



The signaling roles of ownership and board structure for foreign institutional investors in the tourism industry

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ABSTRACT

Foreign institutional capital performs a critical role in the development of the tourism industry. Little research has been conducted to understand how foreign institutional investors choose tourism firms from the governance perspective. The primary purpose of the current study is to bridge this research gap by examining the signaling roles of CEO ownership, domestic institutional ownership, and institutional directors in preferences of foreign institutional investors. Outcomes show foreign institutional investors are more likely to invest in tourism firms who have higher CEO ownership, lower domestic institutional ownership, and a higher level of institutional directors. Implications and limitations are accordingly discussed.

1. Introduction

Financial globalization has facilitated international investment in the global market (Ferreira, Matos, Pereira, & Pires, 2017; Huang & Zhu, 2015). In the global market, foreign institutional investors perform influential roles because of their large amount of capital (Mizuno, 2010). For the development of the tourism industry around the world, foreign institutional investment has also been recognized to be critical financial support (Davidson & Sahli, 2015; Mao & Yang, 2016; Zhang, Guillet, & Gao, 2012). Given their importance in the tourism market, understanding how foreign institutional investors choose invested firms becomes essential for those tourism firms who strive to attract foreign capital.

Extant literature on preferences of foreign institutional investors majorly focuses on firm characteristics, such as size and history (e.g., Dahlquist & Robertsson, 2001; Zou, Tang, & Li, 2016) and financial outcomes, such as firm value, leverage ratio and dividend payments (e.g., Batten & Vo, 2015; Cao, Du, & Hansen, 2017). In the tourism sector, research on foreign institutional investment is primarily related to hotel locational choices (e.g., Davidson & Sahli, 2015; Falk, 2016; Zhang et al., 2012). Meanwhile, the influence of the external environment, such as politics and economic scales, on investment decisions by foreign institutional investors in tourism industries has been investigated (e.g., Li, Huang, & Song, 2017; Steiner, 2010).

Foreign institutional investment refers to a nation allowing those capitals owned by foreign institutions to buy and sell stocks in that nation's stock market (Chen, Weng, & Chien, 2018; Li, Liu, Wang, & Wang,

2020; Zou et al., 2016). However, foreign institutional investors have information disadvantages due to geographic, linguistic, political and cultural distances (Leuz, Lins, & Warnock, 2010; Song, Gianiodis, & Li, 2016). They are relatively unaware of how the tourism firms are managed in uncertain environments. To close this information gap, foreign institutional investors may choose firms showing clear signals of shareholder protection. Signaling theory emphasizes that people are able to understand observable information in the environment. It is primarily concerned with how signals close the information gap among different parties (Certo, Daily, & Dalton, 2001; Spence, 2002). Among the information available to firms, governance information of listed firms is freely available for public. It is an observable signal ready to be detected by outside investors of how well the firm is governed from the standpoint of shareholders (Certo et al., 2001).

Governance is a mechanism to direct and supervise a firm in the best interest of owners (Daily, Dalton, & Cannella, 2003; Yeh & Trejos, 2015). In tourism research, governance has recently attracted increasing attention. Issues, including, but not limited to, destination governance, policy-making, resource allocation and economic change, have been examined to understand tourism development for the public interest (Islam, Ruhanen, & Ritchie, 2018; Joppe, 2018; Mach & Ponting, 2018; Nordin, Volgger, Gill & Pechlaner, 2019; Song, Dwyer, Li, & Cao, 2012; Stoffelen, Ioannides, & Vanneste, 2017; Wan & Bramwell, 2015). Another stream of governance research in the tourism sector is concerned with the role of corporate governance in managing tourism firms. Extant results demonstrate that different attributes of corporate governance have different effects on tourism firms (Al-Najjar, 2014, 2015,

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2017; La Rosa & Bernini, 2018; Tan, Habibullah, & Tan, 2017; Yeh, 2013, 2019; Yeh & Trejos, 2015).

Within corporate governance, ownership structure and a board of directors, as the top management, act out the signaling roles in displaying the intentions, decisions and dispositions of firms (Filatotchev & Bishop, 2002; Lester, Certo, Dalton, Dalton, & Cannella, 2006). Agency theory, one of the most crucial governance theories, emphasizes that interest conflicts exist between agents (managers) and principals (owners) (Eisenhardt, 1989; Fama & Jensen, 1983). Ownership structure and a board of directors are governance mechanisms that can be used by firms to alleviate these conflicts (Denis, Denis, & Sarin, 1999; Li, 1994). They serve as signals to investors of how firms mitigate agency problems. Therefore, the information asymmetry between potential investors and firms may be reduced, based on the signals derived from firms' corporate governance (Ahmad-Zaluki & Wan-Hussin, 2010; Certo et al., 2001; Chen, Chung, Hsu, & Wu, 2010).

Despite much research examining the preference of foreign institutional investors, little of the extant research is grounded on any theory. Moreover, there are relatively few studies on how specific corporate governance mechanisms influence foreign institutional investors' decisions. The purpose of the current study is to close this research gap by focusing on the signaling role of CEO ownership, domestic institutional ownership and institutional directors by understanding how likely they influence foreign institutional investors' investment in listed tourism firms of Taiwan.

The current study uses listed tourism firms in Taiwan as samples. The reason of choosing Taiwan as the study context is that, as an emerging market, Taiwan has gradually attracted foreign institutional investors who play substantial roles in the Taiwanese stock market (Luo, Chung, & Sobczak, 2009). In particular, following gradual deregulation of participation in the stock market in early 2000s, the Taiwanese stock market became a fully open market for foreign institutional investors (Chen et al., 2018; Demirer, Kutan, & Chen, 2010; Wu, Huang, & Ni, 2017). Since then, foreign institutional investors have been significant participants in the Taiwanese stock market. It has been shown that foreign institutional investors own more than 30 percent of listed equities by market values and generally account for higher percentages of daily trading volumes than domestic institutional investors (Demirer et al., 2010; Liao, Chou, & Chiu, 2013; Wu et al., 2017). This implies that foreign institutional investors' decisions have a great impact on the Taiwanese stock market. Their investment preferences are noticeable for other investors.

With increasing promotion, after being proposed by the government as a key emerging industry in 2009 (Chang, Hsu, & McAleer, 2013; Wang, 2014), the tourism industry in Taiwan has experienced a growth in international visitor arrivals of 113.10 percent from 2010 to 2019 (Tourism Bureau, MOTC, Taiwan, 2021). Considering this growth, it seems fair to use listed tourism firms in Taiwan to probe the connection between tourism and foreign institutional investment, because the effects of the tourism industry can be seen on many facets of the economy and financial markets (Chang, Hsu, & McAleer, 2014; Dwyer & Forsyth, 1994).

However, cultural differences are factors influencing foreign investors' choices in the tourism sector (Sanford & Dong, 2000). Greater cultural differences between host and home countries result in information asymmetries, adding investment uncertainties (Kandogan, 2016; Kogut & Singh, 1988; Shenkar, 2001). As mentioned above, to reduce information asymmetries, the role of corporate governance is highlighted, due to it being a visible control mechanism designed to ensure that management acts in the best interest of shareholders and to ensure relevant information is fully and reliably disclosed to shareholders (Kanagaretnam, Lobo, & Whalen, 2007). Within corporate governance, ownership and board structure are viewed by investors as signals affecting the level of information asymmetries (Han, Kim, Lee, & Lee, 2014; Kanagaretnam et al., 2007).

CEO ownership, domestic institutional ownership and institutional

directors are three variables related to ownership and board structure. Researchers have argued that CEO, institutional ownership and board governance perform signaling roles of firm legitimacy, behavior and management to outside investors (Al-Najjar, 2010; Certo, 2003; Connelly, Certo, Ireland, & Reutzel, 2011; Filatotchev & Bishop, 2002; Zhang & Wiersema, 2009). Indeed, studies have indicated that firm performance is influenced by these three governance variables (e.g., Lilienfeld-Toal & Ruenzi, 2014; Pucheta-Martínez & García-Meca, 2014; Song et al., 2016). As a result, it is reasonable to assume that foreign institutional investors make investment decisions based on signals sent by CEO ownership, domestic institutional ownership and institutional directors of investee tourism firms.

By examining the abovementioned issues, the current study makes several contributions. First, most governance studies focus on how corporate governance influences firm performance. Few studies attempt to examine the role of corporate governance in foreign institutional investors' decision-making. Therefore, the current study contributes to the literature by providing new empirical evidence on how corporate governance influences foreign institutional investors' investment choice. Second, although an ample variety of studies on investment decision-making of foreign institutional investors has been carried out, most fail to have a theoretical basis. The current research enriches extant literature by using signaling theory to analyze the signals of corporate governance to outside investors. Third, capital investment is critical for the development of the tourism industry. However, there is little practical evidence on how to convince foreign institutional investors to invest. The current results can practically contribute to knowledge of listed tourism firms on what proper corporate governance is recommended for gaining foreign financial resources.

2. Literature review

2.1. Foreign institutional investors

There are many studies on investment preferences of foreign institutional investors. Some specific firm characteristics and financial outcomes are discovered to be critical factors. For example, firms with a large size, a long history and high global presence are preferred by foreign institutional investors (Dahlquist & Robertsson, 2001; Zou et al., 2016). In addition, foreign institutional investors are more likely to invest in those firms that have a high level of stock liquidity, better growth, large cash holding, lower leverage, higher firm values, higher dividends, and lower unsystematic risks (Batten & Vo, 2015; Cao et al., 2017; Dahlquist & Robertsson, 2001; Huang & Shiu, 2009; Kang & Stulz, 1997).

However, few studies have examined investment preferences from governance perspectives. Among them, some emphasize the importance of general governance. For example, Giannetti and Simonov (2006) empirically reported that foreign institutional investors were more likely to invest in companies with good governance in Sweden. Kho, Stulz, and Warnock (2009) demonstrated that U.S. portfolio investors increased their investment in those firms that enhanced corporate governance in Korea. Leuz et al. (2010) examined firms from twenty nine countries, finding that foreign investors avoided firms that had a high level of insider control. This phenomenon was more significant when countries had weak governance shareholder protections. Little existing research explores foreign institutional investment from the perspective of corporate governance. For instance, Bredin and Liu (2011) studied Chinese listed firms, indicating that corporate governance, such as management compensation, was a critical factor when foreign institutional investors made investment decisions. Zou et al. (2016) also examined listed companies in China, finding that foreign institutional investors preferred firms with relatively higher concentrated ownership.

In the tourism sector, issues on foreign institutional investment are relatively under-examined. Within the few studies, one major stream emphasizes the determinations of hotel locational choice (e.g., Assaf,

Josiassen, & Agbola, 2015; Davidson & Sahli, 2015; Falk, 2016; Kundu & Contractor, 1999; Rodríguez, 2002; Yang, Luo, & Law, 2014; Zhang et al., 2012). For example, Zhang et al. (2012) found that market demand, market size, business environment and mega events were primary factors for foreign investors when making decisions in hotel locational choices in China. Davidson and Sahli (2015) discovered that foreign investors preferred larger and upmarket hotels in the Gambian hotel industry. Falk (2016) empirically argued that, in the hotel industry, foreign direct investment was positively related to the market size and negatively to business regulations and tax amount.

Another stream of empirical research examined how the external environment influences foreign investment. For example, Steiner (2010) empirically found that economic performance was a major influence on foreign investment in the Egyptian tourism industry and that the effects of political risk as well as violent political unrest were overestimated. Li, Cui, and Peng (2017) indicated that the tourism economic scale and Chinese outbound tourism volume to host regions were two major determinants of outward foreign direct investment in tourism in China. Limited studies have investigated the relationship between corporate governance and foreign institutional investment. For example, Mao and Yang (2016) unearthed evidence that the ownership structure of hotels in China can influence foreign direct investment. Yeh (2018) demonstrated that board size, independent directors and director ownership were related to foreign institutional investment in listed tourism firms.

2.2. Rationale for this study

There is an increasing literature on the foreign institutional investors' preferences for invested firms. Much existing research primarily examines how firm characteristics influence foreign institutional investors' investment decisions. While foreign institutional investors have global experiences, they still face information asymmetry. Therefore, foreign institutional investors tend to rely on certain firm characteristics when making investment decisions (Batten & Vo, 2015). These characteristics can be regarded as signals sent by firms to help foreign institutional investors decrease the risk of information asymmetry. Signals are generally observable (Smith & Font, 2014). In the information asymmetric environment, the signaling effect performs a critical role (Li, Cui, & Peng, 2017).

It has been acknowledged that the tourism industry is operated in an unstable environment (Hawkins & Mann, 2007; Yeh, 2018). Tourism firm performance is heavily influenced by fluctuations in the external environment, including politics, economy, policy and natural settings (Chen, 2010; Chen, Kim, & Liao, 2009; Steiner, 2010; Zhang et al., 2012). Under constantly changing conditions, tourism firms or their board of directors are expected to take action in order to boost profits. If they fail to respond to this challenging environment appropriately, it may cause decreases in financial performance (Chen, 2010; Hawkins & Mann, 2007). Moreover, in uncertain markets, investors attempt to reduce these uncertainties by searching for signals sent by firms (Rhee & Lee, 2008). These signals include control mechanisms, such as corporate governance, that help firms adapt to market changes (Boivie, Graffin, Oliver, & Withers, 2016). Corporate governance is the widely acknowledged standard for good firms (Yeh, 2018). In general, foreign institutional investors avoid firms that are poorly governed (Leuz et al., 2010).

The existing empirical outcomes show that firm-specific characteristics are able to explain the differences in investment decisions made by foreign institutional investors. However, few extant studies examine foreign institutional investors' preferences in the tourism sector. Corporate governance has been ignored as a critical factor by these extant studies. Industry characteristics are also not considered by much research. More importantly, most existing studies do not have a theoretical basis that contributes to our understanding. Therefore, the current study is unique because it uses signal theory as the basis to examine whether corporate governance influences foreign institutional investors'

investment decisions, considering the specific characteristics of the tourism industry.

Specifically, the current study argues that the governance system can influence investment preferences because governance is a mechanism to guide and control a tourism firm. Differences in governance signal differences in firm control to reduce the agency problem. When a tourism firm is controlled by a well-structured governance system, it has better performance (Yeh, 2018). Based on corporate governance signals, investors make inferences about firm quality and value (Sanders & Boivie, 2004). Therefore, well-governed firms are more likely to be chosen for investing.

Nevertheless, foreign institutional investors usually face the challenge of cultural differences. Cultural differences have a variety of dimensions, such as individualism, collectivism, masculinity, femininity, uncertainty avoidance, religion, language and social customs (Aggarwal; Kearney & Lucey, 2012; Hofstede, 1980). It is dependent on foreign investors' abilities and experience to deal with cultural differences. However, the effects of cultural differences on foreign investment are mixed. Some studies demonstrate that cultural differences are barriers for foreign investment (e.g., Kandogan, 2016; Kang & Jiang, 2012). At the same time, some argue that cultural differences are desirable and that they contribute to investment (e.g., Aggarwal, Kearney, & Lucey, 2012; Dolansky & Alon, 2008; Morosini, Shane, & Singh, 1998). There are also studies displaying no significant effect of cultural differences on foreign investment (e.g., Peng & Beamish, 2008; Voyer & Beamish, 2004).

While mixed results lead to no compelling conclusion, foreign institutional investors remain cautious because they commonly face information asymmetries potentially derived from cultural differences (Kandogan, 2016; Kogut & Singh, 1988; Shenkar, 2001). The current study argues that cultural differences can be better managed via proper corporate governance. Corporate governance is a mechanism to direct and control a firm (Daily et al., 2003). Quality of information disclosure to enhance firm transparency and reduce information asymmetries has been found to be driven by appropriate corporate governance in ownership and board structure (Eng & Mak, 2003; Forker, 1992; Hidalgo, García-Meca, & Martínez, 2011). Moreover, corporate governance is generally identified as a vital control mechanism to strengthen interest alignments between shareholders and management (Aggarwal, Erel, Ferreira, & Matos, 2011; Daily et al., 2003; Fama & Jensen, 1983). As a result, when facing cultural differences, it is fair to regard corporate governance as an effective business strategy. Governance signals of ownership and director structure sent by firms seeking investment can be seriously taken into consideration by foreign institutional investors.

2.3. CEO ownership

Equity owned by a chief executive officer (CEO) is CEO ownership. A CEO is the major decision-maker in a firm (Kim & Lu, 2011). If ownership has any influence on firms, investors should pay more attention to CEO ownership. When a CEO has high ownership, s/he has interest alignments with a firm. It is more likely that, to protect her/his self-wealth, the CEO acts in the best interest of the firm. As such, CEO ownership reduces the agency problem, since it is an incentive to enhance firm performance (Kim & Lu, 2011; Liliendorf-Toal & Ruenzi, 2014; Huang, Wang, & Zhang, 2009; McClelland, Barker, & Oh, 2012). On the other hand, with higher ownership, a CEO holds more power. It helps the CEO control firms and implements strategies. Given that a CEO has more controlling rights, the board or shareholders have less power to supervise the CEO. It may facilitate the CEO to make self-interested decisions at the expense of the firm (McClelland et al., 2012).

Empirical studies show mixed effects of CEO ownership on firms. For example, McClelland et al. (2012) sampled S&P 500 companies, finding that CEO ownership with shorter career horizons negatively influenced companies' financial performance. In Kim and Lu's (2011) research on databases of ExecuComp, when CEOs had more ownership and a weak

governance mechanism was in place, CEOs' risk-taking decisions were more likely to be harmful for shareholders' interests. Some studies found that CEO ownership is beneficial to firms. For example, based on the ExecuComp database, Lilienfeld-Toal and Ruenzi (2014) empirically identified that firms with higher CEO ownership had better abnormal stock returns. Huang et al. (2009) sampled S&P 500 companies and found that, when CEO ownership was high, the cost of equity capital was low and shareholders' supervision was less important. These results support interest alignment theory.

The current study argues that CEO ownership signals interest alignments between a CEO and shareholders. Ownership can be regarded as an internal governance mechanism, providing the CEO with incentives to increase firm values. With more ownership, the CEO is more likely to act in accordance with the interest of the firm to protect her/his own investment. Therefore, CEO ownership is not only a financial incentive for the CEO, but also represents enhancement of the interest alignments between owners and agents. In addition, operated in an uncertain market, tourism firms should have capability to respond properly to market changes. Foreign institutional investors in an uncertain market search for signals to reduce this uncertainty (Boivie et al., 2016; Rhee & Lee, 2008). A CEO is one of the decision makers in the top management team that is knowledgeable of the firm. Foreign institutional investors face information disadvantages, but when the CEO increases the ownership, it can be regarded as a signal that s/he is optimistic of firm future performance (Lilienfeld-Toal & Ruenzi, 2014). Foreign institutional investors may presume this observable signal as a CEO's positive attitude toward firm performance. Therefore, the current study developed the following hypothesis.

Hypothesis 1. Foreign institutional ownership is higher in listed tourism firms with higher CEO ownership.

2.4. Domestic institutional ownership

It has been argued that domestic institutional investors have information advantages over foreign institutional investors (Huang & Shiu, 2009). Domestic institutional investors know more about local culture, business environment and local firms than their foreign counterparts. However, foreign institutional investors may possess better financial resources, international experience, worldwide talents, a global diversified portfolio and investment expertise to analyze invested firms and conduct a long term investment. They feel less stress from local politics or business connections with local firms than their domestic counterparts when trading stocks (Batten & Vo, 2015; Bena, Ferreira, Matos, & Pires, 2017; Choe, Kho, & Stulz, 2005; Ferreira et al., 2017; Filatotchev, Lien, & Piesse, 2005; Huang & Shiu, 2009). With less stress from local politics and business connections, foreign institutional investors are independent from invested firms. With better global experience, foreign institutional investors have a wider knowledge about managerial and governance practices than their domestic counterparts. Therefore, foreign institutional investors are able to perform an important role in supervision and corporate governance (Kim, Miller, Wan, & Wang, 2016; Luong, Moshirian, Nguyen, Tian, & Zhang, 2017).

Some empirical studies have shown that foreign institutional investors outperform domestic institutional investors (e.g., Chen, et al., 2009; Chang, 2010; Douma, George, & Kabir, 2006; Ferreira & Matos, 2008; Filatotchev et al., 2005; Grinblatt & Keloharju, 2000; Huang & Shiu, 2009; Vo, 2015). For example, Chen et al. (2009) found that tourism firms with higher levels of foreign institutional investment were more likely to have lower stock risks and stable external financial support for firm growth. However, some studies discovered opposite results in which domestic institutional investors outperformed their counterparts (e.g., Choe et al., 2005; Dvorak, 2005; Song et al., 2016; Teo, 2009; Zou et al., 2016) or no significant difference between foreign and domestic institutional investors was found (e.g., Ferreira et al., 2017; Kang & Stulz, 1997).

The current study argues that foreign institutional investors are less informed traders than domestic investors. Under information asymmetry, investors are more likely to have herding behaviors in which investors imitate other investors' decisions derived from the signals of action taken by the latter (Banerjee, 1992; Demirer, Kutan, & Zhang, 2014). While domestic institutional investors have information advantages, foreign institutional investors may not follow domestic institutional investors. Foreign institutional investors have their own resources, experience and investment indicators. They are generally outsiders. They are under less political stress and more likely to perform a supervisory role than their domestic counterparts to reduce agency problems in invested companies (Huang & Zhu, 2015).

Based on institutional herding, foreign institutional investors have inclinations to follow other foreign institutional investors, rather than domestic ones (Chen, Wang, & Lin, 2008; Fang, Lu, Yau, & Lee, 2017). More precisely, foreign institutional investors' herding behavior is on the opposite way of their domestic counterparts. Indeed, empirical studies have shown that, when domestic institutional investors buy or sell shares, foreign institutional investors do the opposite (Fang et al., 2017; Jeon & Moffett, 2010). The herding behavior also becomes a way for investors who face an uncertain environment to reduce uncertainty and anxiety (Chen, Yang, & Lin, 2012; Demirer et al., 2014; Lao & Singh, 2011). As such, when investing in tourism firms which are operated in an uncertain market, foreign institutional investors are also more likely to follow other foreign institutional investors' actions, which are negatively related to decisions made by their domestic counterparts. Consequently, the level of domestic institutional ownership can be taken as a signal by foreign institutional investors when making investment selection decisions. The following hypothesis was accordingly established.

Hypothesis 2. Foreign institutional ownership is lower in listed tourism firms with higher domestic institutional ownership.

2.5. Institutional directors

The role of institutional investors has become increasingly important in corporate governance due to their large amount of capital and active supervision (García-Meca, López-Iturriaga, & Tejerina-Gaite, 2017). When institutional investors are appointed as directors, they become institutional directors (López-Iturriaga, García-Meca, & Tejerina-Gaite, 2015). Being directors and owners simultaneously, institutional directors are able to facilitate cooperation and communication between managers and shareholders (García-Meca et al., 2017). They have relatively close relationships with managers, so institutional directors are able to reduce conflicts between the board and management teams (Pucheta-Martínez & García-Meca, 2014). While agency theory emphasizes the role of independent directors to reduce agency problems, institutional directors can contribute to governance by aligning interests between principals and agents (Pucheta-Martínez & García-Meca, 2019). Moreover, when institutional investors become directors, they know more firm-specific information. This is helpful for effective supervision, which further leads to better firm performance (Pucheta-Martínez & García-Meca, 2014).

There are several empirical studies on issues of institutional directors. For example, Pucheta-Martínez and García-Meca (2014) identified that, when listed firms in the Spanish stock market had more institutional directors, these firms were under effective supervision which further facilitated quality financial reporting. López-Iturriaga et al. (2015) examined Spanish listed firms, finding that directors appointed by pressure-resistant institutional investors were more active in supervising invested firms. Also in Spain, Manzaneque, Merino, and Priego (2016) empirically argued that when firms had more institutional directors who were press-resistant investors, these were less likely to experience failure. Similarly, by sampling Spanish listed firms, García-Meca et al. (2017) empirically argued that different types of

institutional directors had various different incentives, such as improving financial resources and lowering debts, to enhance corporate governance. Moreover, Pucheta-Martínez and García-Meca (2019) discovered that the presence of institutional directors who had no business ties with their firms negatively influenced firm value.

The current study argues that the board plays a signaling role to potential investors. Most board members have a passive role in decision making and supervision due to lack of incentives. However, institutional directors are more likely to participate in supervision of invested firms due to the incentive to protect their large amount of investment. The presence of institutional directors sends a signal to outside investors that this firm creates opportunities for institutional directors to perform an active role in firm's length supervision. When institutional investors become institutional directors, they are in the top management group, which is knowledgeable about how well the invested firm is managed (Certo et al., 2001). By supervising based on accurate information about firms, institutional directors can effectively reduce the agency problem. In addition, when firms are in an uncertain marketplace, they need an active board of directors to supervise strategies and make timely strategic decisions (Filatotchev et al., 2005; Yeh, 2018). The presence of institutional directors is particularly important for tourism firms, since attentive supervision is vital to survive in an uncertain market. The presence of institutional directors is a detectable signal from which foreign institutional investors can infer that vigilant supervision is in place. Based on the above argument, a hypothesis was developed as follows.

Hypothesis 3. Foreign institutional ownership is higher in listed tourism firms with a higher proportion of institutional directors.

3. Methodology

3.1. Sample and data

The sample included listed firms that were classified by the Taiwan Stock Exchange or the Taipei Exchange as tourism-related firms. Data of investigated firms' foreign institutional investment and governance were collected from the first quarter of 2011 to the last quarter of 2015. There were 15 listed tourism firms with complete data. As a result, a total of 300 observations were processed. All data were derived from the database of the Market Observation Post System and the Taiwan Economic Journal.

According to the hypotheses, an equation was established as below:

$$FINS = \beta_0 + \beta_1 \text{CEO} + \beta_2 \text{DINS} + \beta_3 \text{INSD} + \beta_4 \text{FSIZE} + \beta_5 \text{FDEBT} + \beta_6 \text{ROE} + \varepsilon_1$$

3.2. Variables

The ownership percentage of foreign institutional investors (FINS) in listed tourism firms is the dependent variable. There are three independent variables: the ownership proportion of the CEO (CEO), the ownership proportion of domestic institutional investors (DINS) and the proportion of institutional directors (INSD). These are the corporate governance variables hypothesized by the current study to influence foreign institutional ownership. CEO and DINS were the proportions of outstanding shares owned by the CEO and domestic institutional investors respectively. INSD refers to the percentage of institutional directors on the board.

In addition, the current study included firm characteristics as control variables that had been proven in previous research as related to foreign institutional ownership. First, firm size (FSIZE), measured by the natural logarithm of firm total assets, was controlled. Larger firms are relatively better recognized abroad because they may export products or be usually reported by media (Dahlquist & Robertsson, 2001; Kang & Stulz,

1997). Investors prefer firms that are well known and familiar (Huberman & Notes, 2001). Meanwhile, richer information and greater external supervision on larger firms are commonly given by analysts, which in turn, reduces information asymmetry for foreign institutional investors (Bushee, Carter, & Gerakos, 2014). It is also suggested that institutional investors prefer liquid stocks (Bushee et al., 2014; Chung, Elder, & Kim, 2010). Large firms' stocks are more liquid, so it is easier for foreign institutional investors to trade large amounts of capital in the market (Kang & Stulz, 1997). Extant studies offer supportive evidence that foreign institutional investors prefer larger firms (e.g. Aggarwal, Klapper, & Wsocki, 2005; Dahlquist & Robertsson, 2001; Ferreira & Matos, 2008; Liao et al., 2013; Zou et al., 2016). Hence, it was expected that foreign institutional ownership was positively influenced by listed tourism firms' size.

The debt ratio (FDEBT), measured by dividing total liabilities by total assets, was included as the second control variable. The debt ratio is an indicator of firms' financial pressure, likely diminishing their financial returns due to potential financial costs and risk of bankruptcy (May 1995). Foreign institutional investors were found to avoid firms with a higher debt ratio (e.g., Aggarwal et al., 2005; Bathala, Moon, & Rao, 1994; Batten & Vo, 2015; Dahlquist & Robertsson, 2001; Liao et al., 2013). Hence, a negative relationship was expected between foreign institutional ownership and listed tourism firms' debt ratio. In addition, profitable firms generally perform better in ROE (Jordan, Westerfield, & Ross, 2011), the third control variable, represented as the ratio of net incomes by total equities. Prior studies have shown that foreign institutional investors prefer firms with better ROE (e.g., Aggarwal et al., 2005; Covrig, Lau, & Ng, 2006; Liao et al., 2013). Following earlier research, the current study expected that foreign institutional investors were more likely to invest in listed tourism firms with higher ROE.

3.3. Data analysis

The hypotheses were tested by using ordinary least square (OLS) regressions. OLS regressions have been widely used in governance research, because they generally serve as a baseline analysis and appropriately perform an exploratory role in examining governance issues (e.g., Adams & Ferreira, 2009; Aggarwal et al., 2011; Bhagat & Bolton, 2008; Chung et al., 2010; Filatotchev et al., 2005). However, it is possible that other variables may influence OLS results. This is called omitted variable bias. To diminish the unobservable variable bias, fixed effects regression was performed (Adams & Ferreira, 2009; Aggarwal et al., 2011; Chang, Dutta, Saadi, & Zhu, 2018; Schultz, Tan, & Walsh, 2010; Yeh, 2018). In addition, potential endogenous effects of governance variables might exist. Endogenous effects have impacts on the consistency of causal relationships in the hypotheses. To overcome the endogenous bias, the two-stage least squares (2SLS) regression analysis was employed to confirm consistence of regression results (John, Li, & Pang, 2017; Yeh, 2018). Durbin-Wu-Hausman (DWH) test was beforehand performed to identify the potential endogeneity of CEO, DINS and INSD.

4. Results

4.1. Descriptive data

Table 1 shows the descriptive statistics. The average foreign institutional ownership was 13.47%, which was lower than 16% in non-U.S. countries and similar to 13% worldwide (Bena et al., 2017). The CEO had an average of 1.45% of ownership in the listed tourism firms of Taiwan. This number was lower than 7.05% from the database of ExecuComp, SEC Disclosure and Thomson Insider Filings (Lilienfeld-Toal & Ruenzi, 2014) and 2.38% in U.S. companies (McClelland et al., 2012). The mean domestic institutional ownership was 36.80%. The result was higher than 7% in non-U.S. countries and 30% globally (Bena et al., 2017). The listed tourism firms in Taiwan from 2011 to 2015 possessed

Table 1
Descriptive results.

Variables	N	Mean	Minimum	Maximum	Std. dev.
FINS	300	13.47	0.00	62.36	17.1187
CEO	300	1.45	0.00	14.51	3.1359
DINS	300	36.80	0.57	76.11	23.9948
INSD	300	44.36	0.00	100.00	36.9573
FSIZE	300	21.81	19.99	23.23	0.9954
FDEBT	300	34.16	10.56	69.33	14.6948
ROE	300	5.16	−32.81	58.52	10.0168

an average of 44.36% of institutional directors. It was higher than 21% of listed Spanish companies (Pucheta-Martínez & García-Meca, 2019) but similar to 44.39% in another study conducted in the Spanish stock market (Pucheta-Martínez & García-Meca, 2014).

4.2. Hypothesis test

Before testing the hypotheses, variance inflation factor (VIF) analysis was conducted to diagnose collinearity. Table 2 shows that the VIF results were between 1.01 and 2.37, not exceeding the acceptable level of 10 (Hair, Black, Babin, Anderson, & Tatham, 2006). Therefore, there was no collinearity problem. Column I in Table 1 reports OLS results. The results firstly identified that, when the foreign institutional ownership was the dependent variable, the model was significant ($F = 37.89, p < 0.01$). Foreign institutional ownership in Hypothesis 1 was assumed to be higher if CEO ownership was higher. Based on the regression results ($\beta_1 = 1.63, p < 0.01$), Hypothesis 1 was confirmed.

Hypothesis 2 explored the relationship between foreign and domestic institutional ownership. OLS results displayed a negative and significant effect of domestic institutional ownership on foreign institutional ownership ($\beta_2 = -0.29, p < 0.01$). As such, Hypothesis 2 was supported.

Hypothesis 3 argued that foreign institutional ownership was higher if listed tourism firms had more institutional directors. This hypothesis was accepted because the coefficient was significantly positive ($\beta_3 = 0.19, p < 0.01$). In addition, to control the unobservable variable bias, fixed effects regression was performed. Outcomes of fixed effects regression showed that Hypothesis 1, 2 and 3 were still supported (see column II, Table 2).

To manage the endogenous bias, DWH test was firstly carried out. DWH outcomes showed that when FINS was the dependent variable, residents of CEO, DINS and INSD were significant respectively. This confirmed that CEO, DINS and INSD were endogenous variables and the use of 2SLS was verified. The current study then used lag governance variables as instrumental variables in 2SLS analysis, because extant governance research had proved their validity (Al-Najjar, 2014; Yeh, 2018). The Sargan test also upheld the use of lag governance variables as

Table 2
Results of OLS, random effect and 2SLS regressions.

Dependent Variable = FINS											
Variables	VIF	(I) OLS		(II) Fixed Effect		(III) 2SLS Endogenous variable = CEO		(IV) 2SLS Endogenous variable = DINS		(V) 2SLS Endogenous variable = INSD	
		Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics
(Constant)		−52.35	−2.60*	−46.02	−2.20*	−51.63	−2.53*	−51.41	−2.53*	−50.41	−2.44*
CEO	1.28	1.63	6.02**	1.75	6.19**	1.67	5.20**	1.62	5.93**	1.64	6.03**
DINS	1.92	−0.29	−6.66**	−0.30	−6.65**	−0.29	−6.51**	−0.30	−6.39**	−0.29	−6.62**
INSD	2.37	0.19	5.95**	0.20	6.06**	0.19	5.92**	0.19	5.91**	0.19	5.74**
FSIZE	1.60	2.76	2.90**	2.47	2.51*	2.72	2.81**	2.73	2.85**	2.67	2.73**
FDEBT	1.12	0.08	1.47	0.06	1.08	0.08	1.49	0.08	1.41	0.08	1.47
ROE	1.01	0.56	7.44**	0.62	7.74**	0.56	7.32**	0.56	7.35**	0.56	7.34**
F-ratio/Wald χ^2			37.89**		37.86**		36.02**		36.94**		37.15**
R ²			0.44		0.44		0.43		0.43		0.43

**significant at the 0.01 level, *significant at the 0.05 level.

instruments due to their insignificant p values. Columns (III) (IV) and (V) of Table 2 respectively represent the results of 2SLS. DINS negatively and significantly influenced FINS. INSD as well as CEO statistically had positive effects on FINS. Taken all together, 2SLS results supported both OLS and fixed effects regression outcomes.

As to control variables, the current results were mixed. The effects of FSIZE and ROE were respectively consistent with previous research on foreign institutional ownership (e.g., Aggarwal et al., 2005; Dahlquist & Robertsson, 2001; Liao et al., 2013; Zou et al., 2016). As expected by the current study, foreign institutional investors were more likely to invest in firms with large size and higher ROE. However, the current results showed that the influence of FDEBT was statistically insignificant.

5. Discussion and conclusions

Due to globalization, there is an increasing participation of foreign institutional investors in the tourism industry around the world (Arshad, Iqbal, & Shahbaz, 2018; Davidson & Sahli, 2015; Mao & Yang, 2016). However, little research has been conducted to understand how foreign institutional investors choose invested tourism firms. Meanwhile, due to tourism firms being operated in an uncertain market, investors search for observable signals before making decisions (Rhee & Lee, 2008; Yeh, 2018). The current study enriches extant literature by examining the relationship between foreign institutional ownership and corporate governance of listed tourism firms. Specifically, CEO ownership, domestic institutional ownership and institutional directors are the focus, due to their importance to firm performance. Meanwhile, corporate governance is observable for potential investors (Ahmad-Zaluki & Wan-Hussin, 2010; Certo et al., 2001; Chen et al., 2010). Therefore, the current results contribute to our understanding on the investment behavior of foreign institutional investors in the tourism setting from the governance perspective by using signal theory.

The empirical outcomes show that foreign institutional investors prefer listed tourism firms with high CEO ownership, low domestic institutional ownership and a high level of institutional directors. As CEO ownership increases, it is a signal of a reduction in the agency problem (Kim & Lu, 2011; Lilienfeld-Toal & Ruenzi, 2014; Huang et al., 2009; McClelland et al., 2012). The current results reflect that foreign institutional investors are confident about the interest alignment between owners and agents, thus leading to more investment. Moreover, while domestic institutional investors have information advantages over foreign institutional investors, domestic institutional ownership is an opposite signal for foreign institutional investors (Fang et al., 2017; Jeon & Moffett, 2010). A doubt is casted by foreign institutional investors from the presence of domestic institutional investors who may have politics and business connections with local tourism firms. This may raise foreign institutional investors' concern about the agency problem (Huang & Zhu, 2015). Foreign institutional investors show a herding

behavior in the opposite direction from their domestic counterparts (Chen et al., 2008; Fang et al., 2017). In addition, unlike general investors, institutional directors are in the top management group, who are knowledgeable about the invested firms. Their presence in the tourism firm can be the signal convincing foreign institutional investors that effective and active supervision is in place (Pucheta-Martínez & García-Meca, 2014, 2019). As such, there is a positive response by foreign institutional investors to invest in tourism firms who have a high level of institutional directors.

Moreover, despite the current study not specifically measuring the cultural aspect, cultural differences should not be overlooked, because they have been acknowledged as having effects on preferences of foreign institutional investors due to information asymmetries (Aggarwal et al., 2012; Kandogan, 2016; Leuz et al., 2010; Song et al., 2016). The current results suggest corporate governance is globally recognized as a cornerstone for any firm endeavoring to pursue the interest alignments among stakeholders (Daily et al., 2003; Fama & Jensen, 1983). Foreign institutional investors can rely on corporate governance to deal with cultural dissimilarities. Ownership and board structure were found in the current study as useful governance signals for reducing the effect of cultural differences. The current results hence imply that even though cultural differences seem unavoidable, foreign institutional investors should be more concerned with corporate governance and seek those tourism firms displaying signals of preferable ownership and board structure.

The current study has both theoretical and practical implications. From a theoretical perspective, signaling theory is proven to be a proper theoretical framework, sustaining that ownership and board structure of tourism firms are signals of reduction in agency problems, resulting in foreign institutional investors preferring them. The current results further imply a connection between agency and signaling theories which seem to be in independent areas. For foreign institutional investors, governance variables are not merely signals, but also mechanisms sufficient to help them avoid agency problems in invested firms. For tourism firms, signaling theory is an encouragement to reduce agency problems. Tourism firms that effectively control agency problems are more likely to be identified via ownership and board structure, as indicated by signaling theory, which explains why they are preferred by foreign institutional investors. Moreover, the current findings help us specifically identify the conditions under which governance mechanisms of tourism firms are to influence investment behaviors. While generalizations are not made, the current study is among the first to discover a new linkage in uncertain markets with information asymmetry of how certain corporate governance affects foreign investors' interests.

Practically, the outcomes imply that maintenance of preferred governance practices is critical to attract foreign investment. Current outcomes offer a guideline for those tourism firms who want to attract foreign institutional investment. That is, tourism firms can increase CEO ownership and institutional directors and decrease domestic institutional ownership when they need external foreign financial support. In addition, the current findings suggest that policy makers should consider corporate governance not only as a supervision mechanism, but also as influence on choices of foreign institutional investors. In particular, mandated appointments of minimum two or 20 percent of independent members in the board room has been introduced in Taiwan since 2016 (Fan, Jiang, Kao, & Liu, 2020). Surprisingly, it was found that the presence of independent directors in tourism firms has no influence on foreign institutional investment (Yeh, 2018). Therefore, policy makers could revisit governance requirements to gain benefits from financial globalization. Moreover, since foreign institutional investors contribute to high percentages of daily trading volumes, they are critical traders for all listed firms in the Taiwanese stock market (Demirer et al., 2010; Liao et al., 2013; Wu et al., 2017). The current findings have practical implications for the other Taiwanese listed firms actively seeking foreign institutional investment.

The current study has several limitations, opening directions for future studies. First, the sample is limited to listed tourism firms in Taiwan. It would be interesting to examine whether the outcomes can be consistently discovered in other tourism markets. Therefore, a comparative study conducted in other regions can enrich our knowledge about how corporate governance influences foreign institutional investors' investment choices. Second, the study period is from 2010 to 2015. Future research may extend the study period to avoid time bias. Third, the current study focuses on three governance variables. It is suggested that further research could investigate the signal effects of other governance mechanisms, such as board diversity and CEO duality, to enrich the literature. Fourth, the current study emphasizes corporate governance in terms of equity investment, but foreign institutional investors can also have non-equity participation in the tourism industry (Falk, 2016). Future research can examine if the influence of corporate governance can also be found when a different investment type is used.

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