Evaluation of hotels performance and corporate governance mechanisms: Empirical evidence from the Tunisian context

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ABSTRACT

The aim of this paper is to determine the incidence of internal corporate governance in Tunisian hotels. We use a stochastic analysis frontier model of a sample of 63 hotels between 2012 and 2013. We also explain the efficiency of the hotel industry in terms of internal corporate governance. The stochastic frontier approach is used to assess the efficiency and performance of firms, as well as factors determining performance. To our knowledge, this is the first study to examine the interrelations among ownership, board and manager characteristics and firm efficiency in a sample of the hotel industry. To maximise performance, these governance characteristics are operationalised in terms of board characteristics, ownership structure and chief executive officer (CEO) characteristics. Six performance measures, such as financial performance, social and human performance, organisational performance, commercial performance and global performance, are specified and used to estimate hotel efficiency. The results show a positive correlation between the proportion of independent directors on the board and hotel performance. We also find that hotel performance is viewed as a proxy for director effort; therefore, the director’s tenure positively affects the firm’s efficiency and performance.

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1. Introduction

The continuous growth in tourism is a major socio-economic phenomenon at present. Tourism is known to contribute significantly to the national economy, especially the national currency and the trade balance equilibrium. Narayan and Sharma (2013) confirmed this contribution in their study on six Pacific islands focussing on the relationship between the hotel industry and its macroeconomic contribution. This was also confirmed by Tang and Jang (2009), who studied the hotel industry in the U.S., and also by Kreishan (2011) in Jordan, Chen and Chio Wei (2009) in Taiwan, Kaplan and Celik (2008) in Turkey, Dritsakis (2004) in Greece and Balaguer and Jorda (2002) in Spain.

Currently, Tunisian tourism and, more particularly, the hotel industry are facing internal challenges: poor quality of service, lack of product diversification, debt, mismanagement etc. (Weigert, 2012).

This sector is characterised by not only cognitive heterogeneity but also information asymmetry between the hotel manager and the board members who do not know, in some cases, even the specifics of the trade. Thus, it is expected that the relational aspect of individuals within the board of directors and in the presence of the director of the establishment affects the quality of the strategic decision and hence the performance of the company. Therefore, a “good” system of corporate governance is important. The approach to corporate governance in tourism seems vital and reliable for various reasons. Guillet and Matilla (2010) demonstrated the importance of corporate governance in the hotel industry, with its positive effect on performance. In their study on a sample of 10 American hotel groups over a period of 8 years, the governance process adopted by this sector differed from those in other industries. This is because the tourism sector has specific characteristics such as the separation of ownership from the management function and various actors. For this purpose, governance and performance are two valid concepts central to the current science of management. One complements the other in that every organisation strives to create value. Several studies have been conducted on the relationship and link between the two phenomena. Across the world, some researchers investigated this relationship in...
the hotel industry, and others in industrial areas. We referred to the study by Wang and Zhou (2011), who used a correlation test and linear regression to explain the performance of Chinese firms (ROA, ROE and Tobin Q) based on governance-related variables (features of the AC, dual system, outside director and ownership structure). Thus, we referred to this study to identify our variables and subsequently test the validity of our assumptions.

The aim of our research is to exploit the contribution of the corporate governance literature to explain the efficiency and performance of Tunisian hotels. Thus, the objective of this study is to present the efficiency scores and identify the impact of corporate governance mechanisms on efficiency scores and also on the performance of the hotel industry.

This paper is organised as follows: the first section presents the literature review on corporate governance and firm efficiency and performance in general as well as hypothesis development. The second section presents our methodology: models, variable measures and data. The third section presents and interprets our results, and conclusions are drawn in the final section.

2. Literature review and hypothesis development

Corporate governance refers to the system of controlling and directing firms. The governance structure specifies the distribution of responsibilities and rights among different participants in the firm (such as the board of directors, managers, shareholders, creditors, auditors, regulators and other stakeholders). It also specifies the rules and procedures for decision-making in corporate affairs. Governance provides a structure for firms to set and pursue their goals, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of firms. Governance helps align interests among stakeholders (Jarboui, Forget, & Boujelbene, 2014).

Corporate governance is a set of mechanisms that aims to direct managerial decisions and helps improve the firms’ performance. According to Dharwadkar, George, and Brandes (2000), corporate governance has been identified as critical and central to all economic transactions and sectors including the tourism or hotel industry. Mayer (1997) states that corporate governance defines the interests of managers and ensures that firms are run in favour of directors.

Corporate governance mechanisms are designed to reduce the inefficiencies arising from moral hazards and adverse selection (Jarboui et al., 2014). The various board mechanisms facilitate internal monitoring. Internal corporate governance monitors activities and then takes corrective action to accomplish the organisation’s goals. External monitoring of managers’ behaviour occurs when an independent third party (e.g., the external auditor) attests the accuracy of information provided by the management to the investors. Therefore, external corporate governance involves the control of the organisation by external stakeholders.

Several previous studies investigated the role of governance mechanisms in resolving conflicts of interest between shareholders and managers and in improving performance (Aydin, Sayim, & Yalama, 2007; Cubbin & Leech, 1983; Görg & Greenaway, 2004; Jarboui et al., 2014; Shleifer & Vishny, 1994, 1997...). The latter implies an interest in the plurality of actors. Indeed, in the tourism sector, partnership is often challenging and must be considered. Therefore, it is important to integrate various stakeholders (banks, the state, another hotel chain, suppliers, customers etc.) in making strategic or other decisions, with the aim of creating value.

The agency theory suggests that the need for control over service quality, financial risk and the market environment influences the choice of governance form. Dahlstrom, Haugland, Nygaard, and Rokkan (2009) investigated alternative governance forms in the hotel industry, supporting the established principal—agent perspective by discussing entrepreneurial motivations to join hotel alliances. In a sample of 650 hotels, Dahlstrom et al. (2009) analysed the choice between independent ownership and affiliation with a voluntary chain as well as the choice between integration and franchising. They found that the hotel size, amenities, population and distance from headquarters influence governance.

In line with the close link between hotel industry performance and corporate governance mechanisms, our research focuses on a multi-criteria, multidimensional performance. Studies have indicated that the overall performance cannot be measured only based on one of the financial achievements or the maximisation of growing shareholder value. That performance relies solely on financial performance has been proven to be incorrect, incomplete and inaccurate. In a sample of 121 managers and heads of Australian companies with a minimum of 100 employees, Lau (2011) showed that non-financial indicators not only significantly and directly affect the performance of the companies investigated but also have a more pronounced effect than do financial indicators. Verbeeten and Boons (2009) confirmed this in the Dutch context. The results of this study indicate that non-financial indicators can be used to measure performance and have stressed that the aim of our research is to elucidate and measure the financial, human, social, organisational and mercantile performance, using variables related to governance mechanisms in the hotel sector. We referred to the study by Wang, Lu and Lin (2012) on the relationship between corporate governance mechanisms and corporate performance, based on a sample of 68 bank-holding companies (BHCs) in 2007. Among the mechanisms considered, this study adopted the board of directors, the dual system, the number of external directors and the committees. We extend that work in the context of the hotel industry, in order to explain several performance models through the implemented governance system.

The variation in the number of outside directors also affects the hotel’s performance directly. Some authors studied the effect of varying the number of outside directors and hotel performance; the presence of outside directors in the board strengthens its supervision power, also positively affecting the performance of the firm (Byrd & Hickman, 1992; Claessens & Vortoglu, 2013; Kaplan & Minton, 1994; Morck & Nakamura, 1994). Hence, our first hypothesis shows, “the number of outside directors positively affects the performance of the hotel business”.

The association between the chairman of the board of directors and the chief executive officer (CEO) has been of increasing interest recently. Fama and Jensen (1983), Baliga, Moyer, and Rao (1996) and Coreje (2002) confirmed the negative effect of this association on business performance, reporting the persistence of branch costs. Unlike most studies on the same subject, Brickley, Coles, and Jarrell (1997) could not confirm the negative effect of holding both the post of chairman of the board of directors and that of a manager on accounting and financial returns. In line with the first school of thought, our hypothesis indicates, “the separation of the positions of Chairman of the Board and CEO positively affects the performance of the hotel business”.

Wang et al. (2012) and Klein (1998) argue that establishing specialised committees could enhance the activity of the board, as an additional form of supervision for the manager (appointment committee, compensation committee etc.). In a study conducted on non-financial listed companies in 10 countries of sub-Saharan Africa in 2009, Munisi and Randles (2013) demonstrated that the presence of a compensation committee in the board does not affect the financial performance of the firms under study. As this aspect is highly debatable, we chose to study this relationship in the Tunisian hotel industry. Hence, our hypothesis shows, “Integration of
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