

**CORPORATE GOVERNANCE IN SERBIA:
IJV BOARD DIRECTORS' EXPERIENCES**

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Abstract

One of the key issues identified from the examination of the debate regarding board functioning and effectiveness is failure of much of the corporate governance (CG) literature to account for the external context in which the board directors operate and/or an implicit assumption that directors operate within the Anglo-Saxon CG system. Based on a qualitative exploratory case study of thirteen board directors from three Serbian-foreign joint ventures based in Serbia, this paper illustrates the directors' experiences of CG in Serbia. The findings show that the Serbian legal system and political economy represent significant contextual features in determining the nature of board functioning and director behaviour. The directors' common perception is that the way they operate in the Serbian environment cannot be compared to that of the "Western CG models", and that it is difficult to transfer the developed countries' CG experiences to Serbia. Contributions to theory and practice are outlined.

Key words: corporate governance, board directors, role, International joint venture

INTRODUCTION

The examination of the debate regarding board functioning and effectiveness (Forbes and Milliken, 1999; Pye and Pettigrew, 2005; Nicholson and Kiel, 2004; Westphal and Bednar, 2005; Kemp, 2006) reveals a number of issues in the corporate governance (CG) literature that highlight the need to clarify board director role and pay closer attention to the processes needed for directors to perform their role effectively. Apart from its largely prescriptive nature, one of the main issues in the literature is that much of it fails to account for the external context in which the board directors operate and/or implies that directors operate within the unitary board structure within the Anglo-Saxon CG system.

Turnbull (2000), who pioneered the study of CG internationally, argues that, while a number of empirical surveys document the existence and operations of two or more tiered boards in continental Europe, little analytical attention has been given to them. In addition, little is known about the CG systems of transitional economies in general (Dockery and Herbert, 2000). Moreover, CG of international joint ventures (IJVs)¹, especially those in former socialist economies, is a neglected area (Turnbull, 2000).

In an attempt to bridge this gap, this paper presents empirical evidence of the IJV board directors' experiences of CG in Serbia. The findings are based on thirteen case

¹ International joint venture (IJV) has been defined as a separate legal organisational entity representing the partial holdings of two or more parent firms, in which the headquarters of at least one is located outside the country of operation of the joint venture. This entity is subject to the joint control of its parent firms, each of which is economically and legally independent of the other (Shenkar and Zeira, 1987, p.547).

studies conducted in three Serbian-foreign joint ventures based in Serbia as a part of a wider inquiry into IJV director contribution to board effectiveness. Given that Serbia is a continental European country in which the CG system prescribes a multi-tiered board (Serbian Official Gazette, 2004), this research has been an opportunity to shed light on functioning of multi-tiered boards. Also, since Serbia is a country in transition, the choice of board directors of IJVs based in Serbia has been considered to be of value.

The paper is structured as follows. The first part reviews the CG literature, with a particular focus on the impact of the CG system on board functioning and director role. The paper further provides an outline of the methodology used in this research. This is followed by an overview of CG in Serbia and presentation of the research findings. The paper concludes by outlining the research contributions to theoretical and practical knowledge, acknowledging the limitations of the research, and suggesting potential avenues for future research.

LITERATURE REVIEW

Corporate governance is generally defined as a set of mechanisms by which shareholders and other stakeholders of a company exercise control over managers so that the managers make decisions that increase the value of the company to its owners and other stakeholders (Denis and McConnell, 2003; Aguilera, 2005). It is however acknowledged that CG is a multifaceted concept and has different definitions in different context and a particular theoretical approach to CG taken, such as, for example, Agency, Stewardship, or Stakeholder theory (Huse, 2005; Hsieh and Lin, 2005).

CG mechanisms are broadly classified as being either internal or external to the company (Denis and McConnell, 2003). The internal CG mechanisms include a board of directors and the equity ownership structure of the company, whilst primary external mechanisms are the external market for corporate control and the legal system (Denis and McConnell, 2003).

The emphasis on different CG mechanisms differs between different countries. For example, there are two main interpretations of CG – statutory and self-regulation (Turnbull, 2005; Aguilera, 2005). Statutory regulation of CG means that CG behaviour is regulated/enforced by legislation and action can be taken through the courts to penalize non-compliance. The US, Japan and some Continental European countries are examples of such an approach to CG (Hopt and Leyens, 2004; Aguilera, 2005; Turnbull, 2005). On the other hand, the UK CG system is characterised by self-regulation, which provides some general CG principles but leaves it up to individual companies to decide about their CG practice, that is, about what (non-executive) directors should do (Roberts et al., 2005). This, more flexible interpretation of CG in the UK, shaped by “a historical dislike for codification” (Kakabadse and Kakabadse, 2001, p.48), incorporates “a comply or explain principle” with mandatory disclosure when a listed company fails to follow CG standards, leaving the market to decide (Hopt and Leyens, 2004; Turnbull, 2005; Aguilera, 2005).

Additionally, given that CG systems in the UK and US are characterised by diffuse ownership, in this, Anglo-Saxon CG model, the central mechanism assuring good CG is an efficient market. This means, the disciplining action by shareholders relies mainly on the threat posed to managers by the potential takeover (Kuznetsov and Kuznetsova, 2003). On the other hand, because CG systems in Japan and Germany

are characterised by more concentrated shareholdings (John and Senbet, 1998), in the German-Japanese model, CG functions through direct control exercised by several blockholders (shareholders with a controlling block) (Kuznetsov and Kuznetsova, 2003). This means that central CG mechanism in this model is ownership structure, which in turn diminishes the importance of board as internal CG mechanism (Melis, 2000; Davies, 2002; Denis and McConnell, 2003).

Much of the current CG debate concentrates on functioning and effectiveness of board directors as internal CG mechanism set up to protect shareholders' (stakeholders') interests by collectively directing and controlling the company's affairs (Renton, 1999; Sison and Kleiner, 2001; Denis and McConnell, 2003; Farinha, 2003; Bolden et al., 2003; Shen, 2005). As legally the highest authority in the company, this group of people are increasingly believed by the institutional investors to be in a position to exert a significant impact on firm performance (Demb and Neubauer, 1992; Sonnenfeld, 2002; Kiel and Nicholson, 2005; Westphal and Bednar, 2005). Accordingly, numerous studies in the CG field focused on board effectiveness and role of a board director. However, much of the literature assumes that directors operate within the Anglo-Saxon CG system.

On the other hand, certain problems of the Anglo-Saxon CG system do not arise in other CG systems, such as the issue of non-executive directors (NEDs) that is such an important topic in the Anglo-American debate (Lutter, 2001). For example, the role of NEDs in the UK is difficult because of the potential conflict of interest caused by the unitary board structure where NEDs should monitor executive directors, despite the fact that they are part of the board. In contrast, the role of the NEDs in Germany seems "easier" because the German two-tier board structure (consisting of the

Managing board composed of executives, and the Supervisory board composed of NEDs) allows for a clear division between the role of executives and NEDs (Melis, 1998; Bohinc and Bainbridge, 2001; Lutter, 2001; Davies, 2002; Hopt and Leyens, 2004; Aguilera, 2005; Tyson and Bournois, 2005).

In addition, different levels of ownership concentration does not only mean that board composition in terms of the proportion of NEDs differs between different CG systems but so does the relevance of the issues related to NED's control role (Melis, 2000; Lutter, 2001; Bird et al., 2004; Aguilera, 2005). Since the CG systems in the US and UK are characterised by diffuse ownership, they need NEDs to do the monitoring. It is not worthwhile for any individual institution to monitor the company on a continuing basis and is too difficult for the dispersed shareholders to co-ordinate their monitoring activities (Davies, 2002; Aguilera, 2005). On the other hand, in the case of concentrated ownership, as in Germany, Italy and Japan, the monitoring role of the board is considered to be less important, because a blockholder is expected to always have access to the company's top management and be able to monitor their activities (Melis, 2000; Davies, 2002; Denis and McConnell, 2003). Hence, as noted by Davies (2002, p.453), "whether, or how far, such monitoring takes place through the board or outside is a secondary matter from the blockholder's point of view". Blockholders have both the incentive and more power to hold management accountable for actions that do not promote shareholder value than dispersed shareholders (Bohinc and Bainbridge, 2001). In this situation, the agency conflict between managers and shareholders – the primary conflict around which most of the UK and US CG research has revolved - is less meaningful (LaPorta et al., 1998; Aguilera, 2005).

The above consideration confirms Turnbull's (2000) notion that much of the research in the field is of limited relevance because it has been heavily focused on the UK and US and hence implicitly assumes that it is dealing with companies with a unitary board structure without an influential shareholder. The literature review also shows that differences in CG systems can be expected to have an impact on board functioning and director behaviour. Generally, the legal, political and economic framework within which the company operates is seen to influence board roles, structure, composition, and consequently, director behaviour (Turnbull, 2000; Dockery and Herbert, 2000; Langevoort, 2001; Ingley and Van der Walt, 2003; Nicholson and Kiel, 2004; Bird et al., 2004; Pye and Pettigrew, 2005; de Andres et al., 2005; Aguilera, 2005; Turnbull, 2005; Tyson and Bournois, 2005). Hence, although it has been argued (Cascio, 2004) that being an effective director is no different from being a contributing member of a workgroup, it is clear that certain contextual constraints need to be taken into account when considering how the board directors operate.

Still, many studies in the CG field fail to account for the impact of external context on board functioning and director behaviour. Following this issue, and in view of largely prescriptive nature of the literature, the authors have called for the research that would explore variation in board functioning and effectiveness in different countries and organisational contexts (Stiles, 2001; Hermalin and Weisbach, 2003; Denis and McConnell, 2003; Pye and Pettigrew, 2005). As noted by Denis and McConnell (2003, p.12), "for many countries in the world there is only limited empirical evidence regarding issues related to the effectiveness of boards of directors... for some there is no evidence at all. These are useful avenues for further research". Moreover, it is argued that, given the contextual influences on board functioning, rather than searching for "objective" characteristics of effective boards, studying the directors'

perceptions of their roles and their variations across geographic regions and industries could add insights into the study of boards (Johnson et al., 1996). Langevoort (2001, p.831) even argues that, “if we want to understand directors, then, we should start with how they interpret the set of institutional constraints on their activity, including legal constraints.”

METHODOLOGY

The methodology adopted for this research is that of a qualitative exploratory case study. The case (unit of the analysis) is an individual IJV board director. The cases/participants included thirteen board directors (seven local and six foreign partner representatives) from three Serbian-foreign (two Serbian-German and one Serbian-Italian) joint ventures based in Serbia. The directors are members of a multi-tier board consisting of four different IJV governing bodies²: 1) The Assembly (“shareholding body” that “sets” the strategic direction through its ratification of the strategic decisions proposed by the Managing board), 2) Managing board (“strategic management body” that makes strategic decisions and directs the CEO in implementing the strategy), 3) CEO (“executive body”), and 4) Supervisory board (“control body” that controls the legality of the company’s documents and the Managing board’s and CEO’s activities).

² This board structure became void in November 2006. This is following the enforcement of the new Serbian Company Law in November 2004 (Serbian Official Gazette, 2004) which “merged” the governance bodies of Managing board and CEO into one. Hence, in the new CG code adopted in early 2006 (Serbian Official Gazette, 2006), the new board structure is referred to as a “triangle” between shareholders (Assembly), managers (Managing Board or CEO) and monitors (Supervisory board). It is also important to note here that, although there are no specific provisions in the Law that refer to IJVs, depending of the legal form of an IJV, specific provisions for these forms apply. They are incorporated in the IJV contract, as is the case with any other company registered in Serbia.

Data were collected during the period between March 2003 and November 2004. Semi-structured interview has been used as the main data collection method in this research. Given the multiple case study design of this research, an Interview Protocol to be used for data collection in all cases was developed. Its aim has been not only to ensure that different cases experienced a comparable interview situation and that all topics of interest were covered, but also to serve as a flexible guidance in exploring emergent themes (Yin, 1989; Perry et al., 1998; Voss et al., 2002). Data obtained from thirteen semi-structured interviews conducted with the cases were triangulated with other evidence in order to check for consistency and to deal with possible researcher's bias in illuminating the perceptions about IJV director contribution to board effectiveness. For example, spending time and having informal conversations with several IJV employees responsible for the different aspects of the IJV operation (including "non-elite" employees) proved to be very useful for triangulation. Needless to say, the cases/participants themselves also provided information about other cases.

Apart from the interviews, another data collection method/source of evidence used in the study has been informal observation taken to include all information gathered on-site about a particular case. Moreover, secondary research of the literature and an examination of documentation, such as the Serbian Company Law document, press releases about cases/participants, their boards and IJVs, and company documents provided by the informants (e.g., IJV contract, board agenda, organisational chart, company brochures, magazines, slides and papers that the cases prepared for various forums) have been useful in making inferences about events and served in the interest of triangulation to corroborate the evidence from other sources. As noted in the literature (Kiel and Nicholson, 2005), reviewing documents such as board papers and

governance charters provides valuable insight into a CG system and a context in which to view the results of other data collection methods.

In order to analyse the results of the study, the researcher conducted a conceptual/thematic analysis of data, which involved a process of selective reduction of qualitative data to categories that are indicative of the research question (Rowley, 2002). At the start of the data analysis, each case (IJV board director) was treated as a unique, stand-alone entity. From the analysis of an individual case, a number of themes and sub-themes emerged that relate to those aspects that are integral to the research. Following a data analysis strategy suggested by Eisenhardt (1989) and Miles and Huberman (1994), emerging themes and sub-themes from each individual case were then compared across cases and the themes concurrent between cases used to draw conclusions/propositions about IJV director contribution to board effectiveness.

The following section provides a brief overview of CG in Serbia.

CORPORATE GOVERNANCE IN SERBIA: AN OVERVIEW

Corporate governance has been recognised as a crucial part of the transition process of Serbia to a market based economy and has thus been viewed by foreign investors and the Serbian government as a key factor to improve investment climate in the country (Dencic-Mihajlov, 2006). However, Serbia has been facing serious challenges related to CG situation. Privatisation has opened up a number of CG issues the Government has to deal with in order to fully exploit the growth potential of the economy (Uvalic, 2001; Hadzic, 2002; Soskic, 2003; Bolcic, 2003). Partly resulting

from the self-management system's "inheritance" and partly due to previous legal and regulatory flaws, some of the key issues in CG in Serbia identified in the recent years included financial reporting, board responsibilities, and minority shareholders protection (Dencic-Mihajlov, 2006).

CG has been the subject of more intensive activity in Serbia over the past few years, primarily in terms of making significant interventions in the relevant legislation and the introduction of the CG code³. The new Company Law came into force in November 2004 (Serbian Official Gazette, 2004). In comparison to the previous Company Law, this Law is largely harmonised with the relevant EU regulations (Bavarian Ministry of Foreign Affairs, 2005; Dencic-Mihajlov, 2006). In addition, provisions of the CG Code for public companies listed at the Belgrade Stock Exchange, adopted at the beginning of 2006, largely correspond to that of CG codes in the EU countries (Serbian Official Gazette, 2006; Dencic-Mihajlov, 2006).

However, these changes are yet to give satisfactory results in practice due to the poor enforcement of the law, undeveloped judicial practice, and undeveloped capital market (Dencic-Mihajlov, 2006). Generally, it has been argued (Dencic-Mihajlov, 2006) that at the moment, neither internal nor external CG mechanisms in Serbia are effective.

FINDINGS

This section presents the IJV board directors' experiences of CG in Serbia and briefly discusses the findings in relation to the previous literature. Overall, the participants see the Serbian legal system and political economy as significant contextual features in

³ On details about recent developments in CG in Serbia, see Dencic-Mihajlov (2006).

determining the nature of board functioning and director behaviour. In addition, the directors point to the uniqueness of the Serbian CG model, as illustrated below in more detail.

Legal Aspects

Given that the Serbian legislature specifies board structure, roles, and composition in a prescriptive manner (Serbian Official Gazette, 2004), it is perhaps not surprising that directors see their role⁴ as the result of legality, that is, a role is “legalistically” clear:

“I know what is expected from me as a board director - the Managing board role is prescribed by the Law.” CASE 6 [Managing board member / German partner representative in IJV1]

“I am required by the Law and IJV contract to take care of the IJV’s business, legality and success of its operations, as well as to represent it... There is no sense of discussing whether someone will do this or that, because the roles of all of us are subject to the functioning of the legal system and thus achieving what we are supposed to achieve.” CASE 7 [CEO / Serbian partner representative in IJV2]

⁴ Although the roles of the board as a unit and the directors as individuals involve responsibilities and perceptions at two different levels (O’Neal and Thomas, 1995), all the participants identify their own role with the role of the board they are sitting on. In other words, members of the same governance body share the same tasks/responsibilities and that is what the directors perceive as their own, individual role.

“My role is to review the IJV operational results with other board members, look at investments needed and any issues present, and advise on IJV strategy. These are pretty much the main formal or legally prescribed tasks that all of us on the Managing board have.” CASE 13 [Managing board member / German partner representative in IJV3]

“Here, in Serbia, everything is codified. As is the case with accounting standards, there are also standards for those holding CG roles. Simply, there are procedures, there is a corporate code, in other words, things that state clearly who does what in the company. For example, the name ‘Supervisory’ board is associated with the supervision or control role and Serbian Company Law stipulates that the Supervisory board’s role includes several key tasks. All members of this board, including myself, are in charge of selecting an auditor, which is a very delicate and complicated issue given the number of transactions the IJV has. We also need to control the key transactions and monitor the profit transfer... This board also has to control the Managing board’s work as well as the overall impression by the Assembly, that is, what is it that our shareholders want.” CASE 11 [Supervisory Board Chairman / Serbian partner representative in IJV3]

The directors also point out that certain board procedures are prescribed by the Law:

“We [the IJV board members] are trying to behave in accordance with the clear rules that are defined within the Serbian CG system. So, the procedure is that the Managing board members first agree with the proposals made by the CEO and his executive team and then their decision

goes before the members of the Supervisory board. This board then gives, or doesn't give, support to the decisions made by the Managing board. Then we present our decisions before the Assembly, which then accepts them or not." CASE 11 [Supervisory Board Chairman / Serbian partner representative in IJV3]

"According to the Law, there is an obligation that before the end of a financial year, the Managing board proposes and presents before the Assembly a business plan for the next year, including the budget, investments, plans and strategic decisions. So, for example, regarding the decision about the profit, the Managing board members will ask the Supervisory board members whether to distribute the dividends or re-invest the money further. Once they obtain our opinion on this issue, the Managing board will make the final decision about it. Then they will go before the Assembly with the decision. The partners - IJV shareholders - will then have a final say as to whether they are happy with that decision or not. However, the Assembly can be called for a meeting whenever an important strategic decision is in question. So, regardless of what the Supervisory board's opinion and the Managing board's decision on a particular issue is, if a major investment is in question for example, the decision on that issue will need to go before the Assembly." CASE 2 [Supervisory board member / Serbian partner representative in IJV1]

In addition, the directors point to the uniqueness of the Serbian CG system, particularly in terms of its multi-tier board structure. This initially represented an issue for the foreign partner representatives on the IJV board:

“At the beginning, there was an issue that was confusing the German partner representatives. Namely, the final approval of strategic decisions is not within the Supervisory board’s role as in Germany, but within the Managing board’s and Assembly’s role... Our legislation is definitely quite specific – we have a particular multi-tier board structure and also some remains of the social property. CG is, generally, something new here and that’s why we are making some amendments regarding the laws related to CG. So, it is difficult to transfer the developed countries’ CG experiences here.” CASE 1 [Assembly Chairman / Serbian partner representative in IJV1]

“It took the German partner representatives some time to understand our CG system, because in Germany, the Supervisory board is the most important, whereas according to our Law, the Supervisory board only supervises whether the decision is in accordance with the Law.” CASE 3 [CEO / Serbian partner representative in IJV1]

“It took me some time to understand the CG system in this country. This is because it doesn’t really correspond to the one we have in Germany. So, at the beginning of PNM’s operation, I misunderstood, or better to say, underestimated the strategic importance of the Managing board... Now, I am clear about this board’s role.” CASE 5 [Deputy CEO / German partner representative in IJV1]

“I do have to say that initially, I found confusing the terminology used in Serbia for the Managing and Supervisory board. If you are working in many different countries, their different CG systems can be very confusing.”

CASE 6 [Managing board member / German partner representative in IJV1]

Overall, the above findings show that the very structured legal framework/statutory regulation of CG in Serbia provides a framework in which IJV board directors operate. Whilst it could be said that some of features of the German CG model (Davies, 2002) largely apply to that in Serbia, such as the fact that legislation determines a multi-tier board structure, as well as that board roles are codified in the Law (which, essentially, reflects the Civil Law legal system), it is, however, also clear from the above that the Serbian CG model differs from the German model and other CG models conventionally distinguished in the literature - Anglo-Saxon and Japanese (Kakabadse and Kakabadse, 2001). The findings thus also confirm the notion in the literature that board structures in countries in transition differ in that they reflect the diversity of historical and legal heritage as well as choices made during the transition period (John and Senbet, 1998; OECD, 2003; Kuznetsov and Kuznetsova, 2003).

Political Economy

The directors also point to the influence of political economy on CG practice and board director behaviour:

“In other countries, economy usually comes first and then the law and politics. In this country, it is the politics first, then economy and finally the law. Accordingly, I have been ‘recommended’ to be the IJV Managing board

member.” CASE 4 [Managing Board Deputy Chairman / Serbian partner representative in IJV1]

“In this country an individual in a role of high authority such as a board director has considerably higher importance than in the countries where there are some ‘rules of the game’ and where people are more mature and prepared for those rules, that is, more ready to make decisions and be accountable for them. I think the reason for this is that we were living in socialism for a long time, so we are used to avoid responsibility.” CASE 1 [Assembly Chairman / Serbian partner representative in IJV1]

“Our country is on an unclear road, with uncompleted transition process, where there are always some problems present. Interest rates here are high, politics is bad, and the market is small and poor... As an IJV board director in this context, I can tell you that there is something quite specific for the companies based in Serbia: they are either excellent or extremely bad. Given the situation in the country, it depends primarily on the people that govern and manage the company. That’s why we [Supervisory board members] are trying to anticipate possible problems and avoid them through our planning activities.” CASE 11 [Supervisory Board Chairman / Serbian partner representative in IJV3]

“In our circumstances, performing my role is much more different than it would have been in the case of a board director in a Western country... It could have been easier if our environment was ‘healthier’. There is no healthy economy or healthy business spirit here... Generally, I think that

Western CG experiences are difficult to translate and transfer into this environment.” CASE 3 [CEO / Serbian partner representative in IJV1]

One of the directors also points to an increased level of expected governance transparency resulting from the changes in the political economy of Serbia:

“In comparison to the situation in the self-management system we once had, there is a huge progress regarding the expected level of transparency about company operations. For example, in the previous system, the executives were not required to report on the company performance to its employees, nor were the employees interested in that. The only thing they were interested in was, when they’re going to receive a pay rise. Now we care very much for the company performance and the level of transparency we have in that respect, so it is huge progress in comparison the situation in the communist system.... Although I don’t have experience of sitting on the board of a ‘real’ Western company, I am aware of the need to question what the executives do.” CASE 2 [Supervisory board member / Serbian partner representative in IJV1]

The directors also note that the small shareholders are unaware of their rights and insufficiently educated in the CG area, a situation that subsequently impacts on board director behaviour:

“The Serbian partner’s shareholders are an example of how many people are not informed well, that they don’t know that knowledge is very important... Yet, given my role in the Assembly, it is very important to me

that our small shareholders possess knowledge and know how to use and protect their rights given by the Law. That's why I am constantly trying to educate our small shareholders. I write some papers in which I try to explain to shareholders what they need to read. You first need to learn what your rights are to be able to use them, don't you! I also I insist on publishing regularly what happened on the Assembly, so that the shareholders have a clear picture of the IJV operating results." CASE 1 [Assembly Chairman / Serbian partner representative in IJV1]

"The way I experience the Serbian partner representatives, I have an impression that they don't have very strong shareholders, because they would not survive with the German type of shareholders." CASE 6 [Managing board member / German partner representative in IJV1]

In addition, one of the directors points out that the concept of the board director is relatively new in Serbia, given that social ownership did not require the protection of shareholders' interests:

"We cannot compare ourselves with Western companies because our financial market is still underdeveloped. Also, we have 'grown up' in the system where companies didn't have board director role, because we had a social ownership and shareholders appeared for the first time in a transition period." CASE 11 [Supervisory Board Chairman / Serbian partner representative in IJV3]

Overall, it can be seen from the above that directors see the Serbian legal system/CG aspects and political economy as having an impact on board functioning and director behaviour. Such a view is in line with the CG literature which points to the impact of the general legal, political and economic framework within which an organisation operates on board functioning (Leksell and Lindgren, 1982; Pettigrew, 1987; Turnbull, 2000; Dockery and Herbert, 2000; Nicholson and Kiel, 2004; Huse, 2005; Pye and Pettigrew, 2005). The findings thus confirm the importance of taking into account the external context in which board directors operate, as advocated by the authors in the international CG literature (Turnbull, 2000; Denis and McConnell, 2003; Hopt and Leyens, 2004; Aguilera, 2005; Tyson and Bourniois, 2005; Turnbull, 2005).

CONCLUSION

This paper illustrated the IJV board directors' experiences of CG in Serbia. The findings show that the Serbian legal system and political economy represent significant contextual features in determining the nature of board functioning and director behaviour. The directors' common perception is that the way they operate in the Serbian environment cannot be compared to that of the "Western CG models", and that it is difficult to transfer the developed countries' CG experiences to Serbia.

The main theoretical contributions of this paper include providing empirical evidence that points to the impact of the external context on director role and the enhancing our understanding of the board functioning within a particular CG system. This research provides a unique perspective in this respect, given that little is known about the CG systems of transitional economies in general (Dockery and Herbert, 2000) and about

IJV boards in Serbia (in effect, there is no a single study pursued regarding IJVs based in Serbia⁵).

On a more general level, as the study participants represent the business elite in a post-socialist country and are directly dealing with elites from partners from developed countries, the findings also shed some light on how societies experience transformation⁶. This is of value, as Bolcic (2003) points out that, in reviews of transition processes and the literature analysing post-socialist transformations in Central and Eastern Europe, it has been usual to “forget” Serbia. Still, it must be emphasised that the historical, political, institutional and economic situations of Serbia and the directors’ potential significance in the process of the country’s transition are not the critical focus of this research. The country’s environmental features are just a part of the context for an individual in an IJV board director’s role. In effect, social context is just one of the factors that needs to be taken into account in this study.

The research is of interest to practitioners as it provides knowledge about IJV board directors’ experiences of operating within the Serbian CG system. It should be of particular interest to practitioners that the findings show a significant impact of CG regulation on board functioning and IJV board director behaviour.

⁵ Artisien and Buckley’s (1985) study on IJVs in Yugoslavia that was conducted more than 20 years ago is essentially focused on foreign investment opportunities in the country that has ceased to exist in the meantime. The same is with Cory’s (1982) study, where the reasons for IJV formation between Yugoslav companies and Western multinationals were the focus of the research.

⁶ Stark and Bruszt (1998) argue that both political elites and elites in business networks in an economy can be a fundamental source of economic and political restructuring of post-socialist countries of Central Eastern Europe.

Several limitations of this research should be acknowledged. Firstly, while every effort was made to ensure objectivity of case selection and reliability of the data analysis, the selection of cases inevitably involved discretion and judgment. In addition, the findings remain limited to board directors of three Serbian-foreign IJVs. Hence one of the avenues for future research could be to extend the issues discovered and explored to other settings in the search for more broadly based associations and relationships.

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