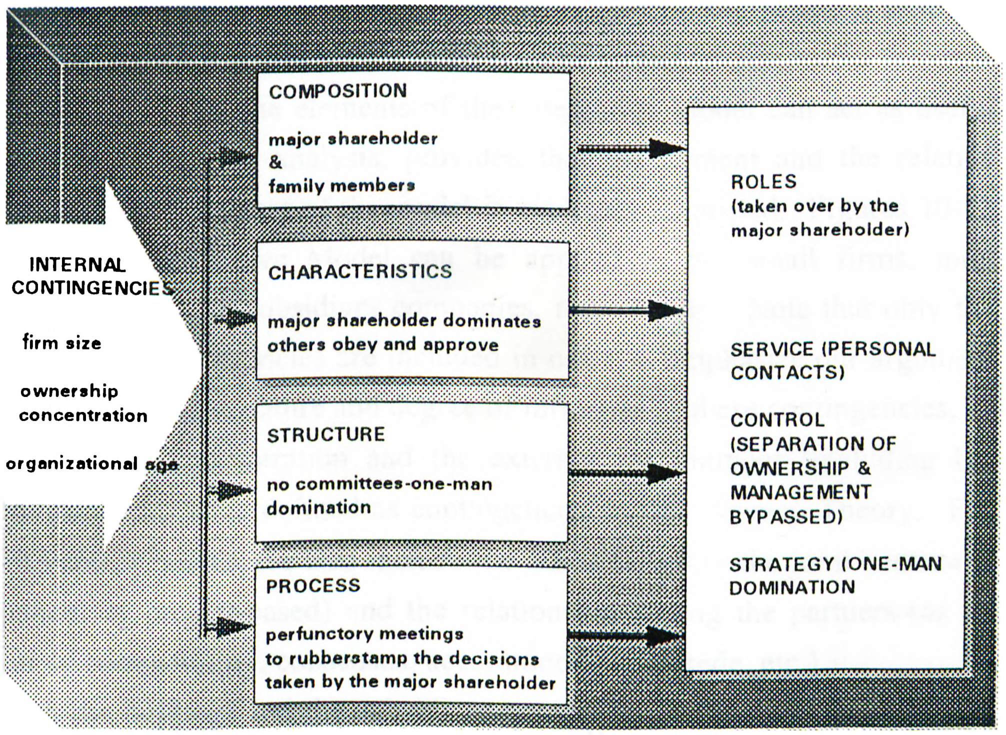

Figure 10. Application of the Integrative Model to the Small Firms.

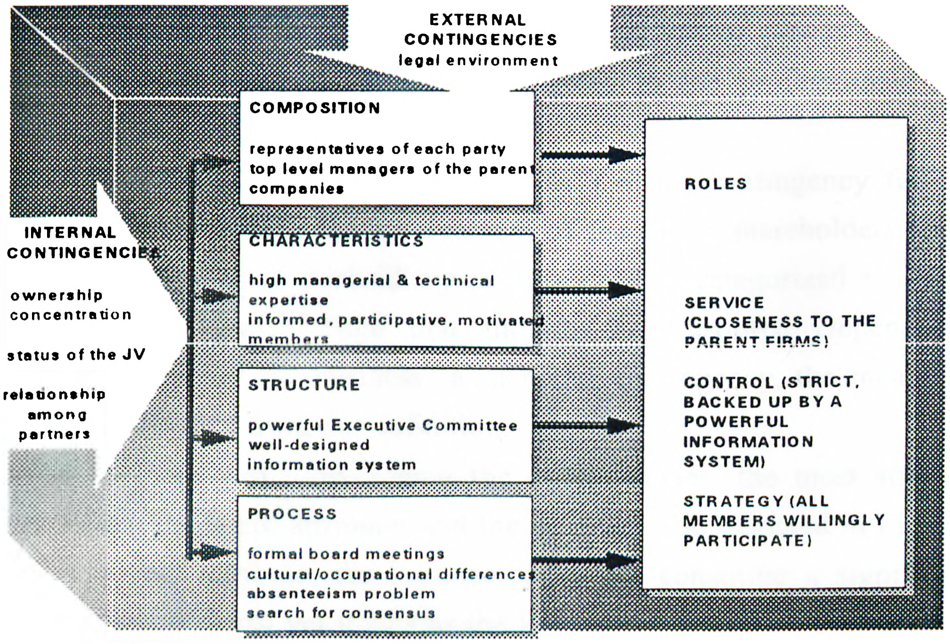

Figure 11. Application of the Integrative Model to the Joint Ventures.

External contingencies like the tendency of the individual shareholders to voice their opinion on the boards, or the employees' search for having a word-of-say at the company' management have not been recorded as major determinants for the cases covered. Only for the joint ventures, the legal environment has been observed as a major factor due to the problem with the alternate membership, and hence included into the model.

We still believe that the elements of the Integrative Model can act as useful guidelines in facilitating analysis, provided that the content and the relative importance of each element of the model is explicitly identified. Figures 10-13 show how the Integrative Model can be applied to the small firms, joint ventures, holdings, and subsidiary companies, respectively. Note that only the most significant contingencies are included in order to emphasize our argument above the change in the nature and degree of influence of these contingencies.

The ownership concentration and the external environment (including the legal environment) have defined as contingencies by the Agency Theory. For the joint venture boards, we also include the status (whether the joint venture is a permanent or project-based) and the relationship among the partners (as an indicator of compatibility, consensus, accommodative attitude, etc.).

For both the holdings and the subsidiary companies, we include the expertise and tenure of the top management team, since the owners report that they are willing to delegate more authority in the presence of an experienced team of senior executives. For the holdings, we also account for the mentality and style of the major shareholders' since the owners' penetration of power to lower levels of management and the authority delegated to the professionals and outsiders tend to be influenced by this factor.

The type of the business is also considered as a major contingency for the subsidiary companies because the involvement of the major shareholders tends to be high if the activities of a subsidiary company can be categorized as a core business for the holding. Note that though the Resource Dependence Perspective uses "type of the business" as a major contingency, the meaning attached is quite different from our definition.

In addition to these variations among the contingencies, the most striking differences among the board attributes and the roles are also depicted in Figures 10-13. The process attribute, for instance, does not constitute a significant concern for the small firms, yet it acts as the key attribute for the joint venture companies. Similarly, the control role is taken very seriously by the joint venture boards, whereas its execution is severely limited for the small firms and the holding companies, since the owners are the managers at the same time.

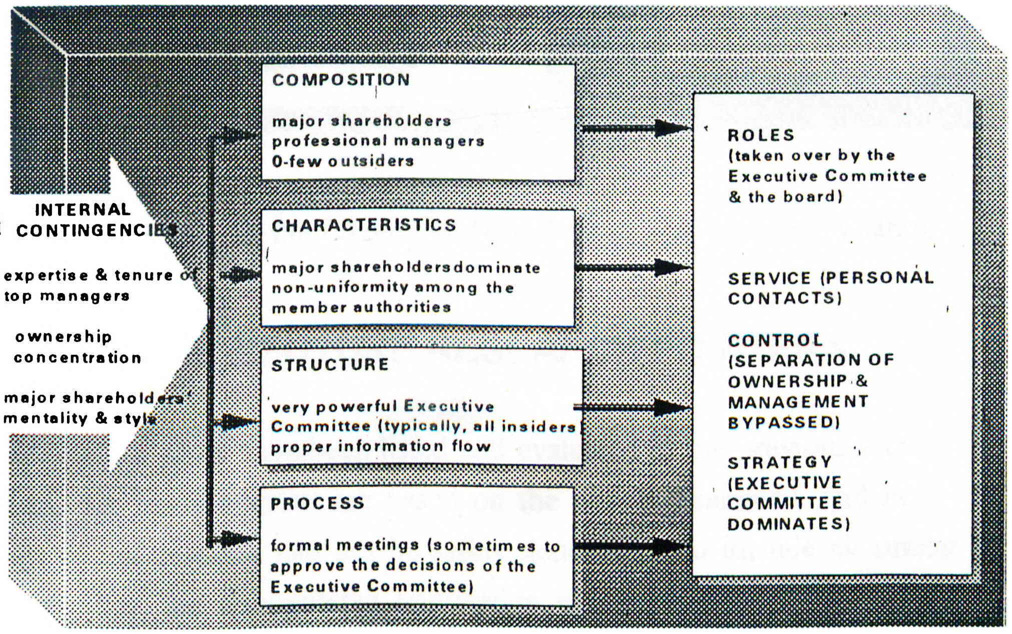

Figure 12. Application of the Integrative Model to the Holding Companies.

Please note that these applications of the Integrative Model tend to reflect the commonalties observed among the elements of each group. Nevertheless, the board practices of a single company within a subgroup can show deviations from what we have come up for that subgroup. For instance, since 8 out of 9 holding boards include major shareholders, we choose to emphasize that property, although there are no shareholder members serving on the H-9 board. Naturally, the characteristics of each subgroup will get more apparent as similar research is conducted using large sample sizes.

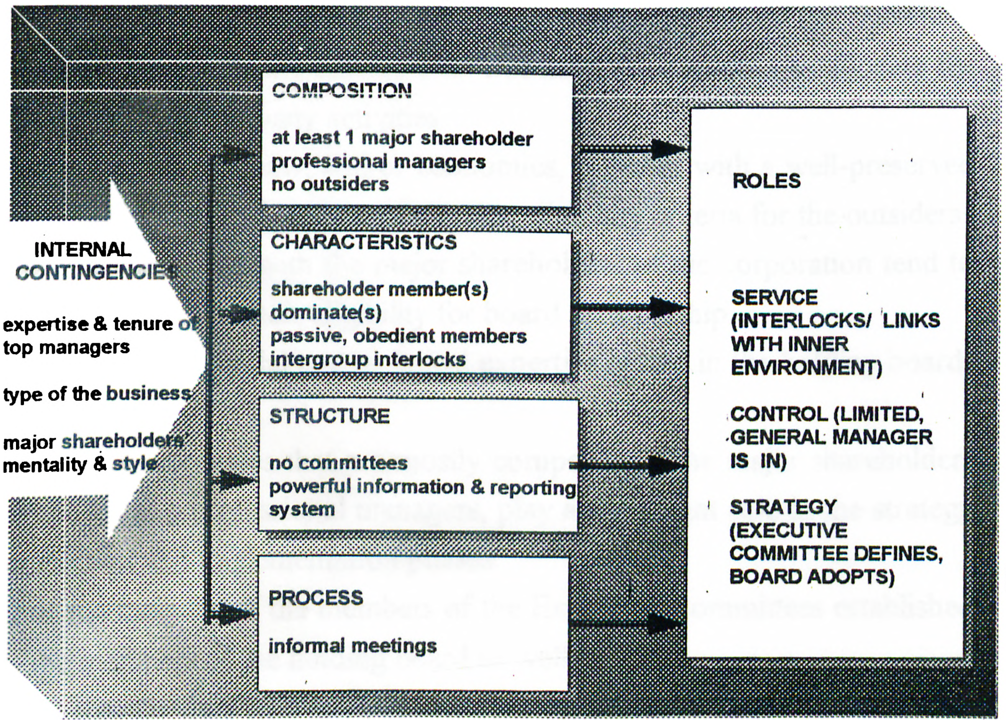

Figure 13. Application of the Integrative Model to the Subsidiary Companies.

IX. CONCLUSION & FUTURE RESEARCH POINTERS

The results of our study have been listed and evaluated in the previous section. Nevertheless, our interpretations are based on the sample examined, and hence the findings of this research can not be safely generalized to include all similar corporations. Yet, the accumulated knowledge and expertise can lead to the generation of some hypotheses that can be checked by an extensive study in the future. Below, we provide a list of these research hypotheses. Since the rationale behind these items have already been provided in the previous sections, no further explanations are attached to them.

Hypotheses Concerning the Holding Companies:

⇒ A significant majority of the holding boards include the major shareholder(s) as member(s).

⇒ Insiders tend to dominate the holding boards.

⇒ Insiders at the holding boards consist of major shareholders, current or ex-top managers.

⇒ Most owners do not believe in the possible contribution of the outsiders, since they think that the outsiders do not have enough time to allocate for dealing with the company activities.

⇒ Expertise in finance, law, and/or economics, together with a well-preserved public image tend to constitute the major eligibility criteria for the outsiders.

⇒ Outsiders' affiliation with the major shareholders of the corporation tend to play a major role in their eligibility for board membership.

⇒ The level of managerial and technical expertise nested in the holding boards is high.

⇒ Executive Committees that are mostly composed of the major shareholders and the leading professional managers, play a significant role in the strategy formulation and implementation phases.

⇒ All or the majority of the members of the Executive Committees established are the members of the holding board as well.

⇒ Major shareholders tend to hold membership positions at the boards of the companies within the group.

⇒ In most cases, the general managers are allowed to hold board memberships.

⇒ Of all companies within the group, joint ventures tend to have more formal board proceedings compared to the companies owned by the holding only.

⇒ Intergroup interlocks tend to be used frequently as a means for coordination among the member companies.

⇒ The service role of the holding boards is usually undertaken by the major shareholder(s).

⇒ Major shareholders tend to use their memberships within the boards of the companies in the group as a means of establishing control.

⇒ The contribution of the outsiders tend to be restricted to consultancy only, whereas the strategy role of the board is executed by the major shareholders.

Hypotheses Concerning the Joint Ventures:

⇒ Joint ventures tend to have powerful Executive Committees.

⇒ Alternate membership is a common practice adopted by joint venture boards to hedge against absenteeism.

⇒ The composition of the board and the voting system is designed to facilitate consensus.

⇒ Board meetings are formal with well-defined program.

⇒ The service role is executed by the contribution of the directors, all of which have high managerial and technical expertise.

⇒ The general managers are not members of the board (in most cases).

Hypotheses Concerning the Small Firms:

⇒ These firms are basically family businesses, disguised in the corporation identity.

⇒ The board consists of the shareholders only. In most instances, the founder gives minority shares to his family and relatives, so that the legal requirement for the existence of a minimum of five shareholders will be fulfilled.

⇒ The general manager position is occupied by the major shareholder.

⇒ There are no/very few professional managers. Mostly due to the age of the organization, qualified personnel has not been prepared yet.

⇒ The existence of the board arises from a perfunctory need to fulfill the legal requirements.

⇒ No formal board meetings are held.

We strongly recommend that the conductors of future research pursue with face to face interviews and open ended questions. This method not only enables the interviewer to bring clarification to certain questions, but also facilitates the discovery of undercover issues of concern which have not been taken into consideration in advance. Besides, face to face interviews enable obtaining the data directly from its main source, compared to questionnaires which may have been filled out by assistants or secretaries, and not necessarily by the board members.

However, once the major features of a subgroup is determined and the test questions are modified and validated, the researchers can engage in distributing questionnaires. Within this framework, the use of questionnaires will provide the means to access a larger number of board members.

Naturally, the scope of the research should be extended to include other subgroups. As the study unfolds, other classifications may be made to overrule the ones defined in this paper. Enterprises where majority of the shares are held by the state, foundations, corporations whose shares are traded on the Istanbul Stock Exchange might constitute interesting research samples. More over, the subsidiary companies of different holdings can be examined in detail, to compare and contrast the board practices.

We also recommend the inclusion of the performance dimension into the analysis. As explained in the previous sections, the changing board attributes, roles and contingencies can be examined over a time horizon to uncover the nature of the relationships among these elements and the corporate performance. It might also be interesting to compare different subgroups based on the level of dynamism observed in these elements. Holding companies, owned by one or two families, for instance, might be expected to show a more static pattern in their board attributes and roles, compared to the joint ventures whose ownership structure has shown significant changes over the years (like JV-1).

The reluctance of the board members to comment on the specifics of the board processes also creates serious doubts about their expected eagerness to answer questions relating to the corporate performance. At this point, we suggest that special care should be given to how the interview questions are phrased (or the questionnaires are prepared). Since process and performance related issues touch to the very crucial links and balances of power within the corporations, the board members are likely to refrain from commenting on these issues, and their responses may not always reflect the whole picture, resulting in a bias and disorientation of the research findings.

With sincere belief in the significance of the topic, we hope that the findings of this pilot study will arise the curiosity of the interested parties and lead to the initiation of more extensive research projects.

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APPENDIX

TABLE I. SCOPE OF THE MAJOR BUSINESS ACTIVITIES OF THE SELECTED HOLDINGS		
HOLDING NAME	**BUSINESSES**	**HEADQUARTERS**
H-1	Pharmaceuticals, Building Materials, Paper Products, Investment & Securities, Welding Electrodes, Finance, Insurance, Information Systems, Market Research, Foreign Trade	İSTANBUL
H-2	Manufacturing, Turn-key Projects, Construction, Finance, Tourism	İSTANBUL
H-3	Financial Services, Tourism, Media	İSTANBUL
H-4	Petroleum, Tourism, Ship Building, Financial Services, Food	İSTANBUL
H-5	Publishing, Media, Automotive, Banking, Insurance, Trade, Tourism	İSTANBUL
H-6	Construction, Machinery & Erection, Textiles & Chemicals, Prefabricated Housing	İSTANBUL
H-7	Petroleum, Trade, Construction, Manufacturing, Services	ANKARA
H-8	Tourism, Health, Commerce, Insurance	ANKARA
H-9	Machinery, Construction, Defence, Electricity, Communication	İSTANBUL

TABLE II. COMPARISON OF THE HOLDING COMPANIES BASED ON THE BOARD ATTRIBUTES

HOLDING NAME	H-1	H-2	H-3
HOLDING BOARDS			
No.of Board Members	8	8	3
No. of Outsiders	4	0	0
Occupations of Outsiders	professors	N/A	N/A
Affiliation with Company Owner?	acquaintance	N/A	N/A
Role of the Outsiders	consultant	N/A	N/A
Opinion About Outsiders	can provide professional advice	can not allocate enough time	can not allocate enough time
Owner Representation (No. of Family Members)	4	2	2
Identity of Insiders	owners	owners/professional managers	owners/professional manager
Criteria for Outsiders	reputation/knowledge/experience	N/A	N/A
Level of Managerial and Technical Expertise of the Board	high	high	high
Degree of Board's Involvement in Company Activities	full	full	partial
Coordinator?	no	yes but in the technical sense	no
Executive Committee?	yes	yes-very powerful	no
Level of Penetration of Owner Influence to Company Boards	very high	normal	very high
Nature of Board Meetings	formal	executive committee prevails	formal

HOLDING NAME	H-1	H-2	H-3
COMPANY BOARDS			
General Manager?	in	in	in
Outsiders?	no except JVs	only in case of partnership	no
Formal Board Meetings?	yes	yes	yes
Owners' Membership	yes	no	chairman of all boards
Internal Interlocks	very common	very common	very common

TABLE II. COMPARISON OF THE HOLDING COMPANIES BASED ON THE BOARD ATTRIBUTES

HOLDING NAME	H-4	H-5	H-6
HOLDING BOARDS			
No.of Board Members	7	9	7
No. of Outsiders	3	0	0
Occupations of Outsiders	2 professors/1 bank owner	N/A	N/A
Affiliation with Company Owner?	yes-friendship	N/A	N/A
Role of the Outsiders	contribute as much as insiders	N/A	N/A
Opinion About Outsiders	contribute a lot	may contribute	do not contribute much
Owner Representation (No. of Family Members)	3	2	4
Identity of Insiders	owners/professional manager	owner/professional managers	owners/ex-managers
Criteria for Outsiders	background/affiliation	N/A	N/A
Level of Managerial and Technical Expertise of the Board	high	high	high
Degree of Board's Involvement in Company Activities	full	full	full
Coordinator?	yes	yes	removed
Executive Committee?	no	yes	removed
Level of Penetration of Owner Influence to Company Boards	normal	normal	normal
Nature of Board Meetings	formal	executive committee prevails	forma -general issues

HOLDING NAME	H-4	H-5	H-6
COMPANY BOARDS			
General Manager?	in	in	in
Outsiders?	none	only in case of partnership	none
Formal Board Meetings?	yes	yes-absolutely	mostly on paper
Owners' Membership	yes-common	only in large companies	very rare
Internal Interlocks	rare-deliberately avoided	rare	very common

TABLE II. COMPARISON OF THE HOLDING COMPANIES BASED ON THE BOARD ATTRIBUTES

HOLDING NAME	H-7	H-8	H-9
HOLDING BOARDS			
No.of Board Members	4	10	7
No. of Outsiders	0	0	7
Occupations of Outsiders	N/A	N/A	professors/top managers
Affiliation with Company Owner?	N/A	N/A	nothing special
Role of the Outsiders	N/A	N/A	strategy formulation/coordination/control
Opinion About Outsiders	do not contribute much	can do some lobbying	contribute a lot without interfering with execution
Owner Representation (No. of Family Members)	4	10	0
Identity of Insiders	owners	owners	N/A
Criteria for Outsiders	N/A	N/A	expertise in finance and law
Level of Managerial and Technical Expertise of the Board	limited to those of a key member	high-delegation exists	high
Degree of Board's Involvement in Company Activities	partial	full	full
Coordinator?	no	yes	yes-for bureaucratic work
Executive Committee?	very powerful	yes	not for the holding but for the co.'s
Level of Penetration of Owner Influence to Company Boards	high	high	normal-minimum
Nature of Board Meetings	very informal	formal	formal

HOLDING NAME	H-7	H-8	H-9
COMPANY BOARDS			
General Manager?	in	in	out
Outsiders?	only in JV boards	none	professional managers
Formal Board Meetings?	mostly on paper	yes but directed from above	yes
Owners' Membership	none	yes-based on related experience	no-deliberately avoided
Internal Interlocks	very common	only among related businesses	common- but a limit exists

TABLE III. COMPARISON OF THE JOINT VENTURE BOARDS BASED ON THE BOARD ATTRIBUTES			
	JV-1	*JV-2*	*JV-3*
Status	company	company	project
Nationality of Partner	Germany	Saudi Arabia	United States
Majority of Shares are Held by	partner	partner	50-50-Turkish firm leads
Board?	yes	yes	no
Executive Committee	yes	yes	yes
Authority of the Executive Committee	all except the non-transferable rights of the board	follows the action plan	replaces the board
Hedge against Absenteeism	alternate members	alternate members	one vote for each company
Alternate Members for	foreign members	foreign & Turkish partners	N/A
Measures Taken to Facilitate Consensus	voting system	decreasing the board size-proposed	leading firm/referee system
Difficulty in Gathering Board Members?	yes	yes	yes
Formal Meetings?	yes	yes	yes
Well-defined Program?	yes	yes	yes
General Managers' Board Membership	no general manager position	no-attends to report	N/A- project manager reports

TABLE IV. COMPARISON OF THE HOLDING COMPANIES BASED ON THE BOARD ROLES			
HOLDINGS		ROLES	
	SERVICE	CONTROL	STRATEGY
H-1	yes-family name & prestige	yes-via the Executive Commitee/self-control	partial-outsiders are excluded
H-2	yes-major shareholders' accountability	yes-via the Executive Commitee/self-control	yes-shared by owners & professionals
H-3	yes-owners' personal credibility & contacts	yes-owner's membership in all boards	partial-rests upon the sole owner
H-4	yes-family name & prestige	yes-some owners' membership in crucial boards	yes-shared by insiders & outsiders
H-5	yes-owners' personal credibility & contacts	yes-some owners' membership in crucial boards	yes-shared by insiders & outsiders
H-6	yes-major shareholders' accountability	limited-general managers posses considerable authority	yes-shared by owners & professionals
H-7	yes-owners' personal credibility & contacts	limited-mutual interaction between general manager & owner	partial-rests upon the sole owner
H-8	yes-major shareholders' accountability	yes-owners' business assignments	yes-shared by all members(owners)
H-9	yes-vast expertise in finance & law	yes- for overall conformance check/rest is delegated to co. boards	yes-shared by all members(non-owner outsiders)

TABLE V. COMPARISON OF THE JV'S BASED ON THE BOARD ROLES			
JOINT VENTURES		**ROLES**	
	SERVICE	**CONTROL**	**STRATEGY**
JV-1	yes-technical & managerial experience	somewhat-via the Executive Committee	yes-shared by members of both nations
JV-2	yes-business contacts of Saudian shareholders	limited-general manager's reporting to the board	yes-shared by members of both nations
JV-3	yes-experience&affiliation with other co.'s	yes-site visits	yes-shared by members of both nations

	TABLE VI. EVALUATION OF THE SMALL FIRMS AND IC-'S BASED ON THE BOARD ROLES		
SMALL FIRMS		**ROLES**	
	SERVICE	**CONTROL**	**STRATEGY**
ALL	yes-owners' personal credibility & contacts	no-one man show	partial-usually rests upon one person
INDEPENDENT CASES		**ROLES**	
	SERVICE	**CONTROL**	**STRATEGY**
IC-1	yes-major shareholders' accountability	yes-owners' board assignments	yes-shared by all members(owners)
IC-2	yes-shareholder bank's credibility & contacts	limited-on the shoulders of the Chairman of the board	partial-rests uponChairman and general manager
IC-3	yes-affiliation of members with government	limited-especially with board membership of general manager	yes-nonnegligible government influence
IC-4	yes- positions and authority of the members	limited-trust for the members of the Executive Committee	yes-shared by all members

TABLE VII. EVALUATION OF IC-1 BASED ON THE BOARD ATTRIBUTES	
CORE BUSINESS BOARD	**IC-1**
No.of Board Members	5
No. of Outsiders	0
Occupations of Outsiders	N/A
Affiliation with Company Owner?	N/A
Role of the Outsiders	N/A
Opinion About Outsiders	do not contribute much
Owner Representation (No. of Family Members)	5 individual owners
Identity of Insiders	owners
Criteria for Outsiders	N/A
Level of Managerial and Technical Expertise of the Board	high
Degree of Board's Involvement in Company Activities	full
Coordinator?	yes but in the technical sense
Executive Committee?	yes
Level of Penetration of Owner Influence to Company Boards	normal-high
Nature of Board Meetings	formal
COMPANY BOARDS	**IC-1**
General Manager?	out
Outsiders?	none
Formal Board Meetings?	yes
Owners' Membership	yes- two owners on each board
Internal Interlocks	common (for owners only)