Does board governance matter for foreign institutional investors to invest in listed tourism firms?

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Highlights
- The influence of board governance on foreign institutional ownership of tourism firms is examined.
- Signaling theory is used to interpret data from listed tourism firms.
- Foreign institutional ownership is higher when listed tourism firms have a smaller board.
- Foreign institutional ownership is not influenced by the proportion of independent directors.
- Foreign institutional ownership is higher when listed tourism firms have a higher director ownership.

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Abstract
Foreign institutional investors perform a critical role in the development of the tourism industry. While board governance is a critical mechanism in firms, few studies have attempted to investigate whether board governance matters when foreign institutional investors buy shares of tourism firms. Based on signaling theory, the current study uses a sample of listed tourism firms in Taiwan. Board size, board independence and director ownership are used as proxies of board governance. Results show that the ownership proportion of foreign institutional investors is higher when tourism firms have a smaller board and higher director ownership. These results offer theoretical and practical implications for researchers and practitioners.

1. Introduction
The role of institutional investors in the global market is important because the majority of assets around the world are managed by them (Ferreira & Matos, 2008; Zou, Tang, & Li, 2016). Because of this, researchers have progressively explored the investment preferences of institutional investors (Chung & Zhang, 2011; Giannetti & Simonov, 2006). Extant findings are majorly based on the analysis of stock and firm characteristics (Dvörák, 2005; Hau, 2001; Ko, Kim, & Cho, 2007; Neupane, Neupane, Paudyal, & Thapa, 2016). For example, Falkenstein (1996) demonstrated that institutional investors prefer to hold stocks with higher visibility and avoid those with lower idiosyncratic volatility. Grinstein and Michaely (2005) indicated that institutions prefer to invest in firms that pay dividends and repurchase stocks.

Institutional investors are heterogeneous in that they have different objectives and investment behaviors (Dahlquist & Robertsson, 2001; Sherman, Beldona, & Joshi, 1998). Within this group, foreign institutional investors generally have a considerable amount of capital and sufficient capabilities for accessing global markets (Gillan & Starks, 2003). They have been identified as critical investors due to their dramatic influence on the equity market and firm performance (Choe, Kho, & Stulz, 1999; Ferreira, Massa, & Matos, 2010; Gillan & Starks, 2000). Although the obstacles to global investment have decreased recently, foreign institutional investors are still facing challenges which can lead to different investment behaviors than those of their domestic peers. For instance, domestic investors are familiar with the local culture and investee firms (Coval & Moskowitz, 1999; Neupane et al., 2016). Information disadvantages make it costly and difficult for foreign institutional investors to gather information in the non-home
market (Aggarwal, Klapper, & Wysocki, 2005; Covrig, Lau, & Ng, 2006; Grinblatt & Keloharju, 2000). When foreign institutional investors are not equally informed, they have higher investment risks (Huberman, 1999; Merton, 1987). To reduce these risks, foreign institutional investors rely on signals about firm attributes to evaluate firms (Fombrun & Shanley, 1990; Spence, 1973).

Signaling theory argues that signals represent actions, intentions and abilities of firms (Certo, Daily, & Dalton, 2001; Spence, 1973). Information on board governance is readily available for investors to understand how firms govern themselves (Fama & Jensen, 1983). Board governance can be regarded as a valid signal of responsible management and protection of shareholders (Dalton, Daily, Johnson, & Ellstrand, 1999; Johnson, Daily, & Ellstrand, 1996). In this regard, board governance can assist foreign institutional investors in overcoming information asymmetry (Certo et al., 2001). In addition, board governance is a result of compliance with legitimacy or effectiveness because regulatory authorities constantly suggest proper governance codes and practices (Deephouse & Carter, 2005; Musteen, Datta, & Kemmerer, 2010). Firms that comply with these codes and practices signal legitimacy or effectiveness to investors. As such, firms adopting board governance mechanisms that are regarded as desirable are more likely to be favored by foreign institutional investors (Certo, 2003).

Tourism is one of the primary economic activities in the world (Johnson & Vanetti, 2005). In the tourism industry, the importance of foreign investment has been recognized because it can generate a variety of benefits (Song, Dwyer, Li, & Cao, 2012). For example, not only does it enhance management know-how and competition, but it also offers capital resources for investee tourism firms (Kantarci, 2007; Rodriguez, 2002). Positive spillover effects brought by foreign investment have also been identified by tourism researchers (Mao et al., 2013). In sum, tourism research on foreign investment is important for the development of the tourism industry (Falk, 2016). In the tourism literature, most studies investigate non-equity investment preferences of foreign institutional investors, namely non-equity and equity investment (Endo, 2006; Falk, 2016). In the tourism literature, most studies investigate non-equity investment preferences of foreign institutional investors, namely non-equity and equity investment (Endo, 2006; Falk, 2016). In the tourism literature, most studies investigate non-equity investment preferences of foreign institutional investors, namely non-equity and equity investment (Endo, 2006; Falk, 2016). In the tourism literature, most studies investigate non-equity investment preferences of foreign institutional investors, namely non-equity and equity investment (Endo, 2006; Falk, 2016).

Secondly, given the critical role of foreign institutional investors in the global market, it is important to understand the factors that influence their investment decisions. In particular, the present study has implications for tourism firms attempting to attract foreign investment. Thirdly, despite the abundant literature on board governance, there is lack of knowledge as to whether disclosing board governance is a feasible strategy to attract foreign capital. The current study is among the first to examine board governance by using signaling theory. It can contribute to the literature on the signaling role of a board by empirically exploring investment preferences of foreign institutional investors in the tourism sector.

2. Literature review

2.1. Governance in the tourism sector

(Bramwell and Lane (2011), p. 412) have defined tourism governance as to “involve various mechanisms for governing, steering, regulating and mobilizing action, such as institutions, decision-making rules and established practices”. It comprises interactions among different stakeholders at different levels (Zahra, 2011). One of the primary missions of tourism governance is to enhance the benefits of stakeholders (Presenza, Del Chiappa, & Sheehan, 2013). To better understand the enhancement of these benefits, tourism governance has been examined from different viewpoints. Early research on tourism governance can be traced back to the 1990s. Since then, many studies have focused on how power and resources are distributed among different stakeholders, such as governments, private tourism organizations and nongovernmental organizations, in order to develop tourism for public interests (Valente, Dredge, & Lohmann, 2015; Wan, 2012). Recently, a stream of research has emphasized the relationship between environment policy and governance (Blanco, Rey-Maquieira, & Lozano, 2009; Paaøla & Adger, 2005; Song et al., 2012). Its main focus is the role of policy-making, economic revolutions and social changes in the development of tourism.
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