European Journal of Family Business (2018) 8(1), 5-15

INSTITUTO DE LA EMPRESA FAMILIAR

EUROPEAN JOURNAL OF FAMILY BUSINESS

http://www.revistas.uma.es/index.php/ejfb

Family involvement in governance of family business groups

Özlem Yildirim-Öktem [a,*]

[a] *Bogazici University. Department of International Trade Hisar Campus, 34340 Bebek/Istanbul*

Received 26 January 2017; accepted 29 June 2017
Available online 30 june 2018

JEL CLASSIFICATION
M1

KEYWORDS
Family business groups, emerging economy, governance, family involvement, board of directors

Abstract The paper analyzes the pervasiveness of family board memberships within family business groups (FBGs), which are large and diversified form of family businesses dominant in emerging economies. The data pertain to 2017 and include board information on 640 firms affiliated to the largest 26 FBGs in Turkey. The study cluster analyzes the FBGs according to family involvement in their governance. Derived from different theoretical lenses, it also aims to identify the variables that condition different clusters. Results show that several decades after liberalization, families still control the groups pervasively though with varying degrees. Regarding the extent of family involvement in governance, different clusters are identified as tight control, vertical control, and loose control. Ownership structure emerges as the main antecedent that differentiates FBGs in different clusters.

CÓDIGOS JEL
M1

PALABRAS CLAVE
Grupos de Empresas familiares, economía emergente, Gobierno, Implicación familiar, directiva

Participación familiar en la gobernanza de grupos empresariales familiares

Este trabajo analiza la presencia de los miembros de la junta familiar dentro de los grupos empresariales familiares (FBG, por sus siglas en inglés), que son grandes y diversificadas formas de negocios familiares dominantes en las economías emergentes. Los datos pertenecen al año 2017 e incluyen información sobre 640 empresas afiliadas a los 24 Grupos de Empresas Familiares más importantes de Turquía. El análisis cluster realizado estudia los grupos de empresas familiares según la implicación de la familia en su gobierno. En relación a diferentes puntos de vista teóricos, también tiene como objetivo identificar las variables que condicionan los diferentes grupos. Los resultados muestran que varias décadas después de la liberalización, las familias todavía controlan los grupos de forma generalizada, aunque con diversos grados. Con respecto al grado de participación de la familia en el gobierno, se identifican diferentes grupos: control estricto, control vertical y control flexible. La estructura de propiedad emerge como el antecedente principal que diferencia los FBG en diferentes los diferentes clusters.

[*] *Corresponding author*
Associate Prof. Özlem Yildirim-Öktem. Bogazici University - Department of International Trade Hisar Campus, 34340 Bebek/Istanbul - Tel: 0090-212-359 45 05 - Fax: 0090-212-287 24 80
E-mail: ozlem.yildirim1@boun.edu.tr

Introduction

Family businesses are important economic actors in both developed and developing countries (Schulze & Gedajlovic, 2010). Family business literature has traditionally focused on developed country family firms which are mostly stand-alone companies. However, family businesses are important also in emerging countries. Family business groups (FBGs), a particular form of family business, are dominant organizational forms in many emerging economies (Khanna & Rivkin, 2001). Korean chaebols, Indian business houses, Latin American grupos economicos, Taiwanese guanxi, and Turkish holding companies are archetypal examples of this form (Guillen, 2000).

A business group is defined as "collections of legally independent firms, operating in multiple (often unrelated) industries, which are bound together by persistent formal (e.g. equity) and informal (e.g. family) ties' (Khanna & Yafeh, 2007, p. 331). It differs from an American conglomerate whose subsidiaries act as autonomous units and lack inter-firm ties. In a business group structure, inter-firm ties is more stable than those in conglomerates (Davis, Diekman, & Tinsley, 1994) and affiliate firms operate in a substantial degree of interdependence due to a social structure such as a family (Granovetter, 1995). A prevalent variant of business groups are FBGs, which are characterized by large size, unrelated diversification, and family control in their ownership and governance (Fracchia, Mesquita, & Quiroga, 2010). There have been significant changes in economic and institutional environments of emerging countries due to financial crises, deregulation, and market-oriented policies in the last decades (Chung & Mahmood; Fracchia et al., 2010; Waillerdsak & Suehiro, 2010). However, FBGs as an organizational form have been resilient and they continue to be important for their countries' economies. For example, leading multinational firms of Korea such as Samsung, LG or Hyundai are FBGs. In most Latin American economies, majority of the large listed firms are affiliated to an FBG (Lefort, 2010). In India FBGs are dominant in corporate-sector activity while in Taiwan a significant percentage of the total labor force is employed by FBGs (Chung & Mahmood, 2010; Sarkar, 2010).

Research on business groups for the most part have been comparative in nature, focusing on performance outcomes of group affiliates vis-a-vis stand-alone companies most of which are small and medium-sized family businesses in the same context (e.g. Garg & Delios, 2007; Kim, Kim, & Hoskisson, 2010). However, family dimension has largely been missing in research on FBGs (Selekler-Göksen & Yildirim-Öktem, 2017). Studies on corporate governance of business groups have mostly been confined to the changes in their governance structures as a response to institutional changes in their environments (e.g. Selekler-Göksen & Yildirim-Öktem, 2009; Tsui-Auch & Lee, 2003). While there seems to be a consensus on the resilience of family rule in FBGs, there is scant research on different configurations of owner-family involvement in governance of such a large and diversified organizational form. This study aims to fill this gap by clustering FBGs with respect to family's presence in governance at business group and affiliate-firm levels. It also aims to identify the antecedents that condition different types of family involvement among FBGs in the same context.

The paper is structured as follows: The next section discusses the theoretical background and reviews the literature on family involvement in governance structure of FBGs. The third section provides information on the research context, followed by the description of research methodolody. The penultimate section presents the findings and the final section concludes.

Literature Review and Theoretical Background

FBGs are larger and more diversified (through legally separate firms) than stand-alone family firms that are typically small and medium sized enterprises (SMEs). They could grow rapidly thanks to state support, protection from international competition, and the opportunity to benefit from the groups' pooled financial and human resources. FBGs of many economies such as South Korean chaebol, Indian business houses or Latin American grupos have a hierarchical structure with a "mother company" or a "holding company" at the apex of the group. The holding company has a board of directors and an administrative center that serves as the headquarters of the group. It crafts group-level strategies such as overseas expansion or large-scale investments, and it also monitors and coordinates activities of the member firms (Chang & Shin, 2006; Fracchia et al., 2010; Kim, 2010). Headed by a CEO, the administrative center has sectoral and staff departments (such as finance, HR, and legal affairs) that serve the whole group. Member firms of the FBGs are legally separate entities and have their own boards and managers, but they are subject to the financial and strategic control of the group (Colpan, 2010; Lefort, 2010; Yildirim-Öktem, 2010). These affiliated firms may be wholly-owned by the family or the holding company, be publicly listed or may form joint ventures with other (foreign or domestic) companies (Yildirim-Öktem & Üsdiken, 2010).

Governance of FBGs is characterized by family dominance in their ownership and management (Sarkar, 2010). Owner-families maintain control over the group through centralized governance, and social integration based on family ties (Granovetter, 1995). Despite the large and diversified characteristic of the group form, families maintain control by keeping key managerial positions in the holding company, having multiple directorates in affiliate-firms, grooming sons and daughters to succeed the founding patriarchs, and through cross-shareholdings among group affiliates (Kim, 2010; Wailerdsak & Suehiro, 2010). Additionally, FBGs are characterized by pyramidal ownership structures that enable families to control firms in which they have minority stakes through their majority ownership in the holding companies and investment companies that are ultimate owners of group affiliates (Chung & Mahmood, 2010; Lefort, 2010; Sarkar, 2010).

In South Korean *chaebol*, families have complete control over the group (Kim, 2010). Decision-making is not based on consensus. The patriarch or the family leader has the greatest power. Together with his heirs, the patriarch rules the group in an autocratic way (Biggart, 1990). Interlocking directorates within the group is not common. Instead, family members hold multiple directorships in flagship companies while they use non-family managers for other member companies that are not of strategic importance to the group (Orru, Biggart, & Hamilton, 1991). In Indian FBGs, family members are involved in decision-making bodies of the group headquarters and the boards of affiliates, in which they have ownership control through direct and indirect equity stakes (Sarkar, 2010). In Taiwanese FBGs, unlike the ones in Korea and India, an administrative center is not involved in the planning and monitoring of the group (Chung & Mahmood, 2010). It is the family leader and a small number of selected managers (so called the “inner circle”) that have the greatest decision-making power (Thompson, 1967). Most of the inner circle managers are family members or former friends and colleagues that have built mutual trust with the family leader (Luo & Chung, 2005). Also in Latin American grupos, families are actively involved in the governance of the group. In Argentinian and Mexican FBGs, for example, several generations govern the FBG by possessing majority of the seats on the board of the business group, and through multiple directorships within the group (Fracchia et al., 2010; Hoshino, 2010).

Despite the preference of the family to have a tight control over the group, there are limits to family’s involvement in governance of FBGs. Both internal exigencies and external pressures may account for the need to involve non-family executives in the family business. Internal pressures may emerge from organization’s size, extent of diversification, and family complexity. External pressures, on the other hand, may include changes in the institutional environment towards a more liberal and international market economy accompanied by institutional reforms to improve corporate governance of firms.

From a contingency perspective, internal complexity and environmental complexity necessitate more professionalized governance because of the need for wider range of capabilities to deal with these complexities (Fiegener, Brown, Dreux, & Dennis, 2000; Gedajlovic, Lubatkin, & Schulze, 2004). Internal complexity is associated with firm size as managing a larger volume is likely to exceed information-processing capacity of the family and cause delays in decision-making (Fiegener et al., 2000). Environmental complexity, on the other hand, may be linked with firm’s diversification strategy as management of unrelated businesses may lead to monitoring problem, require a wider knowledge base, and a more complex decision-making especially in areas such as resource allocation (Vieregger, Larson, & Anderson, 2017). Given the natural limits to family size, capacity, and expertise, both size of the group and the ranges of businesses in which the group operates are likely to restrain the involvement of the family in the business and call for professionalization (Finkelstein & Hambrick, 1996). Infact, families cannot exercise tight control once the group gets large and diversified (e.g. Wailerdsak & Suehiro, 2010).

Family complexity, which is linked with family size and generational issues (Voordeckers, Gils, & den Heuvel, 2007) as well as involvement of multiple families in the case of FBGs may also affect the involvement of family members in the governance of the group. When number of family members and the stakes are high, the family may need the involvement of outsiders to resolve the conflicts (Voordeckers et al., 2007). In the case of FBGs, even when multiple generations and multiple families are involved, ownership usually continues to be concentrated in the hands of the elder family members. Thus, the family is unlikely to leave away the key managerial positions in the group. Additionally, with the involvement of multiple families and/or different branches of the extended family in the business, power issues are likely to emerge. This may lead to an increase in the representation of family members in the governance of the group in order to have a power balance among the owner-families and/or different branches of the family.

From an institutional theory perspective, the way corporations are governed is likely to be influenced by their legal and social contexts (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Thus, board composition may not be a response to internal and external complexities, but to regulatory and normative influences. Organizations try to obtain legitimacy by conforming to external formal or informal expectations (Lynall, Golden, & Hillman, 2003). However, conformity to institutional prescriptions is likely to remain more in appearance than in substance (Meyer & Rowan, 1977; Young et al., 2008). Late-industrializing countries have been undergoing policy and institutional changes for liberalizing and internationalizing their economies. Particularly after the 1997 financial crises, East Asian governments became aware of the importance of internationalization for fueling economic growth. They lifted restrictions for entry of foreign capital in their countries (Chung & Mahmood, 2010; Waillerdsak & Suehiro, 2010). With the increase in public and foreign ownership, FBGs had to respond to the demands of these new actors by being more transparent and accountable. This was supported by supranational organizations such as the OECD, IMF and World Bank that encouraged national governments to adopt codes of best practice and establish necessary institutions to monitor compliance at the firm level (Chang, 2006). Common recommendations of the governance reports had a particular emhasis on board structures, promoting an increase in independent directors to protect the rights of minority shareholders. However, corporate governance mechanisms in Anglo-Saxon countries had little institutional support in emerging countries where formal institutions such as laws and regulations regarding information disclosure and securities trading are absent or weak (Peng, 2004). In emerging economies, informal mechanisms such as concentrated ownership, family control and familial connections emerge as a substitute for the missing formal institutions (Estrin & Prevezer, 2011; Young, 2008). Pressures for the adoption of Anglo-Saxon governance practices was perceived as a threat by owner-families who are used to exert a tight control over the group. As the codes of best practice were not internalized by the owner-families who gained power in the existing governance structure, their implementation remained at the surface (Tsui-Auch, 2003). The families strategically responded to such pressures; by adhering to the codes in more regulated sectors and decreasing the ratio of family members in the boards of the affiliates which are quoted on the stock exchange (Selekler-Gökşen & Yildirim-Öktem, 2009; Yildirim-Öktem & Üsdiken,2010). This decrease in the ratio of family members, however, was not offset by outsiers, but by the trusted current/retired managers in the closest circle of the family (Üsdiken, Yildirim-Öktem, & Senol, 2015).

These trusted non-family executives are mostly the ones with high group-specific experience and expertise (Üsdiken et al., 2015). The expertise of elder generation family members are mostly limited to the historically core sectors around which the group has grown and the social capital of the family is mostly locally embedded. Therefore, in new sectors of the group and in international markets, the family is in a way forced to share control with non-family executives who can fill this gap and also help to transfer this knowhow to new generation family members. Thus, among different dimensions of power (Finkelstein, 1992), expertise power is potentially a challenging ground for family members and a relatively more contested terrain than ownership and structural power (Yildirim-Öktem, 2010). Ownership power remains with the family as public share in holding companies or their affiliates has been very limited (Fracchia et al., 2010; Yildirim-Öktem&Üsdiken, 2010). This is partly due to the underdeveloped stock markets in emerging economies and the ability of the business groups to easily finance their affiliates through their internal capital markets as well as to the families' tendency not to share the ownership control with unfamiliar actors. When they need funding from outside, they may control the public-listing companies through the pyramidal ownership structure. Structural power, on the other hand, is the hierarchical power (Hambrick, 1981) and can be captured by one's formal positions or titles within the organization (Finkelstein, 1992). In FBGs, the family typically has more structural power than non-kin executives because it occupies key positions within the group; board membership in the holding company and multiple directorships in the boards of affiliate firms (Lefort, 2010; Yildirim-Öktem, 2010).

Based on the discussions on institutional theory, FBGs in different clusters with respect to family involvement may be expected to differ in terms of their public ownership and ratio of publicly quoted affiliates. This is because companies with public ownership are more visible and have been under more pressure to conform to the principles of good corporate governance. However, potentially challenged by other dimensions of power such as expertise and prestige power, the family would not be willing to share its ownership and structural power and thus would pervasively keep key positions within the group.

The paper clusters FBGs in the same context with respect to the extent of family's involvement in the holding company board, affiliate boards, and the family leader's presence in affiliate boards. In line with the theoretical background and the literature reviewed above, family members are expected to have board memberships on the holding company and multiple directorships on affiliate firm boards to a large degree. However, the way families are involved in the governance of FBGs may differ according to FBG characteristics such as size and diversification, ownership characteristics, and family characteristics such as generation in power, number of owning families and family members involved in the business.

Research Context

Turkish FBGs provided the setting of this study. In the business group literature, Turkish FBGs ("family holdings") are considered as an archetypal example of large and diversified FBGs (Guillen, 2000; Khanna & Yafeh, 2007). Turkish FBGs have a hierarchical structure with a holding company, which does not only hold shares in affiliate firms but also serves as the administrative center of the group (Bugra, 1994). FBGs are the dominant organizational forms in Turkish economy. The majority of listed companies in Turkey are in the form of family-controlled company groups (OECD, 2017) and FBG affiliates account for half of the top 100 corporate firms (ISO, 2016).

Turkey opened up its economy through a process of liberalization starting from the early 1980s following a long period of state-dependent, import substitution industrialization (Önis, 2011; Young et al., 2008). Transition of the country to a more liberalized economy has not had a negative impact neither on the population of FBGs nor on the size of the preexisting ones (Bugra, 1994; Colpan, 2010). Both foreign and public ownership in FBG affiliates have remained small in Turkey (Yildirim-Öktem & Üsdiken, 2010). In 2000s, the transition has been accompanied by national and international pressures to improve corporate governance, though leading to insignificant effects on major governance characteristics of FBGs; family control in management and ownership. Family presence on boards of FBG affiliated firm has not decreased significanty as in the absence of coercive pressure, familiesresponded to corporate governance reforms through avoidance and manipulation strategies (Selekler-Göksen & Yildirim-Öktem, 2009). The family leaders continued to occupy the chair position in the holding company boards (Yildirim-Öktem & Üsdiken, 2010). Despite the relative increase in the number of professional managers and outsiders on the boards of FBG affiliates (Selekler-Göksen & Yildirim-Öktem, 2009), families and their trusted circle continue to keep the key positions and the majority of the board memberships (Üsdiken et al., 2015).

Methodology

Sample and data collection

A multi-stage process was applied to establish the sample. First, a population of Turkish BGs was identified by using two sources; the website of Istanbul Stock Exchange (ISE) and the list of top 500 largest firms published by Istanbul Chamber of Industry (ISO, 2016). Second, BGs with more than 10 affiliates operating in at least 5 industries according to United Nation's 2-digit International Standard Industrial Coding (ISIC, version 3.1) were chosen. There were 28 BGs that met this criterion. Finally, those that were not family-owned-and-contolled were eliminated, leading to the elimination of two BGs. Thus, the final sample is composed of 26 largest Turkish FBGs based on the above criteria.

A summary of sample characteristics are provided in Table 1. FBGs in the sample are the largest ones in the research context. They all meet the sampling criteria of having a minumum of 10 member-firms operating in at least five industries. The table also provides information on the primary industry of each FBG. It is defined as the industry in which the highest percentage of member-firms operates according to 1-digit ISIC. As can be seen from the table, each FBG in the sample is dominantly owned by a family or multiple families. The chair of the holding company board is invariably a family leader that comes from first, second or third generation. In most cases, the board of the holding company is dominated by family members.

Lists of firms affiliated to the 26 FBGs were reached from their annual reports and web sites. In order to include only the first-tier-companies, subsidiaries of the affiliated firms were eliminated. Non-profit firms and those establised abroad were also excluded from the study. A total of 673 main firms affiliated to 26 FBGs were identified. Among them, 33 of them were eliminated as information on their board of directors could not be reached. Finally, 640 affiliated fims were included in the study. For publicly quoted firms, board data were obtained from the database of Istanbul Stock Exchange (ISE). For firms that were not held by the public, websites of Istanbul Chamber of Industry and Turkish Trade Registry Gazette were used.

Table 1: Family characteristics of the FBGs in the sample

FBG	% of family members in the group's board	Family Chairman	Generation in power	number of founding families	% family share in the ownership structure	number of affiliated firms	number of sectors	primary industry
1	75,00%	1	1	1	89,28%	14	10	Financial intermediation
2	55,56%	1	2	1	100,00%	15	10	Manufacturing
3	50,00%	1	2	2	69,28%	18	6	Construction
4	54,55%	1	2	2	100%	25	12	Wholesale and retail trade
5	100,00%	1	3	1	100%	19	8	Transport and storage
6	42,86%	1	2	1	100%	19	10	Manufacturing
7	40,00%	1	1	1	100%	19	10	Manufacturing
8	44,44%	1	2	1	63,73%	58	16	Comunity, social, and personal service activities
9	7,69%	1	2	1	95,21%	132	17	Hotels and restaurants
10	28,57%	1	2	1	100%	20	12	Manufacturing
11	20,00%	1	2	2	87,50%	12	8	Construction
12	33,33%	1	1	1	100,00%	15	8	Real estate
13	42,86%	1	2	1	100,00%	20	6	Electricity, gas and water supply
14	60,00%	1	2	1	100,00%	11	9	Manufacturing
15	40,00%	1	2	1	100,00%	11	10	Manufacturing
16	57,14%	1	2	1	100,00%	16	13	Manufacturing
17	33,33%	1	3	1	81,76%	47	22	Manufacturing
18	70,00%	1	1	1	100%	18	12	Manufacturing
19	55,56%	1	3	1	35,36%	24	18	Manufacturing
20	100,00%	1	2	1	100 %	11	11	Manufacturing
21	36,36%	1	2	3	51,71%	16	12	Construction
22	50,00%	1	2	1	100%	13	10	Manufacturing
23	50,00%	1	2	1	100%	20	9	Manufacturing
24	100,00%	1	1	1	100%	44	19	Electricity, gas and water supply
25	80,00%	1	2	1	100%	12	7	Manufacturing
26	66,67%	1	1	1	100%	11	7	Construction

Variables and measures

Family involvement in the governance of FBGs was assessed by three different variables. The first one was the ratio of family members on the holding company board. It was calculated by dividing the number of seats held by extended family members by the total number of seats at the holding company board. The other two varaibles were at the affiliate-firm level and probed the family dominance at the affiliate-firm boards. Family ratio at the affiliates was measured by the average ratio of extended family members on the boards of affiliates. Family leader ratio, on the other hand, was calculated by the number of affiliate firms in which family leader held a board position divided by total number of affilitiated firms within an FBG. FBGs in the sample were cluster analyzed in order to identify different levels of family involvement in their governance structures. The cluster analysis was based on the three aforementioned variables related to family involvement in boards at both group and affiliate-firm levels. For cluster analysis, K-means procedure was used. As four-cluster solution yielded a cluster with only three FBGs, three-cluster solution was used in conducting a comparative analysis. Three clusters of FBGs with different levels of family involvement were compared along five BG and family characteristics; a) size of the FBG, b) extent of diversification, c) ownership structure, d) percentage of quoted affiliates e) size of the family, f) number of generations. Size of the group and extent of unrelated diversification were used as indicators of internal complexity. Size of the FBG was measured by number of affiliated firms and total number of full-time employees within the group. Extent of diversification was measured as the number of industries in which the FBG operates according to United Nations' UN's 2-digit ISIC. Ownership structure of the holding company was assessed by two measures; family share and public share in the ownership structure. Percentage of quoted affiliates was calculated as the number affiliates that were publicly listed divided by the total number of affiliates. Three variables were used to capture family complexity; family size, generation in power, and number of owning families. Family size involved in the business was measured by number of family members who have at least one board membership in one of the affiliates or in the holding company. Generation in power was measured as the generation of the family member who was the president of the holding company board. Number of owner-families was measured as the number of families that have an at least 10% share in the ownership structure of the group. All the data pertain to 2017. Given the small sample size, the non-parametric Mann Whitney-U and Kruskal-Wallis tests were employed to compare different clusters.

Findings

Table 2 displays the descriptive statistics of the variables in the study. FBGs in the sample display a family-centric governance structure to varying degrees. As can be seen from the table, families sustain their control mostly through their board memberships at the holding company rather than the member firms. This is understandable given the large number of affiliate companies and the diversity of the sectors in which they operate. On average, 57% of the board seats at the holding company are held by the extended family members as opposed to 29% in the affiliate firm boards. At the affiliate firm level, families seem to sustain their control through family leaders' chairmanship on the affiliate firm boards. Family leaders, on average, hold board membership at 43% of the affiliates and in most of them they hold the chairman position.

Table 2: Descriptive statistics (n=26)

Measures	Mean	Standard Deviation	Range
Family involvement in governance			
Family on the affiliate boards	,29	,23	0,00-0,84
Family leader on the affiliate board	,43	,35	,00-1
Famiy on the holding company board	,57	,24	,08-1
Family business group characteristics			
Size			
Number of affiliates	24,62	24,83	11-132
Number of employees	21333,15	22194,46	1003-95456
Number of sectors	11,23	4,12	6-22
Ownership			
Percentage of family share	,91	,17	,35-1
Public ownership	,09	,17	0-.65
Percentage of quoted affiliates	,13	,14	0-,46
Family complexity			
Number of owning families	1,36	,67	1-3
Generation in power	1,88	,59	1-3
Size of the family	4,5	2,45	1-12

FBGs in the sample are by definition large as having a minimum of 10 affiliates was the criteria to be involved in the sample. However, there is quite a variation in the size of the groups both in terms of number of affiliates and number of employees. Average number of affiliates are 24,62 with a maximum of 132 affiliates in one group. Descriptive statistics also show that

Turkish FBGs are very diversified operating in an average of 11.23 sectors according to 2-digit ISIC. Despite their large size, concentration of family ownership in groups is very high with an average of 91%. Percentage of public ownership in the holding company, and percentage of publicly quoted affiliates, on the other hand, are still very low.

Most of the largest groups are owned by one family though there are also groups that are owned by two or three families. In most of the FBGs, group chairman is a second-generation family member. Given that the FBGs were born and grown in a late-industrializing economy, their young age is understandable. On average number of family members involved in the family business is quite low. One reason may be the small family size. Additionally, in some of the FBGs involvement of family members are limited to male family members due to the conservative culture in the research context. Another reason may be the way involvement is operationalized in this study. Only those family members who had board memberships within the FBG were counted. However, there are also family members, particulary from third generation, that work in the administrative center of the holding company, but do not have a board m membership yet. Due to the incompleteness of data for the admistrative center of the FBGs and managerial positions of the member-firms, they were not included.

Table 3 reveals the results of the cluster analysis. Three clusters are different from each other in terms of the way the group is governed. FBGs in cluster 1 are tightly controlled by the family, particularly the family leader who on average holds a board membership in 79% of the affiliates. In FBGs in cluster 1, family ratio in the affiliate boards is also the highest among the three clusters. On the other hand, in FBGs in cluster 2, percentage of family members in affiliate boards is relatively low and percentage of affiliate firms on which the family leader holds board membership is only 7%. However, in FBGs in this cluster family members occupy on average 78% of the board seats in the holding company. So, in FBGs in cluster 2, although the family does not hold majority of the seats in affiliate boards, it tries to preserve vertical control by dominating the holding company board. Finally in cluster 3, the family has a loose control. Among the three clusters, in cluster 3 percentage of family members on affiliate boards and the holding company board is the lowest.

Table 3: Types of family involvement in governance

Measures	Cluster 1 Tight family control n=11	Cluster 2 Vertical family control n=4	Cluster 3 Loose family control n=11
Family involvement in governance			
% of family members on affiliate boards*	,48	,21	,14
% of the family leader on affiliate boards*	,79	,07	,20
% of family members on the holding company board*	,64	,78	,34
Family business group characteristics			
Number of affiliates	19,27	15,25	33,36
Number of employees	16380,81	27852,50	23914,82
Number of sectors	10,45	11,50	11,91
Percentage of family share*	100%	81%	86%
Public ownership*	0,00%	19%	14%
% of quoted affiliates	16%	16,26%	10%
Number of owning families	1,09	1	1,36
Generation in power	1,82	2	1,90
Size of the family	4,09	7	4

**p<.05; based on Mann-Whitley U and Kruskal-Wallis analysis of variance*

Table 3 also displays test results for Mann-Whitley U and Kruskal-Wallis. Cluster 1 and cluster 3 are significantly different from each other along all three dimensions of family involvement. Cluster 1 and cluster 2 are significantly different in terms of the % of family leader on affiliate boards while Cluster 2 and cluster 3 are significantly different in terms of % of family members on the holding company board.

The table also displays whether FBGs in different clusters are statistically different from each other in terms of BG and family characteristics. Results indicate that FBGs in different clusters are not significantly different from each other in terms of size, level of diversification and family complexity. Ownership structure emerges as the only variable that conditions different levels of family involvement. Cluster 1 (tight control) and Cluster 3 (loose control) are significantly different from each other in terms of ownership structure; family percentage and public percentage in the holding company ownership structure. Results show that extent of family involvement is the highest where the family has significantly higher ownership.

Discussion and Conclusion

Although FBGs are defined by their family-centric character, they have been ignored in the mainstream family business literature. This research was conducted in an emerging economy that is dominated by large and diversified FBGs. The paper analyzes the pervasiveness of the family involvement in governance of such a large and diversified organizational form several decades after the liberalization process started.

Results point out to the persistence of family rule in FBGs, giving support to the institutional theory perspective. In most emerging countries, including the reserach context of this study, pressures to conform to the principles of good corporate governance did not have a legal sanction, but its was in the form of “comply or explain”. This created a room for the owner-families to give a strategic response to such pressures and changed the board structures more in appereance than in substance. In the absence of strong formal institutions to back up codes of best practice, informal institutions such as familial connections and concentrated family ownership seem to substitute for weak formal institutions.

Cluster analysis show that the owner-families are still intensely involved in the governance of the groups though with varying degrees. Governance of FBGs in three clusters can be identified as tight control, vertical control, and loose control. Ownership structure emerges as the main variable that conditions tight family control versus loose family control in the governance of Turkish FBGs.

When the family has full ownership power, it has less tendency to share its structural power with non-kin executives. The family uses its structral power to monitor the member firms by dominating the board of the holding company (vertical control) and/or to coordinate the activities of the member firms by holding multiple board memberships in affiliate firms (horizontal control). The results do not support contingency perspective. When the family is the sole owner of the group, it does not withdraw from the governance regardless of various internal and external contingencies. Internal contingencies such as group size or family complexity do not seem to differentiate FBGs that fall into different clusters in terms of family involvement in boards.

This research contributes to the literature on family businesses by analyzing family involvement in a different form of family business, FBGs. The study has some limitations. First, it was conducted in one country with limited sample size. It may be replicated in different emerging countries and with larger sample sizes. Second, due to unavalability of data, family involvement in this study only includes board memberships within the FBG. Future research may also include or focus on family involvement in administrative center of the holding company as well as in other management positions of the member-firms.

References

Biggart, Nicole W. (1990). Institutionalized patrimonialism in Korean business. In Craig C. (Ed), Comparative Social Research (pp. 113–133). JAI Press Inc.

Bugra, A. (1994). State and Business in Modern Turkey: A Comparative Study. New York: State University of New York Press.

Chang, S. (2006). Introduction: Business groups in East Asia. In S. Chang (Ed.), Business groups in East Asia: Financial crisis, restructuring and new growth (pp. 1–26). New York: Oxford University Press.

Chang, James J. and Hyun-Han Shin (2006), Governance system effectiveness following the crisis: The case of Korean business group headquarters, Corporate Governance: An International Review, 14(2), 85-97.

Chung, C.N. & Mahmood, I.P. (2010). Business Groups in Taiwan. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 180-209). Oxford: Oxford University Press.

Colpan, A.M. (2010). Business Groups in Turkey. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 486-525). Oxford: Oxford University Press.

Davis, G.F., Diekman, K.A., and Tinsley, C.H. (1994). The decline and fall of the conglomerate form in the 1980s: The deinstitutionalization of an organizational form. American Sociological Review, 59(4), 547-570.

Estrin, S., & Prevezer, M. (2011). The role of informal institutions in corporate governance: Brazil, Russia, India, and China compared. Asia Pacific journal of management, 28(1), 41-67.

Fiegener, M. K., Brown, B.M., Dreux, D.R., & Dennis, W. J. (2000). The adoption of outside boards by small private US firms. Entrepreneurship and Regional Development, 12, 291–309.

Finkelstein, S. (1992). "Power in Top Management Teams: Dimensions, Measurement, and Validation," Academy of Management Journals, 35, 505-538.

Finkelstein, S. & Hambrick, D. (1996). Strategic Leadership: Top Executives and Their Effects on Organizations. West Publishing Company, St Paul, MN.

Fracchia, L., Mesquita, L., and Quiroga, J. (2010). Business Groups in Argentina. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 325-352). Oxford: Oxford University Press.

Garg, M., & Delios, A. (2007). Survival of the foreign subsidiaries of TMNCs: The influence of business group affiliation. Journal of International Management, 13(3), 278-295.

Gedajlovic, E., Lubatkin, M. H., &. Schulze, W. S. (2004). Crossing the threshold from founder management to professional management: a governance perspective. Journal of Management Studies, 41, 899–912.

Granovetter, M. (1995). Coase revisited: Business groups in the modern economy. Industrial and Corporate Change, 4(1), 93-130.

Guillen, M. F. (2000). Business groups in emerging economies: A resource-based view. Academy of Management Journal, 43(3), 362-380.

Hambrick, D.C. (1981). Environment, Strategy, and Power within Top Management Teams, Administrative Science Quarterly, 26: 253-276.

Hoshino, T. (2010). Business Groups in Mexico. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 424-457). Oxford: Oxford University Press.

Istanbul Chamber of Industry (2016). Turkey's top 500 industrial enterprises-2016. www.iso.org.tr

Khanna, T., & Rivkin, J. W. (2001). Estimating the performance effects of business groups in emerging markets. Strategic Management Journal, 45-74.

Khanna, T., & Yafeh, Y. (2007). Business groups in emerging markets: Paragons or parasites? Journal of Economic Literature, 45(2), 331-372.

Kim, H. (2010). Business Groups in South Korea. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 157-179). Oxford: Oxford University Press.

Kim, H., Kim, H., Hoskisson, R.E. (2010). Does market-oriented institutional change in an emerging economy make business-group-affiliated multinationals perform better? An institution-based view. Journal of International Business, 41, 1141-1160.

Lefort, F. (2010). Business Groups in Chile. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 387-423). Oxford: Oxford University Press.

Luo, Xiaowei and Chi-Nien Chung (2005). Keeping it all in the family: The role of particularistic relationships in business group performance during institutional transition. Administrative Science Quarterly, 50(3), 404-439.

Lynall, M. D., Golden, B.R., & Hillman, A.J. (2003). Board composition from adolescence to maturity: a multitheoretic view. Academy of Management Review, 28, 416–431.

Meyer, J.W., & Rowan, B. (1977). Institutionalized Organizations: Formal Structure as Myth and CeremonyAuthor. The American Journal of Sociology, 83 (2), 340-363.

OECD (2012), Board Member Nomination and Election, OECD Publishing, http://dx.doi.org/10.1787/9789264179356-en

OECD (2017), OECD Survey of Corporate Governance Frameworks in Asia, OECD Publishing, http://www.oecd.org/daf/ca/

Orrù, M., Biggart, N.W. & Hamilton, G.G. (1991). Organizational Isomorphism in East Asia. In Walter W. Powell & Paul J. DiMaggio (Eds), The New Institutionalism in Organizational Analysis (pp. 361-389). Chicago, IL: The University of Chicago Press.

Öniş, Z. (2011). Power, Interests and Coalitions: The Political Economy of Mass Privatization in Turkey. Third World Quarterly, 32 (4), 707-724.

Peng, M. W. (2004). Outside directors and firm performance during institutional transitions. Strategic Management Journal, 25, 453–71.

Sarkar, J. (2010). Business Groups in India. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 294-323). Oxford: Oxford University Press

Schulze, W. S., & Gedajlovic, E. R. (2010). Whither family business? Journal ofManagement Studies, 47(2), 191-204.

Selekler-Goksen, S., Yildirim-Öktem, Ö. (2017). A literature review on the internationalization of family business groups. EIASM 13th Workshop on Family Firm Management Research. Bilbao, Spain.**Selekler-Gökşen, N. and Yildirim-Öktem, Ö. (2009).** "Countervailing institutional works: Corporate governance in Turkish Family Business Groups", *Journal of Management and Governance*, 13 (3), 193-213.

Thompson, James D. (1967), *Organizations in Action*, New York, NY: McGraw-Hill.

Tsui-Auch, L. S., & Lee, Y. (2003). The state matters: Management models of Singaporean Chinese and Korean business groups. Organization Studies, 24(4), 507–534.

Üsdiken, Ü., Yildirim-Öktem, Ö., Senol, F.N. (2015) "Getting into the inner circle: Professional managers in Turkish family business groups", METU Studies in Development, 42 (3).

Vieregger, C., Larson, E.C., & Anderson, P.C. (2007). Top Management Team Structure and Resource Reallocation Within the Multibusiness Firm, Journal of Management, 43 (8), 2497-2525.

Voordeckers, W., Van Gils A., & Van den Heuven, J. (2017). Board Composition in Small and Medium-Sized Family Firms. Journal of Small Business Management, 45(1), 137–156.

Wailerdsak, N. & Suehiro, A. (2010). Business Groups in Thailand. In A.M. Colpan, T. Hikino, & J.R. Lincoln (Eds), The Oxford Handbook of Business Groups (pp. 237-265). Oxford: Oxford University Press.

Yildirim-Öktem, Ö. (2010). Generational differences in involvement of family members in governance and management of Turkish family business groups and background characteristics of family members, Bogazici Journal, 24 (1-2), 41-66.

Yildirim-Öktem, Ö., & Üsdiken, B. (2010). Contingencies versus external pressure: professionalization in boards of firms affiliated to family business groups in late-industrializing countries. British Journal of Management, 21(1), 115-130

Young, M. N., Peng, M. W., Ahlstrom, D., Bruton, G. D. & Jiang, Y. (2008). Corporate governance in emerging economies: a review of the principal-principal perspective. Journal of Management Studies, 45, pp. 196–220.