ERF WORKING PAPER SERIES

SUCCESSION EFFECTS IN RADICALLY DIFFERENT ENVIRONMENTS: A STUDY IN TURKISH BANKING BEFORE AND AFTER LIBERALIZATION

Behlül Üsdiken and Süleyman Özmucur

Working Paper 0210

The ERF Working Paper Series disseminates the findings of research working progress to promote the exchange of ideas and encourage discussion and comment among researchers for timely revision by the authors.

The Working Papers are intended to make preliminary research results available with the least possible delay. They have therefore not been made subject to formal review and ERF accepts no responsibility for errors.

The views expressed in the Working Papers are those of the author(s). Unless otherwise stated, copyright is held by the author(s). Requests for permission to quote their contents should be addressed directly to author(s).

As of August 1998, financial support towards the ERF Working Papers Series from the Commission of the European Communities (through the FEMISE Program) is gratefully acknowledged. The views expressed in the Working Papers are those of the authors and do not necessarily reflect the views of the European Commission.

ECONOMIC RESEARCH FORUM
FOR THE ARAB COUNTRIES, IRAN & TURKEY
منتدى البحوث الاقتصادية

7 Boulos Hanna St. Dokki, Cairo, Egypt
Tel: (202) 3370810 – (202) 7485553 – (202) 7602882
Fax: (202) 7616042. Email: erf@idsc.net.eg. Website: http://www.erf.org.eg

Abstract

This study examines the consequences of managerial succession in the banking sector of a highly interventionist and autarchic economy that has then attempted to move towards liberalization and internationalization. Results, as hypothesized, show that immediate outcomes of succession were more negative in the extremely turbulent conditions of politico-economic transition than in the controlled and stable environment. Likewise, relative to the immediate aftermath of succession managerial longevity was associated with less positive outcomes in the former conditions than in the latter.

1. Introduction

The multitude of ways by which environments affect organizational characteristics, actions, and outcomes has been widely documented in organization theory and strategic management literatures. Interestingly however, little research attention has been devoted to assessing the interaction between top management succession and the external context of organizations. Moreover, the rare examples examining environmental moderating effects on post-succession outcomes have produced conflicting results (cf. Tushman & Rosenkopf, 1996; Virany, Tushman & Romanelli, 1992).

The present study aims to contribute to and extend this line of inquiry in two ways. First, it examines the consequences of executive succession in a setting undergoing macro-institutional and market changes concurrently. The study is thus linked with the recent interest in organizational transformation within countries experiencing radical politico-economic change as in Central and Eastern Europe (eg. Clark & Soulsby, 1995; Whitley & Czaban, 1998; Allmendinger & Hackman, 1996). As Newman (2000), among others, has acknowledged, environmental turbulence in such contexts is far beyond those undergoing regulatory, technological or market changes within broadly stable institutional frameworks. Secondly, the study considers the effects of environmental contexts in moderating succession outcomes both in the immediate and the relatively longer term. Although several authors have referred to (eg. Day & Lord, 1988; Hambrick & Fukutomi, 1991) and observed (eg. Betty & Zajac, 1987; Haveman, 1993) time effects, no study to date has empirically examined the shorter and longer-term impact of succession under different environmental conditions.

The banking sector in Turkey provided the setting for the study. Following 1980, Turkish banking has been profoundly affected by and has stood to serve as a vehicle for societal-level transformation towards liberalization and internationalization. The kind of extraordinary changes that Turkey went through after the year 1980 come very close to what Newman (2000: 603) calls "institutional upheaval". Altogether the 1980 events and their aftermath have been identified as a transition in Turkey from "post-traditionalism" to "liberal modernism" (Sunar, 1996). For banks, the tightly regulated setting of the pre-1980 period with governmental and bureaucratic controls over credit and foreign exchange markets and strong entry and exit barriers, gave way to decentralization in both markets and an influx of new, especially foreign, entrants (Nas & Odekon, 1988; Öncü & Gökçe, 1991; Öniş, 1992). Overall, the liberalization and internationalization strategy and the political and administrative vagaries in implementation jointly contributed to create an environment where not only the "rules of the game" but also the competitive dynamics were dramatically different (İnselbağ & Gültekin, 1988). These revolutionary changes provide an interesting opportunity to examine and compare the consequences of top management change in radically different environments.

2. Theoretical Background and Hypotheses

In their extensive review of the literature, Kesner and Sebora (1994: 363) reach the conclusion that "succession is potentially disruptive to the internal functioning of organizations", a view supported by more recent ca120se-based research (Ashcraft, 1999; Pitcher, Chreim & Kisfalvi, 2000). Succession is almost invariably followed by change (Kesner & Sebora, 1994: 357; Miller, 1993). The nature and the extent of organizational changes may vary with the characteristics of the successor and the conditions surrounding the event but in one form or another change accompanies alterations at the top level. Moreover, the successor is a newcomer, to the task or to the organization or to both. Not only does the event involve a different person with the "givens" s/he brings to the situation (Hambrick & Mason, 1984: 195) but who is also new to the demands of and the relationships surrounding the job. This is also the time when the incoming chief executive has the least task-specific knowledge in his or her tenure and may lack the necessary legitimacy and power to implement ideas and plans (Hambrick & Fukutomi, 1991). Kesner and Sebora (1994) have also argued, however, that the contribution of the newer "contingency" approaches has been to uncover some of the external and internal factors that may serve to ameliorate or recuperate the disarranging effects of succession (Kesner & Sebora, 1994: 365).

A prominent theme in studies that have considered the moderating effects of the environmental context in which succession takes place has been that change in top leadership is more likely to be associated with positive outcomes in changeful external conditions (eg. Miller, 1993; Virany et al., 1992). This idea is very much in line with arguments in the managerial discretion and organizational change and learning literatures. In dynamic conditions managers have more latitude (Hambrick & Finkelstein, 1987) and greater opportunities following succession for "second-order" learning that could in turn enable "frame-breaking" changes (Tushman & Romanelli, 1985; Lant & Mezias, 1992). In partial support of these claims, Virany et al. (1992) have obtained findings which show that chief executive or substantial top team change was positively associated with performance in the technologically and competitively dynamic environment of American minicomputer firms in the 1970s.

Recent research interest in "planned economies in transition" (Peng and Heath, 1996) has begun to call into question the premise in these approaches that there is a linear relationship between environmental dynamism and transformative capacities of organizations (Newton, 2000). There is now the recognition that the literature on organizational change has been typically concerned with technological, competitive, and regulatory changes in market societies where

institutional frameworks governing economic activity have for long been in place and continue to remain so (Clark & Soulsby, 1995). The empirical span of such conceptions, therefore, may fall short of encompassing extreme levels of turbulence generated by wholesale and radical societal change. The scale of contextual change and the ensuing ambiguity and turmoil may serve to constrain radical organizational change often associated with environmental dynamism. Transformation becomes difficult because opportunities for second-order learning are impaired in such contexts (Newman, 2000).

Extending these latter ideas to the role of new leadership lead to a reconsideration of the view that executive change is likely to be most beneficial in changeful environmental conditions (cf. Virany et al., 1992; Miller, 1993). Newman (2000) has suggested that beyond a certain level of turbulence a downward turn may be at play in transformative capacities of organizations, repressing also the contribution that new leadership can make. That managers become incapacitated in extreme conditions generated by societal change has been attributed to irrelevance of past experience and the inability to learn and chart a new direction (Newman, 2000). As Beckert (1999: 782) has also observed, for "strategic agency", defined as "… the systematic attempt to reach conceived ends through planned and purposeful application of means" to exist, a precondition is some degree of institutional order. Although there is a large degree of discretion due to freedom from external controls (Hambrick & Finkelstein, 1987), managerial action is severed from performance outcomes, as there is almost no basis for analysis and calculation (Hambrick & Abrahamson, 1995).

Indeed it may be that executive change is harmful rather than inconsequential in extremely turbulent conditions. In a unique study examining East German symphony orchestras, Allmendinger & Hackman (1996) found that leadership change under a radical shift in the external environment which opened up possibilities for further operational autonomy and made resource availability contingent upon organizational action resulted in negative outcomes. Their findings showed that in the highly turbulent immediate aftermath of German unification, compared to orchestras that continued with the same leadership those that changed directors fared less well in almost all outcome variables that were measured. Moreover, the contradictory findings that Virany et al (1992) and Tushman and Rosenkopf (1996) obtained also appear to suggest that it is the nature and the degree of change that conditions the extent to which succession may serve as an adaptive response to turbulence in the environment. Virany et al (1992) found positive effects for chief executive succession but in a setting characterized by almost continuous technological change and market volatility. Tushman and Rosenkopf (1996), on the other hand, compared performance outcomes of executive succession between periods characterized by some kind of an environmental jolt as opposed to those when stable conditions prevailed. Periods identified as turbulent did not only involve abrupt technological change but also regulatory alterations and World War II years. Together these two studies also seem to suggest that in moderately turbulent environmental conditions chief executive change could lead to positive organizational outcomes whereas in contexts experiencing more abrupt changes and institutional alterations the relationship can be negative.

Compared to relatively tranquil settings, disruption in the immediate aftermath of succession should be greater for organizations operating within a context undergoing abrupt and radical institutional change. This expectation can be justified on at least three grounds. First, radical institutional alterations and the new market conditions that follow are likely to foster the belief that extant managerial capabilities are no longer appropriate and indeed dysfunctional (Allmendinger & Hackman, 1996). This will in turn lead to importing or promoting to top positions, managers with different demographic properties and experiences (Üsdiken, 1992). Education or experience in foreign countries is likely to be valued as a way of injecting ideas and practices from settings similar to the emerging institutional environment and operating conditions (Öncü & Gökçe, 1991; Newman, 2000). Managers with such backgrounds will be more inclined to import and introduce practices without assessing appropriateness to emergent local contexts due to lack of time or the sensitivity to do so. Secondly, these tendencies are likely to be amplified as incoming top managers are charged with a strong change mandate (Hambrick & Fukutomi, 1991). Coupled with the greater discretion that economic, political and legal restructuring allows the pressure to change will hasten new initiatives and experimentation on a wide range of fronts. Finally, as Czaban and Whitley (2000) have observed, given the fast pace and the political nature of macro-level changes, in such contexts firm behaviour is more geared towards shorter term considerations than longer-term strategy development. When no broad strategic direction exists such actions are likely to be incoherent and add to internal confusion (Newman, 2000). Altogether these tendencies and the changes, revisions, and reversals that they bring are likely to increase the disarranging consequences of succession, especially in its immediate aftermath. Thus the following hypothesis is proposed for this study:

Hypothesis 1: In the short term, top manager succession in the liberalized context will be more negatively associated with organizational performance than in the state-dominated and regulated context.

Time that elapses after the succession event has been considered as providing opportunities for recovering from disruptive effects of succession. Time enables establishment of new routines and external relations as well as organizational learning (cf. Amburgey, Kelly & Barnett, 1993). The "stages" model (Hambrick & Fukutomi, 1991) also proposes an increase in organizational performance over time in the early part of a chief executive's tenure. In one of the rare studies

directly assessing the moderating role of elapsed time on the impact of succession, Haveman (1993) found empirical evidence to support these theoretical ideas. She showed that succession, especially of the top person, was more deleterious in its immediate aftermath and that its effects diminished and indeed became beneficial as elapsed time increased, though it should be noted that the sample was confined to small organizations. They are very much in line, however, with Amburgey et al.'s (1993) findings on other core organizational changes.

The extent to which time helps to ameliorate the disruptive effects of succession is also likely to depend, however, on external circumstances. The general argument that time is needed for managerial effects to emerge is more likely to hold in more stable contexts (Eitzen & Yetman, 1972), although it will depend on how much room for manoeuvre the environment allows for managerial action. Time dependent managerial effects, and indeed the disruptive potential of succession as well, may be very limited in external contexts that are severely constraining (Allmendinger & Hackman, 1996). In settings that are essentially stable but that do allow some degree of managerial latitude, however, incremental learning over time should contribute positively to recovering from the disruptive effects of succession and to improving organizational performance (Virany et al., 1992; Tushman & Rosenkopf, 1996). When analysis, calculation, and rational control (Brown, 1982) are hampered, on the other hand, by extreme turbulence in external conditions the contribution of time to override succession effects should diminish. The literature on efficacy-performance relationships (Lindsley, Brass & Thomas, 1995) also suggests that the probability of downward spirals increases and correction becomes more difficult when accurate and timely feedback cannot be obtained. Uncertain and complex conditions are also considered as contributing to such processes as cause and effect relationships are not well understood.

Altogether these considerations and the limited evidence that is available suggest the following hypothesis:

Hypothesis 2: Relative to the shorter-term, longer-term performance effects of top manager succession will be less positive in the liberalized context than in the state-dominated and regulated context.

3. Data and Method

3.1 Research Setting and Sample

The banking sector in Turkey became a primary target for the societal-level shift from a state-dominated and autarchic economy towards liberalization and internationalization. As a consequence banking in Turkey moved from an insulated, non-competitive, highly regulated and stable environment to one characterized to a large degree by opposite features, fraught at the same time by crises and erratic conditions as well as new opportunities brought about by the transition. The hypotheses that have guided this study are examined by comparing succession outcomes in these two radically different institutional and market environments.

The empirical part of the study is confined to commercial banks under private and state ownership. The time frame is 1970-1989. The empirical analysis only included banks that survived throughout this entire period. There were 27 such banks, 19 of which were privately owned (one under foreign ownership) and eight were state banks. Of the 27 banks only 18 could be included in this investigation. Three of the state banks were excluded because they also had involvement in sectors other than banking and their financial reporting included these activities. Two of the state banks were merged in 1988, and were thus not included. Finally, four of the privately held banks had ownership changes in late 1970s or early 1980s and did not have access to some of the specific data required for the analyses in this study. Thus, of the 18 banks included in the study 15 were privately owned and three were state banks. Given 18 banks and data for 20 years the empirical analysis is based on 360 bank-year observations.

The principal data source for the study was the yearly publication of the Turkish Union of Banks that contains full financial and some operating information on all banks, as well as some data on board chairmen and general managers. More detailed information on top management changes were obtained from the personnel archives of the banks themselves.

The present study examined the effects of changes in the "general manager" position, the chief executive officer in Turkish banks. Over the entire period, there were 97 events of management succession in this sample of banks. For the 18 banks in the sample, succession events varied between one and nine over the entire time span of the study. Of the 97 general manager changes 48 occurred in the period up to and including the year 1980, whereas 49 took place between the years 1981-1989. In four cases, two managerial changes occurred in a single year. These were treated as single succession events in the empirical analysis.

3.2 Variables and Measures

The independent variables included in the study were top manager succession and top manager tenure. *Managerial succession* was coded as a dummy variable, with the occurrence of a change in the person occupying the general manager position in a particular year recorded as 1. With the exception of a few cases (where data was available on a month basis), information was obtained about the specific date at which the change in the top manager took place. Changes that took place in the last month of a particular year were recorded as a change that occurred on the first day of the following year. Information on the dates that changes took place showed that on average the incoming general managers had slightly more than seven months (7.2) on the job before the end of the year in

which succession took place. Performance outcomes in the year in which succession occurred was used to examine the first hypothesis of the study, namely the immediate effects of top manager change. *Managerial tenure* was calculated in years. In testing the second hypothesis of the study shorter and longer term effects were assessed by a dummy that was coded as 1 for the first and second complete years after the year of succession and zero for all remaining years of the top manager's tenure. Data for this study extended back to the year 1962, so information was available for all managers in the chief executive position in the year 1970, the base year for the data set used in the analysis.

To assess the moderating impact of the different institutional and business *environments* described above the two time periods were coded as a dummy variable, with the post-1980 liberalization period (1981-1989) taking the value of 1.

Performance, the dependent variable in the study, was accounting based and was measured by return on assets. As Zajac (1990) has observed, return on assets has been a widely used measure in the literature for assessing performance in business organizations. Moreover, the fact that capital markets began to evolve in the Turkish context only after mid-1980s precluded the use of market based measures.

3.2.1 Control Variables

In order to delineate the shorter and longer-term effects of succession comparatively in different institutional and business environments the study employed a range of economic, strategy, and organizational variables as controls.

Economic conditions were assessed by two variables, namely, openness of the economy and financial deepening. Of these *openness of the economy* was operationalized by calculating the share of the sum of imports and exports in the gross national product (GNP). *Financial deepening* was measured, on the other hand, by calculating the money supply to GNP ratio.

Based on available archival data, three groups of measures were developed to tap different aspects of bank strategies, namely, fund generation, revenue generation, and funds transfer. *Fund generation strategy* refers to the nature of the portfolio of deposits, containing potentially, savings deposits, commercial deposits, and foreign currency deposits. In the empirical analyses the share of savings deposits in total deposits was used as the indicator of the bank's fund generation strategy. *Revenue generation strategy* relates to the relative contributions of different income sources, categorized for this study as interest revenue, commissions and fees, and earnings from foreign exchange transactions. The share of foreign exchange earnings in total revenues was the indicator employed in analyses. Finally, *fund transfer strategy* refers to the way banks acquire funds to source their loans, distinguishing primarily between relying on deposit collection versus other funding sources. The operational measure employed was total loans divided by total deposits. All these measures were calculated on an annual basis for all banks.

Organizational variables included as controls were size and ownership. *Size* was measured as the total number of employees. The analyses used the logarithm of this measure. *Ownership* was coded as a dummy variable to distinguish between banks under private ownership and state-owned banks. The model tested in the empirical analysis also included lagged return on assets to control for past performance.

3.3 Method of Analysis

The present study was based on a pooled time-series and cross-sectional data covering a 20-year period for the 18 banks in the sample. Three-stage least squares (3SLS) method was used for estimation. 3SLS, a system estimation, is an instrumental variables method, which combines SURE (seemingly unrelated regression equations) with two-stage least squares (Greene, 2000). This particular method was preferred to fixed (least squares with dummy variables) or random effects (variance components) models due to a number of considerations. First, the model in this analysis has dynamic elements as it includes past performance. Including the lagged dependent variable in the model may eliminate the problem of autocorrelation in disturbances. There will however be correlation between explanatory variables and the disturbance term serving as a source of bias in estimators. Secondly, the present model is actually a simultaneous equation model as performance is also likely to affect succession (Dahl, 1994). Therefore, explanatory variables are not truly exogenous. There will be correlation between right-hand side variables and the disturbance term, requiring the use of instrumental variables. Third, there may be economic variables that are not included in the model, but may affect all the banks. All these effects will be captured by the disturbance term leading to correlation between disturbances of different banks. Using SURE deals with this source of inefficiency (Greene, 2000). Finally, the banks in the sample differ considerably in size and therefore on a number of other associated dimensions. It is therefore likely that there will be the problem of heteroscedasticity, a relationship between explanatory variables and the variance of the disturbance term. Using generalized least squares alleviates this problem. The 3SLS method combining SURE and two-stage least squares, thus, takes simultaneity, correlation between disturbances, and heteroscedasticity into consideration, resulting in consistent and efficient estimators.

4. Findings

Table 1 reports the results of the three-stage least squares analysis. Notable, first of all, is the finding showing that the immediate effect of succession on profit performance is negative. Results also support the expectation that the disruptive

effects of succession would erode over time. The tenure dummy included in the analysis specifically compared the profit performance of banks in the first two years of top managers' tenure with that of executives who remained in the top job for three or more years. Shorter-term consequences of managerial change are negative relative to the longer-term.

The two hypotheses examined in the study also receive support. As postulated in Hypothesis 1, the interaction term for succession and liberalization is negative. The implied coefficient also shows that the immediate effects of chief executive change are more negative in the liberalized environment than in the state-dominated and regulated context.

As noted above, in both time periods the earlier part of top managers' tenure (the first two years after succession) is more negatively associated with performance relative to longer time on the job (three or more years in this specific case). The interaction term for tenure and liberalization, on the other hand, is positive, supporting Hypothesis 2. As the implied coefficients also show, compared to the state-dominated and regulated era in the period of institutional turmoil, or transition to liberalization, the first two years after succession are less negative relative to the longer term. Put in different words, in line with what was expected, managerial longevity in the extremely turbulent conditions of the liberalization period leads to relatively less improvement over the shorter term than is the case in the more controlled and stable context.

Of the control variables, two that were related to economic conditions surrounding banking activity are both positively associated with profit performance. These results suggest that despite the turmoil generated by post-1980 events, internationalization and the growth of the financial sector provided conditions conducive to increasing bank profits. Of the strategic orientations investigated in the study, share of saving deposits and a higher credits over deposits ratio were positively associated with profit performance in the pre-1980 period, the latter even more so in the liberalized setting. Fund generation strategies orientated towards collecting personal deposits, on the other hand, became a liability in the post-1980 environment while the opposite was the case for strategies that prioritized foreign exchange transactions in revenue generation. As opposed to the state-dominated and controlled environment of the pre-1980s, in the liberalized context banks that were more internationally orientated did better. Somewhat unexpectedly size was negatively associated with profit performance. Banks under private ownership, as expected, were more profitable than state-owned banks, possibly, as the latter also had to fulfil political and administrative missions shaped by governmental authorities.

5. Discussion and Conclusions

Altogether the findings of this study provide an addition to the broad theme that the effects of managerial succession may be contingent upon external contexts. They also suggest, however, that the moderating effects of the external environment may be more complex than previously believed. A prevailing argument in some of the prior literature has been that in dynamic environments learning and change opportunities activated by top leadership succession coupled with greater managerial discretion is likely to lead to positive performance outcomes. The results obtained in this study, together with findings in some of the earlier work (eg. Virany et al., 1992; Tushman & Rosenkopf, 1996; Allmendinger and Hackman, 1996), suggest however, that the degree to which positive outcomes may be obtained is dependent upon the extent of turbulence in the external environment.

By considering, like Newman (2000), macro-level institutional transformation the present study has argued and empirically demonstrated the need to complement views based on environmental discretion and the change potential inherent in succession with the extent to which external conditions allow for managerial analysis and learning. Whether managerial discretion can provide opportunities for positive impact on outcomes will depend on the extent to which organizational interactions with the environment are amenable to learning and to the exercise of calculated control over organizational actions and processes. As Brown (1982) has suggested, these aspects of external effects are likely to be related to the extent of turbulence and uncertainty in the environment. In erratic or extremely turbulent settings, as in the case of institutional upheavals, the linkages between actions and outcomes are little known. Such conditions severely limit the degree of understanding and influence managers may have on the consequences of organizational action. As Virany et al (1992) have argued, turbulent conditions may, through experimentation, provide opportunities for organizational learning and indeed may have "survival value" over a longer-term. This may be true however only in cases of moderate levels of changefulness within established institutional orders. When ground rules are changing however, the disruptions that experimentation may engender and the mistakes that may be involved may serve as important sources of immediate and longer-term negative outcomes.

Within the context examined in this study, the highly regulated and largely stable conditions of the pre-1980 banking environment are likely to have left little room for novel practices conferring at the same time to managers an extensive knowledge base on environmental responses to organizational action. In such contexts the immediate disruptive effects of succession are likely to be of less severe magnitude and ensuing stability in top management can contribute to overcoming shorter-term negative outcomes. With the transition to liberalization, on the other hand, the expanding space for managerial choice is likely to have led to greater changes accompanying succession but in a context where calculated action and learning from or building upon past and present actions was severely constrained. In these erratic conditions the immediate outcomes of succession

have been more negative relative to disruptive effects of top manager change in stable and controlled environments. Likewise, over the longer term, although there was clearly more latitude for managerial action in the highly turbulent conditions of the liberalized setting, the improvements obtained by managerial longevity were less marked than recovery in tranquil but highly constraining settings.

The present study is limited by having considered only changes in the top position. There is sufficient evidence in the literature (eg. Beatty & Zajac, 1987; Haveman, 1993; Lee & Alexander, 1998) to support the consideration that top manager change is a very important event with significant performance ramifications. Still, this analysis has not been able to directly assess Tushman and Rosenkopf 's (1996) claim that in turbulent settings, chief executive succession by itself is not sufficient to generate frame-breaking changes to produce more adaptive responses. Instead this study has developed the proposition that it is the extent of turbulence in the environment that is of more significance in determining the relationship between top management changes and organizational outcomes. Research incorporating data on top team demography with changes of the kind described in this setting will be needed to assess the relative merit of these alternative positions. Clearly, this study is also constrained by having considered one sector in a particular country undergoing institutional transformation. Moreover, the case for a radical shift in the environmental context of the organizations under study was made through a qualitative assessment. This assessment, as well as the macro level quantitative measures used in the study, leaves little room for doubt that the environment of the banking sector in Turkey in the 1980s was radically different from that of the previous decade. More sensitive measurement is required, however, for more conclusive evidence to emerge on the moderating impact of organizational environments on the consequences of managerial succession. In any case, the present study has demonstrated the need for and the use of extending the conception of environmental turbulence to include contexts where institutional orders are in flux and organizations have to confront extreme levels of uncertainty.

References

Allmendinger, J. & Hackman, R. 1996. Organizations in Changing Environments: The Case of East German Symphony Orchestras. *Administrative Science Quarterly*, 41: 337-369.

Amburgey, T., Kelly, D. & Barnett, W. 1993. Resetting the Clock: The Dynamics of Organizational Change and Failure. *Administrative Science Quarterly*, 38: 51-73.

Ashcraft, K. L. 1999. Managing Maternity Leave: A Qualitative Analysis of Temporary Executive Succession. *Administrative Science Quarterly*, 44: 240-280.

Beatty, R. P. & Zajac, E. J. 1987. CEO Change and Firm Performance in Large Corporations: Succession Effects and Manager Shifts. *Strategic Management Journal,* 8: 305-317.

Beckert, J. 1999. Agency, Entrepreneurs, and Institutional Change: The Role of Strategic Choice and Institutionalized Practices in Organizations. *Organization Studies*, 20: 777-779.

Brown, M. C. 1982. Administrative Succession and Organizational Effectiveness. *Administrative Science Quarterly*, 27: 1-16.

Clark, E. & Soulsby, A. 1995. Transforming Former State Enterprises in the Czech Republic. *Organization Studies*, 16: 215-242.

Czaban, L. & Whitley, R. 2000. Incremental Organizational Change in a Transforming Society: Managing Turbulence in Hungary in the 1990s. *Journal of Management Studies*, 371-393.

Dahl, D. 1994. Successor Origin, Initiating Force, and Managerial Tenure in Banking. *Journal of Business Research*, 29: 47-55.

Day, D. V. & R. G. Lord 1988. Executive Leadership and Organizational Performance: Suggestions for a New Theory and Methodology. *Journal of Management*, 14: 453-464.

Eitzen, D. S. & Yetman, N. R. 1972. Managerial Change, Longevity, and Organizational Effectiveness. *Administrative Science Quarterly*, 17: 110-116.

Greene, W. H. 2000. *Econometric Analysis* (4th edition). New York: Macmillan

Hambrick, D. C. & Abrahamson, E. 1995. Assessing Managerial Discretion across Industries: A Multi-method Approach. *Academy of Management Journal*, 38: 1427-1441.

Hambrick D. C. & Finkelstein, S. 1987. Managerial Discretion: A Bridge between Polar Views of Organizational Outcomes. *Research in Organizational Behavior*, 9: 369-406.

Hambrick, D. C. & Fukutomi, G. D. S. 1991. The Seasons of a CEO’s Tenure. *Academy of Management Review*, 16: 719-742.

Hambrick D. C. & Mason, P. A. 1984. Upper Echelons: The Organization as a Reflection of its Top Managers. *Academy of Management Review*, 9: 193-206.

Haveman, H. A. 1993. Ghosts of Managers Past: Managerial Succession and Organizational Mortality. *Academy of Management Journal*, 36: 864-881.

İnselbağ, I. & Gültekin, B. 1988. Financial markets in Turkey. In T. F. Nas & M. Odekon (Eds.), *Liberalization and the Turkish Economy*: 129-140. New York: Greenwood Press.

Kesner, I. F. & Sebora, T. C. 1994. Executive Succession: Past, Present and future. *Journal of Management*, 20: 327-372.

Lee, S.-Y. D. & Alexander, J. A. 1998. Using CEO Succession to Integrate Acquired Organizations: A Contingency Analysis. *British Journal of Management*, 9: 181-198

Lindsley, D. H., Brass, D. J. & Thomas, J. B. 1995. Efficacy-performance Spirals: A Multilevel Perspective. *Academy of Management Review*, 20: 645-678.

Miller, D. 1993. Some Organizational Consequences of CEO Succession. *Academy of Management Journal*, 36: 644-659.

Nas, T. F. & Odekon, M. (Eds.) 1988. *Liberalization and the Turkish Economy.* New York: Greenwood Press.

Newman, K. L. 2000. Organizational Transformation During Institutional Upheaval. *Academy of Management Review*, 25: 602-620.

Öncü, A. & Gökçe, D. 1991, Macro-politics of De-regulation and Micro-politics of Banks. In M. Heper (Ed.) *Strong state and economic interest groups: The post-1980 Turkish experience*: 99- 117. Berlin: Walter de Gruyter.

Öniş, Z. 1992. Redemocratization and Economic Liberalization in Turkey: The Limits of State Autonomy. *Studies in Comparative International Development*, 27(2): 3-23.

Peng, M. W. & Heath, P. S. 1996. The Growth of the Firm in Planned Economies in Transition: Institutions, Organizations, and Strategic Choice. *Academy of Management Review*, 21: 492-528.

Pitcher, P., Chreim, S. & Kisfalvi, V. 2000. CEO Succession Research: Methodological Bridges over Troubled Waters. *Strategic Management Journal*, 21: 625-648.

Sunar, İ. 1996. State, society, and democracy in Turkey. In V. Mastny & R. C. Nation (Eds.), *Turkey Between East and West*: 141-154. Boulder, CO: Westview Press.

Tushman, M. L. & Rosenkopf, L. 1996. Executive Succession, strategic Reorientation and Performance Growth: A Longitudinal Study in the U.S. Cement Industry. *Management Science*, 42: 939-953.

Üsdiken, B. 1992. The Impact of Environmental Change on the Characteristics of top Management Teams. *British Journal of Management*, 3: 207-219

Virany, B., Tushman, M. L. & Romanelli, E. 1992. Executive Succession and Organization Outcomes in Turbulent Environments: An Organization Learning Approach. *Organization Science*, 3: 72-91.

Whitley, R. & Czaban, L. 1998. Institutional Transformation and Enterprise Change in an Emergent Capitalist Economy: The Case of Hungary. *Organization Studies,* 19: 259-280.

Zajac, E. J. 1990. CEO Selection, Succession, Compensation and Firm Performance: A Theoretical Integration and Empirical Analysis. *Strategic Management Journal*, 11: 217-230.

Table 1: Results of Three-stage Least Squares Analysis: Return on Assets (n=360)[a,b]

Variable		Implied Coefficients	
		1970-80	1981-89
Succession (yes = 1)	-0.14	-0.14	
Succession * liberalization (post-1980 = 1)	-0.32		-0.46
Tenure (first two years = 1)	-0.18	-0.18	
Tenure * liberalization	0.08		-0.10
Share of savings deposits	0.25	0.25	
Share of forex earnings	-3.44	-3.44	
Credits / deposits	1.12	1.12	
Share of savings deposits * liberalization	-7.53		-7.29
Share of forex earnings * liberalization	7.75		4.31
Credits / deposits * liberalization	1.07		2.19
Size (log)	-1.80	-1.80	-1.80
Ownership (private = 1)	2.21	2.21	2.21
Openness of the economy	19.33	19.33	19.33
Financial deepening	6.14	6.14	6.14

Notes:[a] The equation also includes for each bank an intercept term and the lagged return on assets (not shown here).

[b] All coefficients are significant at the one per cent level.