THE IMPACT OF BOARD CHARACTERISTICS ON THE INTERNATIONALIZATION OF BUSINESS GROUP AFFILIATES

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ABSTACT

This study investigates the impact of board member characteristics on the internationalization performance of firms affiliated with family-owned and controlled business groups. The resource-based view of the firm establishes the theoretical framework of the study. As boards of directors establish a source of human capital for firms, board member characteristics are expected to influence firms' internationalization performance through their impact on directors' ability to fulfill their roles of service and resource acquisition. The publicly listed affiliates of six business groups establish the sample of the study. Findings reveal that firms which have older and more educated boards with greater foreign country exposure and family representation outperform others in one of the measures of internationalization performance, namely the existence of outward foreign direct investment (FDI). However, board member characteristics do not seem to influence a firm's export intensity or geographical diversification.

***Key words: internationalization performance, board of directors, board member characteristics, business groups, Turkey**.*

YÖNETİM KURULU ÜYESİ ÖZELLİKLERİNİN HOLDİNGLERE BAĞLI ŞİRKETLERİN ULUSLARARASILAŞMA PERFROMANSI ÜZERİNDEKİ ETKİSİ

ÖZET

Bu çalışma yönetim kurulu üyesi özelliklerinin holdinglere bağlı şirketlerin uluslararasılaşma performansı üzerindeki etkisini incelemektedir. Çalışmanın teorik çerçevesini kaynak tabanlı yaklaşım oluşturmaktadır. Yönetim kurulları şirketlerin insan kaynaklarının bir bölümünü oluşturduğu için yönetim kurulu üyelerinin demografik özelliklerinin uluslararasılaşma performansını etkileyeceği öngörülmektedir. Bu etki, çeşitli demografik özelliklerin, yönetim kurulu üyelerinin hizmet ve kaynak sağlama görevlerini yerine getirme becerilerini şekillendirmesinden kaynaklanmaktadır. Altı holdinge bağlı halka açık şirketler çalışmanın örneklemini oluşturmaktadır. Yönetim kurullarında yaşı, eğitim düzeyi ve yurt dışı tecrübesi yüksek üyeler bulunan ve daha çok aile üyesi olan şirketlerin uluslararasılaşma performansının yurt dışında yatırım yapma kriteri açısından diğer şirketlere göre

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daha başarılı olduğu gözlenmiştir. Ancak yönetim kurulu üyesi özelliklerinin şirketin ihracatı ve coğrafi çeşitlenmesi üzerinde bir etkisi bulunmamaktadır.

Anahtar kelimeler: uluslararasılaşma perfromansı, yönetim kurulları, yönetim kurulu üyesi özellikleri, şirket grupları, Türkiye.

The board of directors has been one of the most prolific research domains in the management literature since the 1980s (Goodstein et al., 1994). The board's impact on organizational-level outcomes has been widely studied with a focus on the relationship between the structure of the board and financial performance of the firm (e.g., Bonn et al., 2004; Daily and Dalton, 1993; Dalton et al., 1998; Tian and Lau, 2001). Board structure has also been studied in relation to a variety of organizational phenomena such as acquisitions, poison pills, take-overs, greenmail, strategic planning and change, research and development strategy, executive compensation and CEO turnover (e.g., Baysinger et al., 1991; Dennis and McConnell, 2003; Hermalin and Weisbach, 2003; Kosnik, 1987; Rosenstein and Wyatt, 1990). Yet, despite the increasing significance of internationalization for firms, the effect of boards on firms' internationalization performance has been neglected (Castanias and Helfat, 2001; Sherman et al., 1998).

Top management team characteristics, on the other hand, have drawn a significant amount of attention as antecedents of internationalization performance (e.g., Hutchinson et al., 2006; Leonidou et al., 1998). Past studies indicate that managerial attributes such as age, education, foreign country exposure, foreign language proficiency, ability to establish networks, risk tolerance, innovativeness and commitment to internationalization have the potential to influence internationalization performance (Hutchinson et al., 2006; Rocha et al., 1990). Since boards of directors also perform managerial duties in firms through the fulfillment of their control, service and resource acquisition roles (Johnson et al., 1996), it is believed that the impact of board member characteristics on firms' internationalization performance deserves attention as a research topic (Castanias and Helfat, 2001; Sherman et al., 1998).

Emerging economies may pose a particularly good context for the study of board influence on internationalization performance. Family-owned and controlled business groups emerge as the dominant form of organizing in emerging economies (Amsden and Hikino, 1994; Guillén, 2001). In this context, families use boards as a tool to maintain control over and to assure coordination among the affiliated companies that make up the business group (Lins, 2003). Boards take an active role in strategic decision making (Tsui-Auch and Lee, 2003) while professional managers -except for a highly trusted few- focus more on operational issues (Çolpan et al., 2007). Thus, in the context of emerging economies, board members may have a more significant impact on strategic decisions than top managers.

Emerging economies establish a good setting for the study of the relationship between boards of directors and internationalization also because the latter has become a highly strategic issue for emerging economy-based business groups following their countries' transitions to more open economies (Toulan, 2002). As the previously protected markets were opened to foreign companies and competition intensified, internationalization became almost obligatory for the survival and prosperity of business groups (Chang, 2006; Yeung, 2006). Therefore, taking into account both the significant role boards of directors play in emerging economies and the increasing importance of internationalization for business groups, this study investigates the effect of board member characteristics on the internationalization performance of business group affiliates in an emerging economy, Turkey.

The next section introduces the theoretical framework of the study and states the hypotheses. The third section describes the context while the fourth one provides information on the sample, variables, and the data collection and analysis methods used in the study. The fifth section displays the findings while the last one provides concluding remarks.

THEORETICAL FRAMEWORK AND HYPOTHESES

The resource-based view (RBV) of the firm, which is seen as one of the most promising schools of thought in the field of management (Alas and Sun, 2007), establishes the theoretical framework of the study. The RBV is deemed relevant to the investigation of the relationship between board member characteristics and internationalization performance as boards establish a source of human capital for firms and thus have the potential to improve firm performance just as other organizational resources. Additionally, it has been claimed that the RBV has the potential to contribute to both international business (Peng, 2001) and corporate governance (Barney et al., 2001) literatures from which the study also draws insights. Furthermore, Hoskisson et al. (2000) identify the RBV as a promising perspective when studying emerging economies, one of which establishes the context of the current study.

Resource-Based View of the Firm and Internationalization

The RBV of the firm suggests that a firm's ability to acquire a sustained competitive advantage emerges from the valuable, rare, inimitable and non-substitutable resources it controls (Barney, 1991; Barney et al, 2001; Wernerfelt, 1984). The RBV can be distinguished from the environmental models of competitive advantage (e.g., Porter, 1980; 1981) in two ways. First of all, contrary to the environmental models, the RBV claims that the resource endowments of firms in the same industry may be heterogeneous; that is, firms in the same industry may vary from one another on the basis of the quantity and quality of resources they control. Second, according to the RBV, this heterogeneity may be a long-lasting phenomenon, rather than a temporary one, as environmental models assume (Barney, 1991). These assumptions about resource heterogeneity and immobility draw attention to the internal environment of the organization (Hoskisson et al., 1999) and make organizational resources – the board's human capital in the realm of this study- a potential source of sustained competitive advantage.

Resources are bundles of tangible and intangible assets which enable a firm to conceptualize and implement strategies that can increase its efficiency and effectiveness vis-à-vis its competitors (Barney, 1991; Wernerfelt, 1984; Zou and Stan, 1998). Barney (1991) classifies organizational resources into three groups as physical capital, organizational capital and human capital resources. Physical capital resources include a firm's technology, plant and equipment and geographical location while organizational capital resources involve its planning, controlling and coordination systems, its reporting structure, relations among groups of employees within the firm and the relations of the firm with other firms in its environment (Barney, 1991:101). Human capital resources, on the other hand, entail the skills, capabilities, education, training, experience, expertise and relationship networks of individual managers in a firm (Barney, 1991; Castanias and Helfat, 2001). Among these three types of resources, human capital resources can be attributed special attention since they play an important role in the development and implementation of firm strategies, which in turn, may influence, among other things, the firm's endowments of physical capital and organizational capital resources.

The RBV is increasingly used to examine firms' internationalization processes (e.g., Bloodgood et al., 1996; Graves and Thomas, 2006; Westhead et al., 2001). According to the RBV, a firm's internationalization performance is dependent on its ability to organize its resources -physical, organizational and human- in such a way that it can create globally compelling competencies (Graves and Thomas, 2006). In a parallel manner, the international business literature argues for a link between the characteristics of a firm's human resources and the firm's ability to develop and execute international expansion strategies (Hutchinson et al., 2006; Leonidou et al., 1998; Loane et al., 2007). A common claim in the international business literature is that managers have a significant impact on a firm's mode, direction and speed of internationalization as they make the key decisions on these issues (Hutchinson et al., 2006; Leonidou et al., 1998). Therefore, a variety of managerial attributes have been studied as antecedents of internationalization in the international business literature and there is widespread agreement that managerial characteristics influence the degree of internationalization performance (Hutchinson et al., 2006; Leonidou et al., 1998; Loane et al., 2007; Zou and Stan, 1998). On the basis of the RBV, the relationship between these characteristics and internationalization performance can be attributed to the impact managerial characteristics have on the extent and quality of the human capital that managers offer to the company. Because boards of directors, just as managers, are sources of human capital for firms, board characteristics may also influence a firm's internationalization performance through their impact on board members' ability to perform their roles. Additionally, the characteristics found to be significant for managers in the international business literature also can be significant for board members.

The corporate governance literature attributes three types of roles to boards, namely, control, service and resource acquisition (Johnson et al., 1996; Muth and Donaldson, 1998; Zahra and Pearce, 1989). Directors monitor the managers as representatives of shareholders in the fulfillment of the control role and provide advice and counsel to them in the fulfillment of the service role. Finally, they provide access to critical tangible and intangible resources as they perform the resource acquisition role (Johnson et al., 1996; Young et al., 2001). Although the proper fulfillment of all three roles may contribute to firm performance, service and resource acquisition become more significant when the external environment poses uncertainty and volatility (Filatotchev, 2007; Zahra and Perace, 1989) as is the case in internationalization efforts (Fernandez and Nieto, 2005). The primary antecedent of the board's provision of service and resource acquisition roles, on the other hand, is the board's human resource capital (Hillman and Dalziel, 2003). Thus, board member characteristics are expected to have an impact on a firm's internationalization performance as these characteristics shape the quality and extent of a board's human capital, which in turn, influences the board's ability to perform its service and resource acquisition roles.

Hypotheses

The international business literature categorizes the managerial attributes that may affect internationalization performance into two groups, as subjective and objective characteristics (Leonidou et al., 1998). Subjective characteristics entail the perceptions, attitudes and behaviors of managers and include managerial traits such as risk tolerance, innovativeness, flexibility and commitment to internationalization. Previous research finds a positive association between these variables and the different measures of internationalization (Leonidou et al., 1998; Loane et al., 2007; Schlegelmilch and Ross, 1987).

Objective characteristics, on the other hand, refer to managers' demographic characteristics and include variables such as educational attainment, foreign country exposure (measured alternatively in terms of foreign education, work experience abroad and international travel), age, foreign language capabilities, relationship networks, place of birth and ethnic origin of board members (Leonidou et al., 1998; Loane, 2007). This study focuses on four observable objective characteristics, namely, educational attainment, foreign country exposure, age of board members and whether a board member is from the controlling family. The first three of them have drawn a significant deal of attention in both the international business and RBV literatures (Hutchinson et al., 2006; Loane et al., 2007). The fourth one, on the other hand, is particularly relevant to emerging economies and significant in two ways. First of all, business groups are characterized by family ownership and control (Lins, 2003) and thus neglecting the role of family members would be ignoring a significant characteristic of the context. Second, from the RBV of the firm, family directors may have resources that are unavailable to other board members as owners of the business group and as prominent businessmen who or whose families have established close ties to the government.

Educational Attainment. Education is expected to expand an individual's knowledge, skills, problem solving abilities, absorptive capacity, discipline, motivation and self-confidence (Hatch and Dyer, 2004; Westhead et al., 2001) and thus, improve the extent and quality of the human capital resource he offers to the firm. This, in turn, may enhance a board member's ability to fulfill his service role. Better education also has been associated with greater degrees of open-mindedness, interest in foreign affairs and willingness to evaluate the benefits of international business activity (Leonidou et al., 1998), all of which can lead to improvements in a firm's internationalization performance. Datta and Guthrie (1994) find a positive relationship between the formal education of a firm's founder and his propensity to implement change and foster firm growth. In a parallel manner, higher levels of formal education may increase a board member's commitment to firm growth through an emphasis on international markets, that is, by changing the market domain of the firm via additions to the domestic market. Finally, Zou and Stan's (1998) meta-analytical review of 50 past studies delineates a manager's level of formal education as a significant determinant of three indicators of internationalization performance, namely, the amount, growth and profitability of export sales. Therefore, the educational attainment of the directors on a board may contribute to a firm's internationalization performance.

> H1: The educational attainment of board members will be higher in firms with better internationalization performance.

Foreign Country Exposure. The international experience available to a firm can be seen as a firm-specific tacit knowledge that is difficult to imitate (Barney et al., 2001). Foreign country exposure due to education or work experience abroad provides an individual with a better awareness of the opportunities and threats in foreign markets (Herrmann and Datta, 2006; Hutchinson et al., 2006; Zou and Stan, 1998), a deeper understanding of foreign market conditions (Bloodgood et al., 1996; Leoidou et al., 1998) and a greater potential to establish international contacts (Leonidou et al., 1998). Due to these endowments, a board member may perform his service and resource acquisition roles more successfully. A number of studies reveal a positive association between foreign country exposure and internationalization performance particularly in the form of export propensity and intensity (Leonidou et al, 1998; Rocha et al., 1990; Zou and Stan, 1998). Therefore, foreign country exposure is also expected to contribute to a firm's internationalization performance.

> H2: The number of board members with foreign country exposure will be higher in firms with better internationalization performance.

Age. Young age has been related to the extent of a manager's open-mindedness and risk propensity (Herrmann and Datta, 2006; Leonidou et al., 1998; Reid, 1981), which in turn, can influence the extent to which he perceives international markets as a desirable alternative to the domestic market. Past research also associates younger age with a higher degree of foreign market orientation and willingness to implement strategic change (Dichtl et al., 1990; Leonidou et al., 1998; Tihanyi et al., 2000). Additionally, Toulan (2002) asserts that the resources a firm needs to acquire a competitive advantage vis-à-vis its rivals may change over time as the environmental conditions change. Specifically, he claims that the transition to an open market economy from a closed one, which has characterized many emerging economies since the 1980s, can create changes in the type of resources required by the firm, rendering some previously valuable resources valueless. Thus, younger generations who have been exposed to the new environment from earlier ages on or were born into the new environment may have a greater chance to develop skills, capabilities and, business and social relations that meet the needs of the new system. Additionally, they may also have mindsets which are more favorable to internationalization that has become a priority in the industrialization efforts of transitionary economies. These, in turn, will improve their capacity to fulfill the board roles of service and resource acquisition.

> H3: The average age of the board will be lower in firms with better internationalization performance.

Family Representation. Due to their long tenure in the company, family members tend to develop more tacit knowledge about the company, its resources and capabilities as well as the opportunities and threats it faces (Sharma, 2004; Zahra, 2003). This deeper knowledge, in turn, may enhance their ability to serve the firm in facing the challenges of internationalization. Additionally, their business and social networks and reputation may increase the firm's ability to gain access to the resources it needs to develop core competencies (Anderson and Reeb, 2003). Family members may be particularly significant in establishing and maintaining relations with the state, which remains a significant actor in the context of emerging economies. Moreover, in the case of business groups, family members may also help the firm draw resources available within the business group as their existence on the board can make the firm a significant actor in the large pyramid (Selekler-Gökşen and Karataş, 2008). Therefore, family members can assure access to resources both inside and outside the group. Finally, because family members see the firm as a legacy to pass on younger generations, they may have a more positive perception of internationalization, particularly in transitionary economies where internationalization has become more significant for firm survival and prosperity (Toulan, 2002). Zahra (2003), for example, finds that family ownership and involvement are positively related to the internationalization of the firm thanks to the family members' motivation to internationalize. Thus, family representation is also expected to be associated with better internationalization performance.

> H4: Family representation will be higher on the boards of firms with better internationalization performance.

THE CONTEXT: INTERNATIONALIZATION EFFORTS, BUSINESS GROUPS AND BOARDS IN TURKEY

Like many other emerging economies, Turkey has been going through a transition towards an open market economy since the 1980s (Gökşen and Üsdiken, 2001; Toulan, 2002). Until then, Turkey pursued an import-substituting industrialization strategy. The foreign direct investment (FDI) regime was highly regulated and the domestic market was closed to foreign competition to a significant extent (Öniş, 1992). The liberalization and internationalization program that was introduced in January 1980 had three main objectives: reducing the state's role in the economy, pursuing an export-led growth strategy, and liberalizing trade and investment, which in turn, would create foreign competition in the domestic market (Öniş, 1992). The objectives of this program have been actualized at least partly. Turkey has made substantial progress in liberalization (Gökşen and Üsdiken, 2001). Exports increased to over 85.50 million dollars in 2006 from a mere 2.25 million dollars in 1979 (TÜİK, 2006). Additionally, the country has enjoyed improvements in its FDI inflows, particularly since 2004 (UNCTAD, 2008). The intensifying competition in the domestic market coupled with the opportunities abroad, encouraged Turkish companies to make investment in foreign countries (UNCTAD, 2006) although Turkey's outward FDI flows remain modest (UNCTAD, 2008). Overall, internationalization efforts have been a part of Turkish companies since the 1980s.

Family-owned and controlled business groups have emerged as the dominant form of organizing in Turkey. These groups display high degrees of unrelated diversification, at least partly because the state has encouraged the businessmen it trusts to enter the industries from which it has retreated (Buğra, 1994). Relations with the state have always been a criterion of business success in Turkey and the business groups are known to be very receptive to changes in the political economy of the state. When, for example, the state shifted to an export-led growth strategy, business groups shifted their attention to the groups' export trading companies and emerged as the country's largest exporters (Öniş, 1998). The business groups have also been leaders in establishing international relations by acting as the agents, licensees and joint venture partners of foreign companies (Sönmez, 1992).

In family business groups, families sustain control over the companies that established the group through pyramidal ownership structures, cross-shareholdings, interlocking directorates and presence in management and on boards (Lins, 2003; Selekler-Gökşen and Yıldırım-Öktem, 2009). Because boards are instrumental in the maintenance of family control and coordination among the companies constituting the group, strategic decisions are likely to be taken at the board level. This tendency is probably accentuated by the centralized decision-making style that characterizes Turkish business groups (Buğra and Üsdiken, 1995). Therefore, boards can be expected to play a key role in shaping and implementing the internationalization strategies of firms, particularly as the significance of internationalization performance has been increasing with the transition to an open market economy.

Past studies on the boards of affiliated companies (e.g., Selekler-Gökşen and Karataş, 2008; Selekler-Gökşen and Yıldırım-Öktem, 2009) reveal that insider representation is quite high in Turkey. In a study on business group affiliates, Selekler-Gökşen and Yıldırım-Öktem (2009) find that family members, professionals who work or have worked in the business group and outsiders hold 20%, 50% and 15% of the board seats, respectively. The remaining 15% of the seats, on the other hand, are held by the representatives of joint venture partners. An analysis of the relationship between family representation on boards and financial performance in Turkish business groups indicates a consistently positive but not always a statistically significant impact of the former on the latter (Selekler-Gökşen and Karataş, 2008). Family members' contributions to firm performance may emerge from their deep knowledge of firm operations, their commitment to the firm's success, and the networks they have established and prominence they have developed throughout their careers (Anderson and Reeb, 2003; James, 1999; Miller and Miller, 2005; Selekler-Gökşen and Karataş, 2008).

SAMPLE AND METHOD

The Sample

The sample consists of firms that belong to the six leading family business groups and are quoted on the Istanbul Stock Exchange (ISE). In this study, family business group is defined as a collection of firms in which at least 50% of ownership is held by one or two nuclear families; more than 1/3 of the parent company board is composed of family members; the chairman position is held by a family member; and at least one family member from the new generation is actively involved in the business. The six business groups included in the study have at least four firms quoted on the ISE for 2006 and operate in at least five unrelated sectors. These two criteria have been chosen to include the larger and more established business groups in the sample since they are expected to have a greater potential to be leaders in internationalization efforts. Additionally, the groups in the sample are also among the 27 largest family business groups on "The 50 Largest Economic Agents of Turkey" list (Çolpan et al., 2007). Excluding the holding companies, which act as the parents of the business groups, there are 48 affiliated companies in the sample.

Variables and Measures

Dependent Variables. A firm's internationalization performance is the dependent variable of this study. In the literature, there is a lack of consensus over the measurement of internationalization, particularly for large firms (Graves and Thomas, 2006). Sullivan (1994) classifies the measures used in the past studies into three groups as performance, structural and attitudinal measures. In this study, export intensity (e.g., Fernandez and Nieto, 2006; Gallo and Pont, 1996; Graves and Thomas, 2006) and the existence and geographical diversity (e.g., Tallman and Li, 1996; Tihanyi et al., 2000) of outward FDI have been used to evaluate internationalization performance. Export intensity is one of the performance measures of internationalization and is regarded as particularly appropriate for emerging country firms (Toulan, 2002). The existence of a foreign subsidiary and the number of countries with foreign subsidiaries can be categorized as structural measures of internationalization (Vernon, 1971). The former is considered to be important because having a subsidiary abroad may be seen as a differentiating characteristic in emerging countries like Turkey where outward FDI is still modest and many firms do not have subsidiaries in foreign countries (UNCTAD, 2008). Finally, attention also is paid to the geographical diversity of outward FDI because operating in one versus a number of countries may indicate different levels of internationalization performance.

Export intensity is measured by the share of exports in total sales. For the purpose of statistical analysis, firms were categorized in three groups as non-exporters, firms the export intensities of which are below the median, and firms the export intensities of which are above the median (Graves and

Thomas, 2006). *Existence of outward FDI* is a dummy variable and coded as "1" when the firm has either a sales or a production facility abroad, and "0" otherwise. Finally, the geographical diversity of outward FDI is measured by the number of countries in which the firm has a subsidiary (Tallman and Li, 1996; Tihanyi et al., 2000). In the statistical analyses, firms with foreign subsidiaries were categorized into two groups as firms which have subsidiaries in more versus fewer countries than the median number of countries (Graves and Thomas, 2006). Data on export intensity and the existence and geographical diversity of outward FDI belong to 2007 while data on board characteristics pertain to 2006 as a board's impact on performance can be experienced only after a certain period of time (e.g., Bonn et al., 2004).

Independent Variables. Board members' educational attainment, foreign country exposure and age, and the level of family representation on the board are the independent variables of the study.

Educational attainment is assessed by three different variables, namely, percentage of board members with a university degree, percentage of board members with a master's degree and percentage of board members with a doctorate degree. *Foreign country exposure* takes into account the international experience of board members and is assessed by two different measures, foreign education and foreign work experience. The former is measured by the number of board members who have received one of their degrees from an educational institution abroad while the latter is measured by the number of board members who have had at least one year of work experience in foreign countries. Numbers, rather than the percentages, have been chosen because the former are a better measure of the board's resource acquisition capability; the larger the number of board members with foreign exposure, the larger will be the number of international contacts the firm enjoys (Bloodgood et al., 1996). *Age* is operationalized as the average age of the directors on the board. Finally, *family representation* is measured by the percentage of seats held by family members. The concept of family is broad in Turkey (Hofstede, 1994; Paşa et al., 2002). Thus, in this study, family members include the spouse(s), children, grandchildren and siblings of the founder(s); spouses of their children, grandchildren and siblings; nephews and nieces of the founder(s); and spouses of the nephews and nieces (Gökşen and Üsdiken, 2001).

Data Collection and Method

The data were collected from ISE Company Year Books, the annual reports of the holding companies and their affiliates, and various sources on the internet. Direct contact also was established with the companies in the sample when necessary. Because sample size decreases when firms are categorized into sub-groups and as some of the variables are not normally distributed and thus do not meet the requirements for parametric tests (Pallant, 2007), non-parametric tests -Mann-Whitney U and Kruskall Wallis- have been used in the analyses. These tests are the non-parametric versions of the t-test and ANOVA, respectively (Carver and Nash, 2006).

FINDINGS

Table 1 provides information regarding the internationalization performances of the 48 firms in the sample and the characteristics of the directors in these companies.

Table 1
Board Characteristics and Internationalization Performance of the Firms in the Sample

Board Characteristics	**Means**
Educational Attainment (%)	
University	96.00
Master	47.07
Ph.D.	10.23
Foreign Country Exposure	
Foreign education	3.25
Foreign work experience	2.40
Age	54.41
Family Representation (%)	17.61
Internationalization Performance	
Export Intensity (%)	23.09
Firms with a Foreign Subsidiary (%)	45.83
Number of Countries with Subsidiaries*	4.00

* For those firms which have subsidiaries abroad.

Export sales establish, on average, 23% of the total sales of the firms in the sample while 46% of the companies have subsidiaries in a foreign country. Among the firms with subsidiaries abroad, five of them have a subsidiary in only one country while two firms have subsidiaries in 14 different foreign countries. In line with past findings (e.g., Tihanyi et al., 2000), there is a significantly positive correlation between the number of subsidiaries a firm has and the number of countries in which these subsidiaries are located ($p<0.01$). The educational attainment of boards is quite high. In a typical board, 96% of the board members have undergraduate degrees, 47% have master degrees and 10% have doctorate degrees. Approximately 46% of the board members have earned one of their degrees from an educational institution in a foreign country and 35.42% have worked as an expatriate. The mean number of board members with foreign education and foreign work experience is, respectively, 3.25 and 2.40, while the average board size is 7.60. Thus, foreign education seems to be more common than foreign work experience in boards of business group affiliates. The average board age for the 48 firms in the sample is about 55. Finally, family representation is close to 18%. In slightly more than 80% of the companies, all board members are reported to know a foreign language. As such a high level was previously forecasted, knowledge of a foreign language was not included among the independent variables of the study although it has been widely used in the literature (e.g., Graves and Thomas, 2006; Leonidou et al., 1998; Loane et al., 2007).

The firms are categorized into three groups as far as their export intensities are concerned. As can be seen in Table 2, contrary to expectations, educational attainment is almost highest in non-exporters.

The percentages of board members with undergraduate and doctorate degrees are highest in this group of firms. Additionally, they have the youngest boards with the greatest foreign country exposure. Lastly, family representation is also higher in these firms in comparison to those that make exports. However, none of the differences are statistically significant. Thus, although findings on export performance do not support the hypotheses (p>0.10 for all variables), it is also not possible to say that the investigated characteristics influence this measure of internationalization performance in a way opposite to the expectations.

Table 2
Board Characteristics of Firm with Different Levels of Export Intensity

	Means			**p-value**
Board Characteristics	**Non-exporters**	**Low (below median) Export Intensity**	**High (above median) Export Intensity**	
Educational Attainment (%)				
University	97.80	93.64	95.16	0.91
Master	41.80	48.69	42.33	0.59
Ph.D.	16.60	11.71	6.61	0.12
Foreign Country Exposure				
Foreign education	3.75	3.43	3.05	0.33
Foreign work experience	3.20	2.14	2.11	0.37
Age	51.94	55.70	53.98	0.34
Family Representation	25.90	23.51	17.87	0.50

A comparison of board characteristics in firms with and without outward FDI is more supportive of the hypotheses (Table 3). The boards of firms with subsidiaries abroad have a larger percentage of members with undergraduate, master and doctorate degrees, although only the doctorate degree reveals a statistically significant difference (p<0.10). Therefore, hypothesis 1 is partially supported. The findings regarding foreign country exposure show that the boards of firms with subsidiaries abroad have a larger number of directors who have earned at least one of their educational degrees from a foreign country and who have worked abroad. The difference, however, is statistically significant for foreign education (p<0.10), but not for foreign work experience (p>0.10). Thus, hypothesis 2 is supported for one of the possible measures of foreign country exposure. Contrary to the expectations, average age is significantly higher in boards of firms with foreign subsidiaries (p<0.10). The mean age is close to 56 in firms with subsidiaries abroad while it is about 53 in firms without foreign subsidiaries. Thus, findings do not support hypothesis 3. Finally, hypothesis 4 is strongly supported (p<0.01). Family members hold almost 25% of the board seats in firms which have subsidiaries abroad while the same figure is close to 12% for firms without foreign subsidiaries.

Table 3
Board Characteristics of Firm with and without Subsidiaries

	Means		p-value
Board Characteristics	**Firms with Subsidiaries**	**Firms without Subsidiaries**	
Educational Attainment (%)			
University	95.27	96.62	0.57
Master	48.68	45.58	0.42
Ph.D.	13.14	7.68	0.09
Foreign Country Exposure			
Foreign education	3.64	2.92	0.09
Foreign work experience	2.59	2.23	0.48
Age	55.61	53.36	0.096
Family Representation	24.58	11.72	0.003

Finally, firms with low and high levels of geographical diversification were compared (Table 4). Contrary to expectations, directors are less educated and have lower degrees of foreign country exposure in firms with greater diversification. On the other hand, family representation is higher and average age is lower, as was expected. However, none of these findings is statistically significant (p>0.10 for all). Therefore, although there are differences between the boards of firms with and without outward FDI, there is not a statistically significant difference as far as different levels of geographical diversification are concerned.

Table 4
Board Characteristics of Firm with High and Low Levels of Geographical Diversity

	Means		p-value
Board Characteristics	**High (above median) Geographical Diversity**	**Low (below median) Geographical Diversity**	
Educational Attainment (%)			
University	92.00	97.14	0.76
Master	46.12	50.14	0.92
Ph.D.	9.75	15.07	0.40
Foreign Country Exposure			
Foreign education	3.25	3.86	0.40
Foreign work experience	1.62	3.14	0.19
Age	56.18	55.28	0.76
Family Representation	32.06	20.30	0.30

CONCLUSION

This study investigates the impact of board member characteristics on firm's internationalization performance. Although the findings provide some support to the claim that board member characteristics may influence firm performance, they are not consistent as far as the different measures of internationalization are concerned. While all four characteristics of the study seem to differentiate between firms with and without subsidiaries abroad, none of them can be used to distinguish among firm groups with different levels of export intensity and geographical diversity. This inconsistency in findings may have emerged because these three measures evaluate different facets of internationalization performance.

The differences in findings regarding export intensity and the existence of outward FDI may have emerged as exporting and FDI are different stages of internationalization (Andersson and Floren, 2008; Luo et al., 2005). Exporting is traditionally considered to be the first and the least risky mode of entering foreign markets whereas FDI is accepted as the last and most risky. As affiliates of prominent business groups and large firms in the Turkish context, the sample firms may already have acquired sufficient experience in exporting. Additionally, despite the significant improvements in Turkey's exports (TÜİK, 2006), Turkish outward FDI remains modest (UNCTAD, 2008), indicating a lack of experience. Thus, it is possible that decisions regarding exports have become more operational in nature and are delegated to management while establishing subsidiaries abroad continues to be a more strategic decision reserved for the board. In a study of 20 business groups, Gökşen and Üsdiken (2001) show that larger groups have a greater tendency to decentralize operational decisions, although strategic decisions remain centrally made. Thus, the lack of relationship between board characteristics and export intensity may be because boards in business group affiliates tend not to reserve their time and effort for exports. This, however, may not be the case for firms just starting their internationalization efforts and for which exporting is a major strategic decision.

Inconsistency in the findings regarding existence versus the geographical diversification of outward FDI, on the other hand, may be because the factors influencing the decision to have a subsidiary abroad may be different from those that shape the extent of geographical diversification. The geographical diversification of FDI may be influenced by a number of factors such as the level of uncertainty that new markets add (Hitt et al., 2006; Tihanyi et al., 2000), the additional costs of monitoring (Tihanyi et al., 2000) and the perceived fit between the existing markets and possible new markets. Furthermore, the strategic leadership of the board may not be sufficient to cope with the operational difficulties of further diversification in terms of geographical markets.

When the findings regarding the impact of board characteristics on subsidiaries abroad are evaluated with the above-mentioned considerations in mind, they are in line with the expectation of the RBV to a significant extent. Boards with higher levels of educational attainment, foreign exposure and family representation which may have relatively rare and more valuable resources to contribute to the company enhance outward FDI performance. The unexpected negative relationship between age and outward FDI, on the other hand, may be due to two factors. First of all, changes in institutional environments cannot lead to radical changes in business environments in short periods of time (North, 1990). Additionally, although there has been a transition towards a more liberal and open market economy, the state remains a significant actor in Turkey (Gökşen and Üsdiken, 2001), as in other emerging economies (Chang, 2006). Thus, the skills, capabilities, knowledge and particularly social and business networks that were developed prior to the liberalization period may remain significant. Second, older directors may have wider networks and deeper and broader experience. Both of these, in turn, may enable them to fulfill their service and resource acquisition duties better.

This study adds to the growing body of studies which analyzes internationalization performance from the RBV of the firm. It also contributes to both the corporate governance and the international business literatures by investigating a scarcely studied relationship, namely the relationship between board member characteristics and internationalization performance. However, it also has some limitations. First of all, it only focuses on objective managerial characteristics, but does not take into account the subjective characteristics of board members. Characteristics such as commitment to internationalization, risk tolerance, openness to change and flexibility also may be highly significant resources for a company in its internationalization efforts. Second, the study's sample is made up of business group affiliates quoted on the ISE and is thus skewed towards large and more established firms. Third, the sample size is not large and gets smaller when sub-categories are established to compare firms of different levels of internationalization. Finally, some possible measures of internationalization such as amount of foreign sales or assets as a percentage of total sales or assets were not used in the study since it is not possible to obtain such data from publicly available archival sources. Thus, future research may extend the list of board member characteristics investigated, study firms of different sizes and refine the measure of internationalization.

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