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Case study

Evaluation of hotel industry performance and corporate governance: A stochastic frontier analysis

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ABSTRACT

The aim of this paper is to investigate the impact of corporate governance on Tunisian hotels' performance. This study introduces different variables associated to corporate governance in the hotel industry to measure the association between corporate governance and Tunisian hotels' performance. Thus, this paper evaluates the efficiency of 63 hotels during 2011–2012 and adopts a stochastic frontier function with 16 inputs (size of board of directors, number of outside directors, institutional participation in the capital, board independence, stock ownership of board members, CEO — chair separation…). Six outputs as performance measures (financial performance, social and human performance, organizational performance, commercial performance and global performance) are specified and used to estimate hotel efficiency. The results reveal that corporate governance measures are positively and significantly associated with hotel performance, and that hotels in Tunisia are on average operating at 65.02% efficiency.

1. Introduction

The growth of tourism worldwide continues to be a major socio-economic phenomenon of our present time. Nowadays, tourism is deservedly acknowledged to have unquestionable importance marked by a considerable contribution in currency, a contribution to the equilibrium of the trade balance. This finding has been mentioned and proved many times and this has been made clear by Narayan and Sharma (2013) in their investigation carried out in 6 Pacific Islands wherein they studied the relationship between the hotel industry and its macroeconomic contribution. And this was also done before them by Tang and Jang (2009) when they studied the case of U.S. hotel business, or also by Kreishan (2011) for Jordan, Chen and Chiou-Wei (2009) for Taiwan, Kaplan and Celik (2008) for Turkey, Dritsakis (2004) for Greece, Balaguer and Jorda (2002) for Spain, and Oliveira, Isabel Pedro and Cunha Marques (2013) for Portuguese.

In this context and given the current state of Tunisian tourism and more particularly the hotel industry we noticed that this sector suffers from the inside: Poor quality of service, lack of product diversification, debt, mismanagement … (Weigert, 2012). This sector is characterized by a situation of cognitive heterogeneity, but also of information asymmetry between the manager of the hotel establishment and the members of the board who do not know, in some cases, even the specifics of the trade. Thus, it is expected that the relational aspect of individuals within the board of directors and in the presence of the establishment director, improves or degrades the quality of the strategic decision and hence the performance of the company, hence the importance of the existence of a "good" system of corporate governance. The approach to corporate governance in tourism seems vital and reliable for more than one reason. Guillet and Matilla (2010) show the importance of corporate governance in the hotel industry, in that it positively affects performance. In this sector, the process of governance adopted differs from the system adopted by other industries, in the sense that the sector of tourism has specific characteristics such as the separation of ownership from the management function, multiplicity of actors … in their study conducted in America on a sample of 10 hotel groups over a period of 8 years. For this purpose, governance and performance are two valid concepts at the heart of the current science of management. One complements the other in the sense that the primary obsession of every organization is to create value. Several studies have focused on the study of the relationship and the link between the two phenomena. Some researchers investigated in the hotel industry, others in industrial areas, all over the world. We referred to the study performed by Wang and Zhou (2011), who opted for a correlation test followed by a linear regression to explain the performance of Chinese firms (ROA, ROE, Tobin Q) based on variables related to governance (features of the AC, dual system, outside director, ownership structure).

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Thus, this study serves as a reference for us to identify our variables and subsequently to test the validity of our assumptions.

The aim of our research is to exploit the contribution of the corporate governance literature on explaining the different measures of the Tunisian hotels' performance. Next, our goal will be to present different efficiency scores to identify what kind of performance corporate governance affects the most and to what degree.

In this paper, we present an original essay that seeks to explain how the corporate governance mechanism can affect the hotel industry performance, and how this approach can limit managers' mistakes leading to the inefficiency of the tourism industry.

2. Literature review

According to Jarboui, Forget, and Boujelbene (2014) corporate governance mechanisms and controls are designed to reduce the inefficiencies that arise from moral hazard and adverse selection. There are both internal monitoring systems and external monitoring systems. Internal monitoring can be done, for example, by one (or a few) large shareholder(s) in the case of privately held companies or a firm belonging to a business group. Furthermore, the various board mechanisms provide for internal monitoring. Therefore, internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals. External monitoring of managers' behavior, occurs when an independent third party (e.g. the external auditor) attests the accuracy of information provided by management to investors. Therefore, external corporate governance controls encompass the controls that external stakeholders exercise over the organization.

Several previous studies have investigated the role of governance mechanisms in the resolution of conflicts of interest between shareholders and managers and in the improvement of performance. The latter implies an interest in the plurality of actors. Indeed, in the field of tourism, partnership is often rigorous and must be taken into account. It is therefore important to integrate various stakeholders (banks, state, another hotel chain, suppliers, customers …) in making strategic or other decisions, with the aim of creating value.

According to Cubbin and Leech (1983), conflicts of interest give rise to the particular relation between owners and firms performance. The relationship between ownership concentration and firm performance is determined by the identity of the large shareholders. This result is confirmed by Thomsen and Pedersen (2000). It is explained by fact that different types of shareholders have different levels of investment priorities.

Shleifer and Vishny (1994) confirm that when government or politicians have concentrated control rights, owned firms are more closely governed and the profit generated is used to finance the national budget. According to agency literature, Jensen and Meckling (1976) confirm that ownership structure will not provide shareholders with adequate control due to lack of ability to monitor management decisions concerning capacity and motivation.

For many reasons, manager/insider ownership attracts attention and interest. Firstly, owner/managers work harder and pay closer attention to the quality of work than no owners. According to Görg and Greenaway (2004), foreign ownership plays a crucial role in firm performance, particularly in developing and transitional economies. Many researchers, such as Aydin et al. (2007), state that multi-national firms are more efficient than domestically owned firms. There are many reasons for this effect of ownership on firm performance and how it encourages managers to work hardly and seriously to assure firm performance. The effect of ownership concentration on firm efficiency has been studied since Berle and Means (1932). Firms with ownership concentration are highly efficient, a result that is confirmed by Cubbin and Leech (1983). In line with this idea, Demsetz (1983) agrees with this result and argues that ownership structure is the outcome of competitiveness.

According to Shleifer and Vishny (1997), the strong incentive of larger owners to monitor managers to assert their interest generates an inclination of managers to maximize shareholder value. To maximize total shareholder, the small shareholders have an insufficient incentive because the control and monitoring increases.

Thus, particular attention should be paid to the logic of action of these actors. These guidelines on how and when to act allow us to understand how to establish links between the various stakeholders (Gerbeaux & Marcelpoil, 2003). Then we should take into account the types of relationships and forms of vertical and horizontal coordination between the different actors. Because these relationships are asymmetrical, their analysis is advocated in the hotel sector (Marcelpoil, 2002). Finally, governance emphasizes the importance of the notion of collective actor. From the time the tourism sector is perceived by customers as a functional area likened to a “black box”, the latter must put the odds on its side to prosper and ensure its sustainability. In a logic of governance, this sector will be required to meet a double challenge: on the one hand, the need for economic development and the logic of competition associated with it, and on the other hand, the fight against social exclusion.

Other recent research has studied the efficiency and performance of hotels. Oliveira et al. (2013) use non-parametric techniques to investigate and compare the efficiency of Portuguese hotels in the Algarve using data envelopment analysis (DEA). Authors conclude that star rating is not a significant determinant of efficiency but location and the existence of golf courses may have some relevance. Benavides-Velasco, Quintana-García and Marchante-Lara (2014) examine how the implementation of both total quality management and corporate social responsibility influences the results of hotels' stakeholders as an antecedent of business performance. For 141 Spanish hotels from the Andalusian region, this study shows that the adoption of such approaches improves the capacity of hotels to create benefits for their stakeholders, and these results have a positive effect on hotel performance.

In terms of performance in the hotel industry and its close link with the phenomenon mentioned above, we are interested here in a multi-criteria, multi-dimensional performance. The overall performance of a hotel business cannot be measured only on the basis of one of the financial achievements or the maximization of shareholder value. Indeed, studies focusing on this observation continue to grow; we may say that performance is only and solely financial; this statement proves incorrect, incomplete and not accurate. With reference to the results found by Lau (2011), the author, based on a sample of 121 managers that he consulted – heads of Australian companies consisting of a minimum of 100 employees – has shown that not only do the non-financial indicators significantly and directly affect the performance of the companies investigated, but in addition, they affect the latter in a much more pronounced and a much clearer way than financial indicators. In the same vein, Verbeeten and Boons (2009) explained the same phenomenon by surveying Dutch companies. The results of this study indicate that the latter, by using non-financial indicators, provide a more relevant and much better picture of their performance. Thus, in this study we focus on the explanation and measurement of the financial, human, social, organizational and mercantile performance, through variables related to governance mechanisms in the hotel sector. We cite the works of Wang, Lu and Lin (2012) as a reference in the study of the relationship: mechanisms of corporate governance/corporate performance, based on a study conducted in 68 banks holding companies (BHCs) in 2007. Among the mechanisms considered, we note: the Board of Directors, the dual system, the number of external directors, the committees. Our investigation is an extension of that work, expounding this question in the hotel industry and seeking to explain several performance models through the implemented governance system.

3. Hypothesis development

For the relationship between the size of the Board of Directors and performance, Adams and Mehran (2005) examine this relationship by referring to Tobin's Q, and based on a sample of banks between 1959