



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.

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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 (Dvořák, 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

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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 & Yang, 2016; Yang & Wong, 2012). As a result, it is acknowledged that foreign investment is critical for the development of the tourism industry (Li, Huang, & Song, 2017). Globalization facilitates the movement of foreign capital in tourism markets (Endo, 2006; Rodriguez, 2002). This means that foreign institutional investors have more investment choices around the world. Consequently, competition in attracting foreign institutional investors has become intensive in the tourism industry (Kantarci, 2007; UNCTAD, 2010). An important question to answer is how tourism firms make themselves favored by foreign institutional investors.

There are two investment choices for foreign institutional investors, namely non-equity and equity investment (Endo, 2006; Falk, 2016). In the tourism literature, most studies investigate non-equity investment by either asking investors about the factors influencing their overseas investments (e.g., Assaf, Josiassen, & Agbola, 2015; Johnson & Vanetti, 2005; Steiner, 2010) or examine selected variables to understand the determinants of foreign investment (e.g., Falk, 2016; Martorell, Mulet, & Otero, 2013; Zhang, Guillet, & Gao, 2012). Conversely, equity investment is under-examined, despite being the dominant entry mode in many economic regions (Falk, 2016; Guillet, Zhang, & Gao, 2011; Martorell et al., 2013). In sum, tourism research on foreign investment is increasing, but Song et al. (2012) still call for more research on the subject.

Natural tourism resources will not automatically attract foreign institutional investors; the way tourism firms are managed is the key factor in this regard (Endo, 2006). Indeed, firm characteristics have been identified as factors that can influence the investment choice of foreign institutional investors in the tourism industry (Contractor & Kundu, 1998; Mao & Yang, 2016). Given that foreign investment is important for the development of the tourism industry (Falk, 2016), it is critical to examine the preferences of foreign institutional investors. While studies have discovered

several factors influencing investment preferences of foreign institutional investors, most extant studies use no theoretical basis to examine the preferences of investors. Meanwhile, research on the role of board governance in investment preferences is absent. Notwithstanding, research has already shown that proper governance in the board room can reduce agency problems and contribute to firm value in both the general business (Fama & Jensen, 1983; Shleifer & Vishny, 1997) and tourism sectors (Al-Najjar, 2015; Yeh & Trejos, 2015; Yeh, 2013).

The purpose of the present study is to fill this research gap by investigating if certain types of board governance in listed tourism firms are preferred by foreign institutional investors. Board size, board independence and director ownership are utilized as proxies of board governance, since their importance in firm performance has been identified by the literature and governance codes (Swedish Corporate Governance Board, 2016; Bhagat & Bolton, 2013; Fama & Jensen, 1983; Germain, Galy, & Lee, 2014; Jensen & Meckling, 1976; Tokyo Stock Exchange, 2015). Based on signaling theory, the present study offers new insights into the preferences of foreign institutional investors toward listed tourism firms by examining the role of board governance.

By bridging this research gap, the current study makes several contributions to extant literature on tourism governance, tourism management and signaling theory. First, while previous governance research in both the general business and tourism sectors focuses on how board governance influences firm performance, the present study extends the current literature by focusing on the role of board governance of tourism firms in investment preferences. 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 non-governmental 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-Maqueira, & Lozano, 2009; Paavola & 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

(Stoffelen, Ioannides, & Vanneste, 2017; Valente et al., 2015; Wan & Bramwell, 2015; Wray, 2015).

For example, Stoffelen et al. (2017) analyzed German-Czech borderlands to investigate obstacles to the establishment of effective tourism destination governance in transnational and within-country borderlands. Based on interview results and document analysis, they identified that local tourism development was relatively successful and that multi-level governance structures in borderlands and politicized tourism governance were the main contributors to the development of cross-border tourism. Valente et al. (2015) did a case study on two regional tourism organizations in Brazil to examine the relationship between governance and leadership. They found that leadership was ambiguous and that the implementation of governance principles did not result in strong leadership. Wan and Bramwell (2015) examined the influence of Hong Kong's political economy on its modes of tourism governance and tourism development. Via a case study method, they found that tourism governance was influenced by capital accumulation, political legitimacy, government and civil society. Wray (2015) used four types of tourism governance to explore the influence of government on changes in regional tourism governance in New South Wales, Australia. In this case study, the author reported that tourism governance was influenced by various policies driven by political agendas and election commitments.

More recently, tourism governance has been investigated from the corporate perspective (Al-Najjar, 2015, 2017, 2014; Tan, Habibullah, & Tan, 2017; Yeh & Trejos, 2015; Yeh, 2013). For example, based on a sample of listed tourism companies in Jordan, Al-Najjar (2015) identified that institutional investors were self-opportunistic and that their presence negatively influenced firm performance by using panel data models. Similarly, by employing panel data analysis, Al-Najjar (2017) sampled UK travel and leisure listed firms, discovering that board size, board independence and CEO age could influence CEO pay. Tan et al. (2017) used the corporate environmental responsibility (CER) index to investigate the relationship between corporate governance and corporate environmental responsibility. Their results show that tourism firms with a high level of independent directors, a high frequency of board meetings and a large board are more likely to engage in environmental responsibility.

2.2. Investment preferences of foreign institutional investors

Studies on the investment preferences of institutional investors have been well documented in the general business sector (Bennett, Sias, & Starks, 2003; Falkenstein, 1996; Ferreira & Matos, 2008; Gompers & Metrick, 2001; Grinstein & Michaely, 2005). Results generally relate institutional investment to either stock characteristics, such as stock popularity, volatility, price and return, or firm characteristics, such as size, capitalization, dividend policy and financial ratio. For example, Dahlquist and Robertsson (2001) performed regression analysis, finding that foreign institutional investors in Sweden preferred to invest in firms that had a large size, paid low dividends and held more cash balances. Using the Fama-Macbeth method, Covrig et al. (2006) indicated that both domestic and foreign institutional investors preferred stocks with high return on equity, high turnover and low return variability. Foreign institutional investors also favored firms that were recognized worldwide, had high export revenues and were listed in global stock markets.

Ko et al. (2007) demonstrated that foreign investors in Japan and Korea were more likely to choose firms with large capitalization, low book-to-market ratios and high return on equity based on the Fama-French three-factor model. Studying the Indian IPO market by using regression, univariate and multivariate analyses, Neupane

et al. (2016) revealed that foreign institutional investors were more aggressive; they actively increased shareholding in firms with higher post-listing returns but decreased their ownership in firms that were smaller and younger. Zou et al. (2016) used the data derived from the Chinese stock market. Via panel regression, they indicated that domestic and foreign institutional investors were common in holding firms with large size, higher stock prices and better accounting performance. Foreign institutional investors preferred to invest in firms with longer history, high external visibility and low dividends.

In the tourism sector, studies on foreign investment have been increasing. Among these studies, a variety of issues have been examined, such as the spillover effects of foreign direct investment in the hotel industry (Gu, Ryan, & Yu, 2012; Mao & Yang, 2016), outward foreign direct investment in tourism industries (Li et al., 2017), and perceptions of foreign investors toward the tourism market (Kantarci, 2007). Moreover, determinants of investment in the hotel industry have gained research attention; most of them focus on the topic of non-equity investment and on the influence of the macro environment (Assaf et al., 2015; Contractor & Kundu, 1998; Falk, 2016; Guillet et al., 2011; Johnson & Vanetti, 2005; Martorell et al., 2013; Newell & Seabrook, 2006; Puciato, 2016; Rodriguez, 2002; Steiner, 2010; Zhang et al., 2012).

For example, Contractor and Kundu (1998) unearthed that foreign investors preferred to use management or franchising contracts rather than equity investment to engage in the hotel industry of high-risk countries. On the other hand, the hotel industry in countries with lower per capita income got relatively more foreign investment in ownership equity. Steiner (2010) qualitative research identified that the influence of stability and security on foreign investment decisions in the Middle East tourism market was over-emphasized. Analyzing the expansion of multinational hotel groups in China, Zhang et al. (2012) empirically argued that market demand, market size, business environment and mega events were critical determinants.

Using a syncretic approach, Martorell et al. (2013) study reported that Balearic hotel chains preferred to use equity investment in the Caribbean and Gulf of Mexico region because this region had lower risk, similar cultures and a high level of foreign investment. On the other hand, when Balearic hotel chains wanted to increase their chain size and brand recognition in the foreign market, they preferred to use non-equity investment strategies. Assaf et al. (2015) interviewed directors of leading international hotel chains and found that welcomeness, transportation quality and size of the tourism market are important factors to attract foreign investment in the hotel industry. Based on panel data estimators from 50 countries, Falk (2016) recognized that the size of the invested country, domestic language, business regulations, hourly wages and tax expenses were important factors influencing foreign direct investment decisions in the hotel industry.

2.3. Rationale for the study

It is relatively easier for domestic institutional investors than for foreign institutional investors to gain timely information (Choe, Kho, & Stulz, 2005; Giannetti & Simonov, 2006; Leuz, Lins, & Warnock, 2009). Factors such as physical distance, language and culture can cause foreign institutional investors to be relatively less informed (Kang & Kim, 2010; Ke, Ng, & Wang, 2010). Due to information disadvantages, foreign institutional investors need more time and effort to access local information (Jiang & Kim, 2004; Leuz et al., 2009).

Agency theory argues that a separation between ownership and management creates potential agency problems in which agents (managers) pursue self-interests at the cost of principals (owners)

(Fama & Jensen, 1983; Jensen & Meckling, 1976). To reduce agency problems, firms usually adopt multiple governance mechanisms (Bell, Filatotchev, & Aguilera, 2014). Foreign institutional investors generally have a sizeable shareholding in investee firms (Edmans, 2009; Khurshed, Lin, & Wang, 2011). If an agency problem exists, foreign institutional investors may suffer more severe capital losses than individual investors. Hence, to mitigate the chances of being expropriated by insiders and to reduce supervision costs, foreign institutional investors have a strong incentive to invest in firms with proper governance (Aggarwal et al., 2005; Giannetti & Simonov, 2006; Leuz et al., 2009). Moreover, because foreign institutional investors normally trade in a large amount, stock liquidity in the market is a critical concern for foreign institutional investors (Chung, Elder, & Kim, 2010). Chung et al. (2010) argue that firms with good governance have higher stock liquidity. It is, therefore, more likely for foreign institutional investors to be attracted to firms with good governance.

A few studies demonstrate that corporate governance is a critical determinant of investment behaviors of foreign institutional investors. Among them, Zou et al. (2016) study on the Chinese stock market showed that foreign institutional investors were more likely to hold firms with higher ownership concentrations. Examining 29 countries and employing U.S. holdings as the proxy for foreign institutional investment, Leuz et al. (2009) demonstrated that foreign institutional investors feared information asymmetry, so they were less likely to invest in firms with weak disclosure and shareholder protection. They also held fewer shares of firms that were majorly owned by insiders, such as managers and families. In the Swedish stock market, Giannetti and Simonov (2006) used a probit model and found that firms in which shareholders were more likely to be expropriated by controlling owners were less likely to be held by foreign institutional investors. While the above literature has shown that information disadvantages discourage foreign institutional investors to choose poorly governed firms, it is still unclear what specific governance mechanism is important for foreign institutional investors in the tourism sector. It has been argued that, when facing information disadvantage, foreign institutional investors are more likely to examine firm legitimacy (Bell et al., 2014; Pollock, Fund, & Baker, 2009). (Suchman (1995), p. 574) claims that legitimacy is a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate, within some socially constructed system of norms, values, beliefs, and definitions”. The board governance mechanism is a legitimated standard because it is regarded as a system of efficiently managing firms (Bell et al., 2014). To acquire legitimacy, firms react to institutional forces derived from stakeholders such as capital suppliers and regulatory authorities by adopting legitimated components in their organizational structure (DiMaggio & Powell, 1983; Greenwood & Hinings, 1996). As one type of legitimacy, board governance can be perceived as a signal to assist foreign institutional investors in investment decisions (Deutsch & Ross, 2003; Musteen et al., 2010).

While extant studies have contributed to the knowledge of investment preferences of foreign institutional investors, most are not based on a sound theoretical explanation. It is therefore not surprising that the issue of the signal sent by board governance to foreign institutional investors has gained little research attention in both the governance and tourism literature. Meanwhile, most studies on board governance do not consider industry characteristics, which may lead to thinking that one type of board fits all. Existing tourism literature has accordingly suggested that industry characteristics should be considered when studying the influence of board governance on firms (Guillet & Mattila, 2010; Yeh & Trejos, 2015; Yeh, 2013). Therefore, the current study is innovative because it brings new insights to governance research by considering the

specific characteristics of the tourism industry rather than simply applying the knowledge about general governance to the tourism sector. Moreover, by directly examining detailed data on board governance from listed tourism firms, the present study offers a new understanding of tourism governance with an emphasis on the relevance of foreign institutional investors' decision-making by using non-financial measures rather than financial measures. There is a variety of proxies for board governance. To narrow the research focus, the current study uses board size, board independence and director ownership as proxies for board governance because they have been identified as important governance mechanisms (Bhagat & Bolton, 2013; Fama & Jensen, 1983; Jensen, 1993).

2.4. Board size

Board size is an observable feature in a board of directors. It refers to the number of directors in a board room. Resource dependence theory identifies that the board is a bridge between a firm and its external environment. A large board has better abilities to manage external opportunities, to access to a greater range of needed resources and to bring more experience, skills and knowledge (Dalton et al., 1999; Goodstein, Gautam, & Boeker, 1994; Pfeffer & Salancik, 1978). Some empirical studies have confirmed a positive relationship between board size and firm performance. For example, Kiel and Nicholson (2003) examined listed firms in Australia from 1996 to 1998, arguing that board size positively contributed to firm value measured by ROA and Tobin's Q. In Dalton et al. (1999) meta-analysis, a positive effect of board size on firm performance was identified and the effect was stronger in small firms. Based on the databases from Execucomp, Compact Disclosure and Investor Responsibility Research Center, Coles, Daniel, and Naveen (2008) investigated complex firms that had an extensive scope of operations, indicating that Tobin's Q was positively influenced by board size.

Some studies, on the other hand, argue that a large board is not effective because of poor communication, coordination problems, slow decision-making and free riding (Jensen, 1993; Lipton & Lorsch, 1992). Other studies purport that boards with smaller size are cohesive and productive. They can effectively supervise the firm and get involved in strategic decision-making (Fama & Jensen, 1983; Jensen, 1993; Lipton & Lorsch, 1992; Zahra & Pearce, 1989). Jensen (1993) suggests that when a board has more than eight members, the function of the board is limited. Several studies found a negative influence of board size on firm value. For example, Bennedsen, Kongsted and Nielsen's (2008) research on closely-held firms in Denmark discovered a negative effect of increasing board size on ROA based on ordinary least squares (OLS) and two-stage least squares (2SLS). Eisenberg, Sundgren, and Wells (1998) provided similar evidence derived from a regression framework, in which board size was negatively related to the profitability of small- and mid-size Finnish firms. Additionally, many empirical studies have demonstrated that board size is negatively related to the performance of publicly traded firms in five European countries (Conyon & Peck, 1998), Switzerland (Loderer & Peyer, 2002), Singapore and Malaysia (Mak & Kusnadi, 2005), ten OECD countries (De Andres, Azofra, & Lopez, 2005) and the U.S. (Yermack, 1996).

In the tourism sector, research on the influence of board size is limited and the results are mixed. Among this research, Yeh and Trejos (2015) used listed tourism firms in Taiwan as a sample, finding that board size was negatively related to listed tourism firms' ROA and Tobin's Q in Taiwan. Al-Najjar (2014) used publicly listed firms in five Middle East countries as a sample. His results of time series analysis showed that a large board positively contributed to firm profitability but a small board enhanced stock performance. While the effect of board size on tourism firm

performance is inconsistent, the abovementioned results nonetheless confirm its importance.

Despite the fact that many governance codes suggest that optimal board size varies depending on the nature of the individual firm, most codes specify that board size should enable the firm to be efficiently managed (Financial Reporting Council, 2016; Monetary Authority of Singapore, 2012; Swedish Corporate Governance Board, 2016; Tokyo Stock Exchange, 2015). For example, the UK Corporate Governance Code argues that the board “should not be so large as to be unwieldy” (Financial Reporting Council, 2016, p. 10). In addition, and as mentioned above, the negative influence of board size on the performance of publicly traded firms has been identified by many empirical studies across countries. It appears that such empirical studies and institutional regulations have proposed a small board size for publicly traded firms. Until now, most existing studies examine how board size influences financial performance. They tend to ignore that board size can also be regarded as a critical signal of firm management. Investors may view board size as a sign of effective internal communication, better management supervision and compliance with legitimacy.

Moreover, it has been argued that, under an unstable market, a small board is preferred (Shropshire, 2010). One characteristic of the tourism market is that, due to weather, political and economic factors, tourism demand is unstable (Cook, Hsu, & Marqua, 2014; Yeh & Trejos, 2015; Yeh, 2013). When firms are operated in a stable market, one primary determinant of success is to implement existing strategies because there is less need to regularly develop new strategies (Fredrickson, 1984; Ginsberg, 1990). On the other hand, in an unstable market, firm success depends largely on top management, such as the board of directors, to develop strategies that can timely respond to changing markets (Carpenter & Westphal, 2001). Unlike most existing studies that place less emphasis on industry characteristics, the current study argues that environmental instability increases the level of information asymmetry in the market (Claro, Hagelaar, & Omta, 2003). Investors rely more on visible signals to make investment decisions in such a market. As noted above, a small board has the advantages of efficient communication and strategic decision making. Tourism firms with a small board send a signal to investors that a mechanism for quick decision-making is in place to make a timely strategic response to a changing market. Based on the above argument, the current study developed the following hypothesis.

Hypothesis 1. Foreign institutional ownership is higher in listed tourism firms with a small board of directors.

2.5. Board independence

Another visible aspect of board governance is board independence. The role of a board of directors in supervising managerial behavior has been widely examined in the governance literature (Dalton, Daily, Ellstrand, & Johnson, 1998). Agency theorists argue that when a board member is independent from management, s/he is more likely to objectively and vigilantly supervise and advise the CEO and top management (Fama & Jensen, 1983; Jaggi, Leung, & Gul, 2009; Jensen & Meckling, 1976; Kim, Kitsabunnarat-Chatjuthamard, & Nofsinger, 2007). Their vigilant supervision reduces the managers' opportunistic behavior, which in turn protects shareholders' interests (Li, Lu, Mittoo, & Zhang, 2015; Williamson, 1981). Therefore, it can mitigate the agency problem (Agrawal & Knoeber, 1996; Setia-Atmaja, Haman, & Tanewski, 2011). In other words, an independent board is more effective than a dependent board in avoiding managers' opportunistic behaviors and protecting shareholder interests (Dalton et al., 1999). The literature has

specifically defined an independent board member as one who is not holding any executive position. This excludes current and former employees, individuals with business or personal relationships with the firm and those directly appointed by the current CEO (Crespi-Cladera & Pascual-Fuster, 2014; Dalton et al., 1999; Jaggi et al., 2009; Rebeiz, 2018; Rhoades, Rechner, & Sundaramurthy, 2000; Setia-Atmaja et al., 2011).

Many empirical studies on board independence are consistent with the argument that it positively contributes to firm performance. For example, Bhagat and Bolton (2013) studied U.S. firms by employing OLS and 2SLS analysis, finding that greater board independence contributed to firm performance. By investigating admired U.S. firms listed in Fortune, Musteen et al. (2010) study supported a positive relationship between board independence and firm reputation. In Agrawal and Knoeber (1996) study on large U.S. firms, a positive relationship between board independence and Tobin's Q was confirmed by OLS statistics. Based on a logistic model, Leung and Horwitz (2004) research showed that board independence enhanced voluntary segment disclosure of listed firms in Hong Kong. Also in Hong Kong, non-family controlled firms listed in the exchange market were less likely to manipulate earnings when the proportion of independent director was high, as reported by Jaggi et al. (2009) using secondary data. Mainly based on regression analysis and the dynamic generalized method of moment (GMM) methods, Li et al. (2015) and Liu, Miletkov, Wei, and Yang (2015) confirmed a positive influence of independent directors on ROA, ROE and Tobin's Q of publicly listed firms in China. Analyzing panel data from 2000 to 2004 of listed firms in Australia, Setia-Atmaja et al. (2011) demonstrated that firms with a higher proportion of independent board members were less likely to manage earnings.

On the other hand, some studies found a negative relationship between board independence and firm performance (e.g., Bhagat & Black, 2002; Bhagat & Bolton, 2013; Hermalin & Weisbach, 1991; Volonté, 2015). Another stream of studies found no influence of board independence on firm performance (e.g., De Andres et al., 2005; Dulewicz & Herbert, 2004; Germain et al., 2014; Klein, 1998; Rebeiz, 2018). In the tourism sector, research on board independence has not attracted much attention. Yeh (2013) was one of the first to examine how board independence influenced firm performance. He indicated that ROA and Tobin's Q of listed hotel firms were positively influenced by board independence in Taiwan based on OLS and 2SLS. Yeh (2013) further suggested that governance policies in hotel firms should emphasize the importance of independent directors. Similarly, Al-Najjar (2014) concluded that board independence contributed to tourism firm profitability and stock performance. Therefore, board independence is an important governance mechanism in managing tourism firms.

The theoretical literature argues that greater board independence is important for reducing agency and increasing firm performance. While there is mixed empirical evidence about the relationship between proportion of independent directors and firm performance, the governance code or guideline in many developed and emerging markets, such as Australia, China, Hong Kong, Malaysia, the U.S. and the U.K., still emphasizes the legal requirement of independent board members (Crespi-Cladera & Pascual-Fuster, 2014; Germain et al., 2014; Jaggi et al., 2009; Kim et al., 2007; Li et al., 2015; Setia-Atmaja et al., 2011). In other words, firms are continually advised to recruit directors who are independent from management. Because supervision is not feasible for all investors, a high proportion of independent directors demonstrate a visible and clear signal of good governance (Musteen et al., 2010; O'Donoghue, 2004). In particular, due to information disadvantages, it is more likely that foreign institutional investors examine legitimized governance regulations when making investment decisions (Bell et al., 2014; Pollock et al., 2009). If board

independence is legitimized as the optimal structure of board governance, firms that adopt a greater proportion of independent board members are signaling their legitimate and effective supervision. This viewpoint has been overlooked by most existing studies.

Moreover, tourism firms are operated in an unstable market where firms face intense competition. To survive in this environment, firms need their board of directors to stay vigilant when supervising whether their firms maintain a good fit with the external environment. If necessary, the board should develop new strategies to keep their firms aligned with the changing market (Bloom & Michel, 2002; Wiersema & Bantel, 1993; Wu, 2008). As noted above, independent board members are more likely than dependent board members to be vigilant in supervising management and acting in the best interest of shareholders (Fama & Jensen, 1983). Therefore, based on the above argument, the following hypothesis was developed.

Hypothesis 2: Foreign institutional ownership is higher in listed tourism firms with more independent directors.

2.6. Director ownership

The principal-agent problem may occur when no interest alignment exists between shareholders and managers (Fama & Jensen, 1983). Managers are likely to engage in self-interested behaviors at the cost of shareholders. The board is established as a governance mechanism to supervise firm management and to ensure the interests of shareholders (Shleifer & Vishny, 1997). Based on the underlying argument of agency theory, the justification of director ownership is to align directors' interests with shareholders (Eisenhardt, 1989; Rose, Mazza, Norman, & Rose, 2013).

While some studies found that director ownership had negative or no impact on firm performance (e.g., Farooque, van Zijl, Dunstan, & Karim, 2007; Simpson & Gleason, 1999), most studies strongly support director ownership and demonstrate that directors with ownership can contribute to firm management and performance.

For example, Bhagat and Bolton (2013) inspected U.S. firms by analyzing OLS and 2SLS estimates, finding that director ownership was positively related to operating performance. Based on hand-collected data on director ownership in S&P 500 companies, Bhagat and Tookes (2012) empirically argued that voluntary directors' equity ownership contributed positively and significantly to future performance. Using a sample of banks from different European countries, Westman (2011) used a regression model to confirm that director ownership positively influences profitability. Ho, Lam, and Sami (2004) investigated firms from the Hong Kong database. Their regression results recognized that firms with higher director ownership were more likely to pay managers with lower cash compensation, to use less leverage and to mitigate agency problems. Rose et al. (2013) did a 2 × 2 between-participant randomized experiment and indicated that directors with more ownership were more likely to prevent managers from managing earnings. Using information on listed Australian firms, Farrer and Ramsay (1998) discovered that, in general, a positive relationship existed between director ownership and financial performance, but significant relationships varied when different performance measurements were used. Ju and Zhao (2014) studied fund companies based on a logistic framework, indicating that higher director ownership could reduce fund discounts.

The major responsibility of a board of directors is to engage and supervise firms in the best interest of shareholders (Fama & Jensen, 1983). While directors have the legal authority to make or approve all critical firm decisions, they may passively fulfill their duties. It is plausible to assume that, when directors become shareholders

themselves, a direct link is created between their wealth and firm performance. Thus, they have greater motivation to attentively make and actively supervise important decisions in order to ensure firm performance (Bhagat & Bolton, 2013; Farrer & Ramsay, 1998; Ju & Zhao, 2014; Westman, 2011). In sum, most extant empirical studies support that greater director ownership contributes to firm performance. To enrich the understanding of contributions made by director ownership to firms, the current study regards director ownership as a positive signal for foreign institutional investors by taking into consideration the characteristics of the tourism industry.

One determinant for firms to deal with an unstable market is to take timely strategic actions (Tan & Tan, 2005). Outside owners, the board of directors and top management need to come together to manage the impact of an unstable market. However, outside owners are less likely to get involved directly in this strategy-making procedure (Li & Simerly, 1998). They majorly rely on the board of directors to monitor that strategy (Jensen & Meckling, 1976). Increasing director ownership can make directors become inside owners and directly engage in the decision-making procedure. The importance of this to increase firm performance has been identified, particularly in an unstable environment (Li & Simerly, 1998; Mangena, Tauringana, & Chamisa, 2012). The present study argues that, when operating in an unstable market, tourism firms that have a high proportion of director ownership send a signal to foreign institutional investors that the alignment in interests between owners and managers is maintained.

In addition, many large size firms require from their directors a certain level of ownership. For example, Alphabet Inc., a parent company of Google, articulates in its corporate governance guidelines that, in order to closely align the interests of directors with those of shareholders, each director is required to own a minimum amount of shares (Alphabet Inc., 2018). Similarly, directors of the Grand Hyatt are required to hold a minimum of \$375,000 worth of the company's shares, to help align director's interests with those of shareholders (Hyatt Hotel, 2016). As such, director ownership can be viewed as a signal of firm legitimacy, but it also provides investors greater confidence in interest alignment. Based on the above argument, the following hypothesis was developed.

Hypothesis 3: Foreign institutional ownership is higher in listed tourism firms with higher director ownership.

3. Methodology

Based on the hypotheses, the following equation was developed:

$$FINS = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 BOWN + \beta_4 FSIZE + \beta_5 FDEBT + \beta_6 ROA + \varepsilon_1$$

3.1. Variables

The dependent variable in the equation is FINS, which refers to the ownership proportion of foreign institutional investors in listed tourism firms. Dependent variables included board size (BSIZE), the proportion of independent board members (BIND) and ownership proportion of directors (BOWN). There are three control variables: firm size (FSIZE), firm debt (FDEBT) and ROA. FSIZE is the natural logarithm of total assets. FDEBT is the natural logarithm of total liabilities. ROA is the result of dividing firm net incomes by total assets.

3.2. Sample and data

The sample consisted of publicly traded tourism firms in Taiwan. These firms included hotels, food & beverage providers, attractions and travel agencies. Data were collected for each firm from the first quarter of 2011 to the last quarter of 2015. The population included all listed tourism firms classified as such by the Taiwan Stock Exchange or the Taipei Exchange with available data on board governance during the period of study. All data on board governance were gathered from the database of the Market Observation Post System and the Taiwan Economic Journal. The population initially included 16 tourism firms. However, one firm was excluded because its main business was to provide karaoke services rather than tourism-related services. Eventually, the sample comprised 15 listed tourism firms. As such, a total of 300 observations were included.

3.3. Data analysis

The current study used descriptive statistics, such as means, to describe the dataset. The augmented Dickey Fuller (ADF) unit root test was then performed to examine the stability of each variable before testing the hypothesized relationships (Belloumi, 2010; Plaza, 2011; Tang & Tan, 2013). To test hypotheses, the current study carried out OLS regressions. While OLS regressions offer benchmark results, they are subject to biases. One of the biases is the omitted variable bias. The assumption of omitted variable bias is that there may be unobservable factors that simultaneously affect variables in the regression model. The current study employed the fixed effect regression to overcome the omitted variable bias. Due to its robustness, the fixed effect regression has been widely used to avoid the effect of omitted variables in both governance (e.g., Adams & Ferreira, 2009; Aggarwal, Erel, Ferreira, & Matos, 2011; Ju & Zhao, 2014; Setia-Atmaja et al., 2011) and tourism research (e.g., Alam & Paramati, 2016; Fang, Ye, & Law, 2016; Fourie & Santana-Gallego, 2011; Zhang, Luo, Xiao, & Guillet, 2013) from different economic regions. Another bias is endogeneity, which can cause inconsistency in the casual relationship of the regression. To overcome the problem of endogeneity, the current study performed 2SLS. 2SLS has been frequently used by researchers to address the issue of endogeneity in both governance (e.g., John, Li, & Pang, 2017; Kinda, 2010; Lee, Cin, & Lee, 2016; Masulis, Wang, & Xie, 2012) and tourism research (e.g., Al-Najjar, 2014; Marrocu & Paci, 2011; Tsui, 2017; Yeh & Trejos, 2015) across global regions.

For the robustness check, the current study conducted several further analyses which have been commonly used by extant research, such as including year dummies (e.g., Fayissa, Nsiah, & Tadasse, 2008; Huang, Tsaor, & Yang, 2012; Lee & Park, 2010), performing robust regressions (e.g., Falk, 2015; Thrane & Farstad, 2011; Thrane, 2016), using Tobit regressions (e.g., Bernini & Cracolici, 2015; Liu & Park, 2015; Liu, Schuckert, & Law, 2018) and adding additional governance variables (e.g., Belloc & Pagano, 2009; Coles, Daniel, & Naveen, 2006; Switzer, 2007).

4. Results

4.1. Preliminary analysis

Table 1 displays the descriptive results for the studied variables. The average foreign institutional ownership of the listed tourism firms in Taiwan was 13.47%, with a maximum ownership of 62.36% and a minimum ownership of 0%. The mean board size was 7.18 members. Compared with the board size of general business firms in other countries (see Fig. 1), such as 6.58 in Australia (Kiel & Nicholson, 2003), 5.95 in China (Chen, 2015), 3.67 in Denmark (Bennedsen, Kongsted, & Nielsen, 2008), 7.63 in Malaysia (Germain et al., 2014) and 8.5 in Switzerland (Loderer & Peyer, 2002), listed tourism firms in Taiwan had a relatively large board size.

The descriptive results indicate that the average independent director ratio in listed tourism firms of Taiwan was 17%. Extant studies show (see Fig. 2) that the average percentage of independent directors in general firms was 34% in Australia (Setia-Atmaja et al., 2011), 34.7% in China (Li et al., 2015), 43.2% in Hong Kong (Jaggi et al., 2009) and 41% in Malaysia (Germain et al., 2014). It is clear that listed tourism firms in Taiwan had a relatively lower percentage of independent directors than those in general business firms of other countries. Moreover, on average, there was 25.01% of director ownership in listed tourism firms in Taiwan. The mean director ownership of general business firms was 10.26% in Australia (Farrer & Ramsay, 1998), 38.5% in Hong Kong (Leung & Horwitz, 2004), and 13.7% in the U.S. (Bhagat & Bolton, 2013). In sum, the descriptive data shows that firms from Asian countries have relatively higher director ownership (see Fig. 3).

4.2. Hypothesis test

The augmented Dickey Fuller (ADF) unit root test was firstly conducted to ensure the stationarity of variables. The results

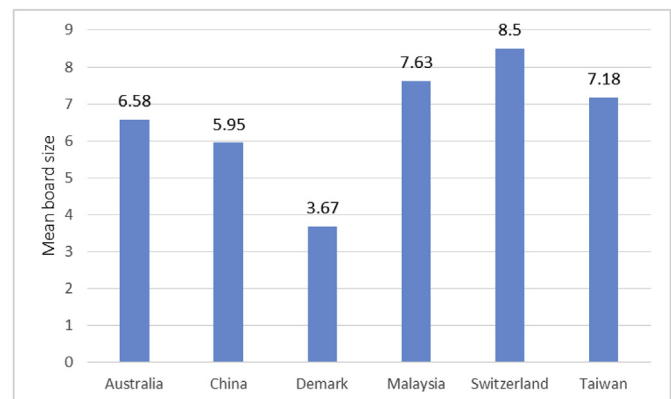


Fig. 1. Mean board size.

Source: Bennedsen et al., 2008; Chen, 2015; Germain et al., 2014; Kiel & Nicholson, 2003; Loderer & Peyer, 2002; Present study.

Table 1
Descriptive results.

Variables	N	Mean	Minimum	Maximum	Standard deviation
Foreign Institutional Ownership (FINS)	300	13.47	0.00	62.36	17.1087
Board Size (BSIZE)	300	7.18	5	15	2.435
Board Independence (BIND)	300	17.00	0.00	66.67	19.7559
Board Ownership (BOWN)	300	25.01	1.83	68.37	16.1009
Firm Size (FSIZE)	300	21.81	19.99	23.23	0.9954
Firm Debt (FDEBT)	300	20.62	17.89	22.51	1.1152
Return on assets (ROA)	300	3.41	-14.46	28.02	5.5314

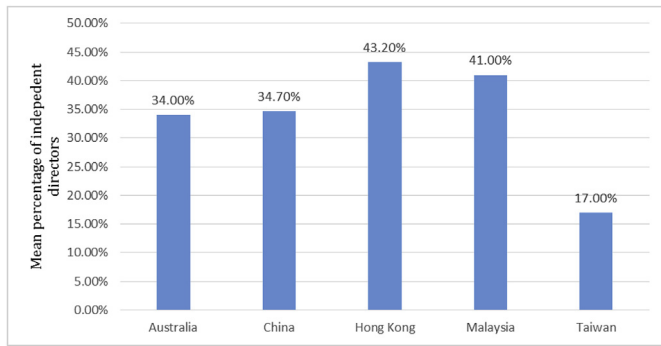


Fig. 2. Mean percentage of independent directors.

Source: Germain et al., 2014; Jaggi et al., 2009; Li et al., 2015; Setia-Atmaja et al., 2011; Present study.

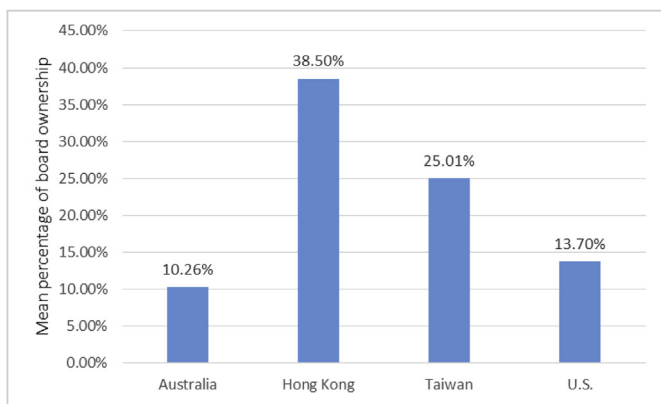


Fig. 3. Mean percentage of board ownership.

Source: Bhagat & Bolton, 2013; Farrer & Ramsay, 1998; Leung & Horwitz, 2004; Present Study.

showed that FINS, BIND, BOWN, FDEBT and ROA were stationary because the values of their ADF test met the stationary status at the 5% significant level. Similarly, BSIZE was a stationary variable because its ADF statistical value was significant at the 1% level. Only FSIZE was not stationary at the significant level. ADF with the first difference was then performed. FSIZE became stationary at the 1% significant level. As such, the data set for FSIZE with first difference was used in the rest of the analyses. Table 2 shows the outcome of OLS. The overall model was significant ($F = 28.78$, $p < 0.01$). The variance inflation factor (VIF) was calculated to examine whether

collinearity existed among variables. As shown in Table 2, the VIF values were between 1.018 and 1.785, lower than 2 and within the acceptability threshold of 10 (Hair, Black, Babin, Anderson, & Tatham, 2006). As such, no sign of multicollinearity exists among variables.

Hypothesis 1 investigated the relationship between foreign institutional ownership and board size. Regression results show that board size negatively and significantly influenced the ownership proportion of foreign institutional investors ($\beta_1 = -0.671$, $p < 0.05$). Hypothesis 1 was accordingly supported. Hypothesis 2 proposed that foreign institutional ownership is higher in listed tourism firms with a high proportion of independent directors. The results show a negative and nonsignificant effect of independent directors ($\beta_2 = -0.037$, $p > 0.05$). As such, Hypothesis 2 was rejected. The final hypothesis argued that listed tourism firms with more director ownership were positively related to foreign institutional ownership. Table 2 shows that the influence of director ownership on ownership proportion of foreign institutional investors was positive and significant at the 1% level ($\beta_3 = 0.438$, $p < 0.01$). Hypothesis 3 was accordingly supported.

The OLS regression outcomes initially supported both Hypotheses 1 and 3, namely that listed tourism firms with a small board and higher director ownership are preferred by foreign institutional investors. To overcome the omitted variable bias, a fixed effect regression was carried out. Column 2 of Table 2 displays the findings of fixed effect regressions. A small board and higher director ownership were still significant determinants of foreign institutional ownership.

Another bias is endogeneity. If board governance is endogenous, the casual relationship in the regression is inconsistent. One possibility is that a high proportion of foreign ownership can contribute to the enhancement of board governance due to active supervision from foreign institutional investors. To overcome the potential endogeneity, 2SLS were conducted. To ensure the justification of 2SLS, the Durbin-Wu-Hausman test was performed to examine the potential endogeneity of the three governance variables. The Durbin-Wu-Hausman statistic demonstrated that residuals of BSIZE and BOWN were statistically significant. This implied that the regression results might be biased when board size and director ownership were independent variables. Therefore, the current study went on to carry out 2SLS analysis. The lagged governance variables and control variables were used as instrumental variables (Al-Najjar, 2014; Ammann, Oesch, & Schmid, 2011; Guest, 2009; Hoehle, Schmid, Walter, & Yermack, 2012). To verify the instrumental variables, the Hansen J test was conducted. The Hansen J statistic confirmed the validity of these instruments because the p -values were insignificant. The results of 2SLS can be

Table 2

Results of OLS, Fixed effect and 2SLS regressions.

Dependent Variable = FINS									
Variables	VIF	(I) OLS		(II) Fixed effect		(III) 2SLS Endogenous variable = BSIZE		(IV) 2SLS Endogenous variable = BOWN	
		Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics
(Constant)		-158.830	-9.85**	-163.806	-9.84**	-158.574	-9.83**	-159.619	-9.84**
BSIZE	1.039	-0.671	-2.02*	-0.695	-2.05*	-0.860	-2.36*	-0.678	-2.04*
BIND	1.623	-0.037	-0.72	-0.016	-0.30	-0.036	-0.71	-0.042	-0.79
BOWN	1.785	0.438	6.58**	0.425	6.18**	0.443	6.64**	0.449	6.31**
FSIZE	1.039	-0.277	-0.10	0.161	0.05	-0.324	-0.11	-0.310	-0.11
FDEBT	1.150	7.948	10.43**	8.180	10.38**	7.995	10.47**	7.980	10.42**
ROA	1.018	0.857	5.89**	0.959	6.09**	0.855	5.87**	0.855	5.88**
F-ratio			28.78**		28.95**		29.00**		28.20**

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

found in columns (II) and (IV) of Table 2. Accordingly, board size still had a negative effect on the proportion of foreign institutional ownership and the effect of director ownership on foreign institutional ownership was significantly positive. Overall, Hypothesis 1 and 3 were supported by OLS, fixed effect and 2SLS regressions.

5. Further analysis

Several additional analyses were performed to confirm the robustness of the current results. First, to control the effect of time, the current study re-examined the hypotheses by including year dummies. Due to limited space, the results were not presented, but the unreported results show that the influence of board size and board ownership on foreign institutional ownership still remained statistically significant. Second, an alternative analysis technique, robust regression, was performed. The robust regression was conducted to avoid potential biases from outliers (Rousseeuw & Leroy, 2003). Results were reported in column (I) of Table 3. They were similar to the outcomes of OLS, fixed-effect and 2SLS regressions reported in Table 2 in terms of statistical significance and coefficient signs. The similar results indicate that the current outcomes were robust to a different analysis technique.

Third, another alternative analysis technique, Tobit regression, was performed. Foreign institutional ownership was a continuous variable and had a minimum value of zero. One of the potential limitations of OLS regressions is the bias toward a value of zero, which may lead to inconsistent estimates (Liu & Park, 2015; Lyu & Hwang, 2015). Tobit regression is a method used to examine the relationship between an independent variable with either a positive or zero value and a number of dependent variables (Gokovali, Bahar, & Kozak, 2007; Liu & Park, 2015; Liu et al., 2018). The results of Tobit analysis are shown in column (II) of Table 3. It is clearly shown that Tobit analysis did not change the significant relationships. The significance level between foreign institutional ownership and board size became even stronger.

Fourth, the current study added two additional board governance variables, namely institutional directors and a share pledge ratio of directors, to the baseline equation. The purpose was to examine whether results were sensitive to the inclusion of additional variables. If the significant influence of original variables on foreign institutional ownership does not change, this enhances the robustness to the current outcomes. The rationale behind adding these two variables was that, when institutional investors are elected as board members, they become institutional directors. Because of their relatively large shareholding, institutional directors have greater incentives to supervise invested firms

(Pucheta-Martínez & García-Meca, 2014). By getting directly involved in board meetings, institutional directors are able to conduct arm's length supervision and gain specific knowledge about invested firms (Colpan & Yoshikawa, 2012). With this knowledge, institutional directors can effectively supervise the firms (Pucheta-Martínez & García-Meca, 2014). As such, the presence of institutional directors is a positive signal of close supervision. It is expected that foreign institutional investors are more likely to feel confident about investing in tourism firms with institutional directors in the board room.

Moreover, shares pledged by directors refer to board members using their shares of firm equities as collaterals for loans. Some empirical studies have shown that a high ratio of shares pledged by directors are negatively related to firm performance because of a misalignment of interests between directors and shareholders (e.g., Huang & Xue, 2016; Kuan, Li, & Chu, 2011). Therefore, a high share pledge ratio is a signal of weak governance. It is expected that foreign institutional investors are more likely to avoid tourism firms when this signal is present. When adding institutional directors (INSD) and the share pledge ratio of directors (PLEDGE) for further analyses (as shown in Column III and IV of Table 3), their influence on foreign institutional ownership was not statistically significant. More importantly, with these two additional variables, the current study did not witness changes in significant relationships. In particular, the negative effect of board size and positive effect of board ownership still remained statistically significant. It therefore confirmed the robustness of the current findings.

6. Discussion and conclusions

The investment preferences of foreign institutional investors have been widely examined in the business sector. However, most extant studies have ignored the role of board governance on investment preferences in the tourism industry. Using signaling theory, the present study is an attempt at bridging this gap by arguing that board governance is a mechanism for tourism firms to communicate their legitimacy with foreign institutional investors. It offers a viewpoint that board governance is particularly important for foreign institutional investors, since it is a legitimacy mechanism that signals how a tourism firm is structured and managed.

The present results identify that foreign institutional investors seek tourism firms with a small board. A small board sends foreign institutional investors a signal of effective internal communication and timely strategic decision-making. This result as such supports the explanation that coordination and ability to make quick

Table 3
Further analyses.

Dependent Variable = FINS								
Variables	(I) Robust regression		(II) Tobit regression		(III) OLS (additional variables)		(IV) Fixed effects (additional variables)	
	Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics	Coefficient	t statistics
(Constant)	−158.325	−9.79**	−221.720	−11.06**	−152.869	−8.56**	−156.832	−8.51**
BSIZE	−0.661	−1.98*	−1.181	−3.10**	−0.741	−2.15*	−0.776	−2.20*
BIND	−0.037	−0.71	−0.025	−0.41	−0.018	−0.31	0.007	0.11
BOWN	0.436	6.52**	0.403	5.38**	0.437	6.42**	0.425	6.04**
FSIZE	−0.300	−0.10	0.976	0.26	−0.231	−0.08	0.236	0.08
FDEBT	7.920	10.36**	11.091	11.59**	7.607	8.68**	7.777	8.57**
ROA	0.856	5.86**	0.905	5.61**	0.875	5.78**	0.988	5.98**
INSD					0.022	0.77	0.025	0.87
PLEDGE					0.021	0.39	0.029	0.52
F-ratio/Wald χ^2		28.82**		156.80**		21.56**		21.72**

Note: **significant at the 0.01 level, *significant at the 0.05 level; INSD: institutional directors; PLEDGE: share pledge ratio of directors.

decisions in the board room are important factors that attract capital resources of foreign institutions. On the other hand, the outcomes of the present study show that board independence does not influence the ownership proportion of foreign institutional investors. While the current study argues that board independence is a signal of vigilant supervision, foreign institutional investors pay less emphasis on this signal. One possible explanation is that foreign institutional investors generally own a big amount of capital. To protect this capital, foreign institutional investors are more likely to actively supervise invested firms on their own (Ferreira & Matos, 2008; Gillan & Starks, 2003). Therefore, the supervision offered by an independent board is substituted by that of foreign institutional investors. Moreover, a high level of director ownership signals interest alignments among directors and shareholders. This result supports the viewpoint that, when directors become shareholders by increasing their ownership, foreign institutional investors are more likely to be confident that directors feel responsible for firm achievement. Given this interest alignment, tourism firms can attract foreign investment.

The current outcomes have various implications. From a theoretical standpoint, the current study is one of the first using signaling theory to explain the role of board size and director ownership as critical visible signals for foreign institutional investors when making investment decisions in the tourism sector. As a result, signaling theory can be extended from merely understanding the actions, intentions and abilities of firms to perceiving the investment behavior of foreign institutional investors in the tourism sector. The literature on signaling theory, investment preferences and tourism governance is accordingly enriched. As for practical implications, many governance codes emphasize the importance of board size and director ownership for enhancing board efficiency and interest alignments. The present outcomes provide empirical evidence that board size and director ownership do matter to foreign institutional investors. It is important to know that compliance with governance codes is not mandatory, but to gain the confidence of foreign investors, managers of tourism firms whose strategy is to attract foreign capital resources should realize such compliance is a positive signal for these investors.

The study is subject to some limitations. First, the present results could be period-specific, even though the current study included year dummies for further analysis. These results may only be true for the period between 2011 and 2015. Examination based on a longer dataset may enhance the confidence when testing the study's hypothesized relationships. Therefore, future research may expand the study period in order to alleviate period-specific influences. Secondly, the sample of the current study is based on listed tourism firms. These firms were selected to narrow the research focus on those firms whose governance practices are available for the public and under close scrutiny by authorities. It remains unclear whether the present outcomes can be generalized to non-listed tourism firms. It is a challenge to collect data on board governance for non-listed tourism firms, because companies are not required to release this data to the public. If future research can overcome this challenge, knowledge on the current issue may be enriched. Thirdly, it should be noted that only a limited number of board governance variables were examined by the current study, in order to limit the research focus. While the outcomes reported here provide evidence of the importance of board governance and additional board governance variables were examined in further analyses, an ample investigation on other board governance variables can offer a more complete understanding of investment preferences. For example, firms with CEO duality, board diversity and interlocking directorships may send positive signals to foreign institutional investors. On the other hand, firms with shorter-tenured directors and those with less managerial experience may

not be preferred by investors. Fourthly, based on the tourism market in Taiwan, the present study can be regarded as an initial attempt to examine the influence of board governance on investment preferences of foreign institutional investors. However, it hinders the generalizability to the international tourism market. Future research may make use of international data to compare and verify the present findings, in order to reach a reliable conclusion for the global tourism industry. Fifthly, only secondary data on board governance is used for this study. Future research can enhance our understanding if foreign institutional investors are directly asked about their preferences in terms of board governance of investee tourism firms. To prevent respondents from having subjective biases or answering in socially acceptable ways, diverse informants, such as owners and managers, may be interviewed. By triangulating primary and secondary data analysis, more confident conclusions may be drawn.

In conclusion, the current study discovered that board size and board ownership of tourism firms can influence the ownership proportion of foreign institutional investors. Nonetheless, more research is still needed for understanding the relationship between governance and investment preferences in the tourism context.

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