

Performance of Tourism and Hospitality Firms in India: Role of Board Structure and Management Practices of Corporate Governance

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Abstract *Good corporate governance is fundamental to the success and sustainability of firms. Corporate governance in India is based on a mix of voluntary and mandatory compliance to ensure professionalism. This study assesses the role of corporate governance norms related to Board Structure and Management Practices on the performance of public listed Tourism & Hospitality firms in India. The study uses panel Data Regression analysis for 60 firms over seven financial years from 2009-10 to 2015-16. The results show that the Board Structure and Management Practices during the study period had negative impacts on firm performance indicators of Return on Equity and Return on Assets. This suggests the need for more reforms in corporate governance.*

Keywords: *Board Characteristics, Corporate Governance, Firm Performance, Tourism and Hospitality, Management Practices*

INTRODUCTION

Tourism & Hospitality industry in India is dominated by small operators and follows the global structure of networked business. The contribution of this industry in terms of foreign exchange earnings, gross revenue and employment generation makes it an important sector of economy. The estimates of the year 2016 suggest Foreign Tourist Arrival (FTA) of 8.9 million and Foreign Exchange Earning (FEE) of 23.1 billion (Govt. of India, Ministry of Finance, 2016-17). It created 5.31% direct and 7.05% indirect employment in the year 2012-13 (Govt. of India, Ministry of Tourism, 2015-16).

The economic importance of tourism industry in the country makes it a fit case for innovation in its business models and corporatization can be considered a viable option taking cues from the other industries in the manufacturing and the services sectors. The industries dependent on small firms'

business such as jute, handloom, and sugar could not grow despite huge subsidy from the government (Srivastava & Nath 2001). Corporatization of tourism and hospitality industry in India has been slow and at the time of this study between the years 2009-2016 only 67 listed firms existed as per CMIE PROWESS database. Though shareholders in hospitality industry have been increasingly demanding accountability and transparency in daily operations, thus calling for significant transition in different areas of Corporate Governance (CG) (Buqbil, 2007). The provision of 100% Foreign Direct Investment in hospitality sector would be lucrative for investors only if good governance norms are followed. World Bank, International Monetary fund (IMF) and the Organization of Economic Corporation and Development (OECD) considered CG standards as critical in helping emerging markets rebuild competitiveness, restore investors' confidence and promote sustainable economic growth (Asogwa, 2016).

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Good governance for corporate has been considered essential in safeguarding the interests of companies, all stakeholders and the economy in general. This research paper builds the thesis on this assumption and attempts to explore the role of adoption of corporate governance norms on board structure and management practices on the firm performance.

No separate regulations for CG exist for tourism and hospitality industry in India as for banking and insurance sector. All tourism and hospitality companies listed in stock exchange are expected to follow Security Exchange Board of India's (SEBI) Clause 49 of the Listing Agreement and Company Act 2013. Clause 49 of the Listing Agreement requires compulsory publication and submission of Corporate Governance Report along with the Annual Report of the company. Corporate governance report has many parameters that can be broadly categorized as related to Board of Directors, Committees, Transparency and Disclosures. While each category is important but Hermalin and Weisbach, (2001) found Board as the most important CG mechanism responsible for regulatory requirements, monitoring, and managing conflicts. This study focuses on the compliance on board-related variables and the impact of this CG practice on firm performance (FP) measured in terms of Return on Assets (RoA) and Return on Equity (RoE).

CG AND FIRM PERFORMANCE

Investigating the benefits of CG has got significant attention during the last two decades (Cheung et al., 2009). Many studies explored the relationship between CG and FP (Bhagat & Black, 2002; Brown & Caylor, 2004 & Bauer et al., 2008). The focus of research studies on CG has been on its different elements such as; Board Size (Yermack, 1996; Velnampy, 2013; Kumar & Singh, 2013), Duality of the Chief Executive Officer (CEO) (Bhagat & Bolton, 2008 & Guo & Kga, 2012), Board Independence (Black & Bhagat, 2002), Board compensation (Core et al., 1999 & Vo & Phan, 2013), Board ownership (Bhagat et al., 1999), Block holders (Al-Khoury, 2006), Board Composition (Coles et al., 2001; Black & Bhagat, 2002; Javed et al., 2008) and Audit committees (Klien, 2002; Brown & Caylor, 2004).

A review of literature on corporate governance and Firm Performance of 129 published works including research articles, reports, and books finds very few studies related to tourism industry. The theme wise break-up of these researches (Table 1) shows dominance of studies on board characteristics (including CEO duality) and firm performance.

Table 1: Themes of Existing Studies on Corporate Governance

Corporate Governance Variables	Firm Performance Variables		
	Tobin's Q	Return on Assets/ Return on Equity	Other Ratios
Board Characteristics	31	58	24
Transparency and Disclosure	28	37	17
CEO Duality	14	28	12
Shareholders Right/ Minority rights	09	08	14
Company Related Variables (Age, Size etc)	08	09	03
CG Index	07	09	06
Others	03	03	03

A discussion on studies related to board characteristics and firm performance indicates the evolving and dynamic nature of professional management and firm performance.

BOARD CHARACTERISTICS AND FIRM PERFORMANCE

Board characteristics form an important part of CG and tend to influence FP as suggested by the various studies (Yusoff, 2012; Logan et al., 2013). Board related parameters of CG are part of Clause 49 of the Listing Agreement in India and include Board Size, Independence and CEO Duality.

BOARD SIZE

Boards of directors are the final authority and responsible for efficient management in the organization(s). They act as mitigating authority for inherent agency problems and safeguard the interests of the shareholders. The ideal size of the board has always been a matter of discussion. Agency theory (Jensen & Meckling, 1976) supports smaller board size as it increases the supervision on directors and decreases the conflict between the shareholders and management. Resource dependence theory developed by Pfeffer in 1973 also advocates large board sizes because the access to resources and networking increases with the increase in number of directors, however studies like Yermack (1996); Ajala et al. (2012); Kalezic (2012) and Velnampy (2013) found a negative relationship of large board size and FP on account of lack of cohesiveness.

BOARD SIZE AND FIRM PERFORMANCE

The relation between board size and firm performance has been found to be different in studies ranging from positive to negative.

Dwivedi and Jain (2005) study on 340 Indian firms from 24 industries found that large board size can improve the governance of the firms leading to lower agency costs and positive firm value. Beiner et al. (2006) reported large board size is positively related to firm value on Tobin's Q measure. Abor and Biekpe (2007) indicated significant and positive association between board size and performance suggesting that relatively larger boards perform better compared to very small boards because larger boards have a range of expertise to help make better decisions. Similarly, Ehikioya (2009) concluded that board size is positively and significantly related to firm performance measured by using PE ratio and ROA. Kajola (2008) reported positive relationship between ROE and board size.

Yermack, D. (1996) study of 500 large U.S. public listed companies reported an inverse association between firm value and large board size. Hermalin and Weisbach, (2001) study supported smaller board sizes for cost-cutting. Wu et al. (2009) found board size negatively related to ROA, stock return and Tobin's Q.

BOARD INDEPENDENCE

Board autonomy and independence is mandated by CG codes and regulations to restore investor's confidence and enhance the credibility of the organization. Independent board directors are expected to protect the rights of minority shareholders and play positive role in effective functioning, controlling and monitoring of the firm.

Cadbury Report (1992) suggested at least three outside directors in publicly traded companies in U.K. Sarbanes Oxley legislation U.S. (2002) imposed the requirement of independent directors on company boards. SEBI in India introduced outside directors as a governance mechanism in the year 2000. It added it as a part of Clause 49 of the Listing Agreement requiring at least half of the Board comprising of independent directors.

Proponents of agency theory Jensen and Meckling, (1976) also advocated the presence of independent directors stressing that independent directors reduce the agency cost and improve the FP. But the supporters of stewardship theory argue that superior corporate performance will be linked to a majority of inside directors as they work to maximize profits for shareholders.

New York Stock Exchange has adopted two board structures where the board consisting of industry representative

is responsible for business issues whereas regulatory compliance issues are taken care by the board comprising of independent directors (Fan, 2004).

BOARD INDEPENDENCE AND FIRM PERFORMANCE

The relation between board independence and firm performance is not a settled one based on research-based evidences. The outside directors are like "professional referees" that ensure competition among inside directors Fama (1980). Fama and Jensen (1983) viewed that internal directors can misuse the easy access to information to take decisions against shareholders while external directors act as supervisor and can eliminate the principle agency problem.

Eloumi and Gueyié (2001) study on 46 financially distressed and 46 healthy firms in Canada concluded that more independent directors on the board reduce the financial pressure. Black et al. (2006) constructed a Corporate Governance Index for 515 Korean firms. The study showed that firms with 50 per cent outside directors have higher Tobin's Q (roughly 40 per cent higher share price).

Bruno and Claessens (2007) used Institutional Shareholders Services (ISS) data for 23 countries and found significant association between degree of board independence and firm performance. Zheka, (2007) studied composite as well as individual elements of corporate governance in transitional economy of Ukraine and found strong effects of board independence on firm performance.

Wu et al. (2009) examined all the data of firms in Taiwan over the period from 2001 to 2008 and found a positive correlation between board independence and firm performance measured by ROA and Tobin's Q. Ehikioya (2009) study of Nigerian companies found positive association between proportion of outside directors and firm performance. A stringent set of rules to ensure commitment of directors to good corporate governance practices has also been advocated (Lin et al., 2009).

The supporters of stewardship theory argue superior corporate performance to inside directors who work to maximize profit for shareholders. Yermack (1996) observed that more independent directors reduce the efficiency of the board. Bhagat and Bolton (2008) found a negative relationship between board independence and operating performance. Fooladi and Chaleshtori, (2011) also found no significant relationship between board independence and firm performance (ROE and ROA). Black et al. (2012) constructed a CGI Index for firms listed in Brazil and later extended to Russia, Korea and India found board independence negatively associated with Tobin's Q. Alabdullah et al. (2014) cross-section analysis of 109 listed Jordanian industrial and service companies revealed

insignificant relationship between independent board (outside directors) and firm performance.

CEO DUALITY

CEO duality is concerned with separation of power between CEO responsible for the day to day operations of the firm and Chairman responsible for monitoring and evaluating the performance of the directors. The proponents of the theory argue for separation of powers to provide enough check and balance over CEO's and other executives' performance (Blackburn, 1994).

Stewardship theory favors CEO Duality as stewards are motivated and work for the interest of the owners and work to earn profits and maximize the returns of the shareholders.

Regulatory reforms and laws of corporate governance recommended the separation of CEO and Chairman to maintain the balance between the two positions after a series of corporate scandals across the world. Cadbury committee (1992), Higgs Report (2003), The Combined Code of Corporate Governance (2003) recommended the division of the roles of CEO and Chairman. In India, SEBI amended Clause 49 of the Listing Agreement in 2014 and recommended non-mandatory requirement for separate post of Chairman and CEO.

The relation between CEO duality and firm performance has not been always positive.

CEO DUALITY AND FIRM PERFORMANCE

de Toledo (2007) study on 97 non-financial Spanish firms recommended CEO Duality that can create favorable conditions and accrue benefits of control for the majority shareholders. Vo and Phan, (2013) study of 77 listed firms trading between 2006 to 2011 showed positive effect of duality of the CEO on the firms' return on asset (ROA).

STUDIES ON NO OR NEGATIVE RELATION BETWEEN CEO DUALITY AND FIRM PERFORMANCE

Ehikioya (2009); Bhagat and Bolton (2008) reported negative impact of CEO duality on firm performance. Ponnu (2008) study on companies listed in Malaysian stock exchange found no relationship between duality, and firm performance measured by ROE and ROA. Bokpin and Nyarko (2009); Wu et al. (2009) found negative and significant relation of CEO duality and firm performance and inferred that with CEOs serving as executives, the board would likely fail to

be an objective supervisor putting firms at a disadvantage. Fooladi et al. (2011) reported that CEO duality has a negative relationship with firm performance measured using RoE and RoA.

A study by Alabdullah et al. (2014) on 58 listed companies in Jordan reported that CEO duality had no impact on firm performance. Vintila and Florinita (2014), in their study in Romania reported negative impact of CEO duality on ROE.

RESEARCH METHOD

This study uses secondary published data of listed Tourism and hospitality firms in India as mandated by norms of SEBI. This study employs a panel regression model which involves the pooling of observations on a cross-section of units over several time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies.

STUDY OBJECTIVES AND HYPOTHESIS

The present study attempts to find the association between the Board Structure and Management Practices (BSMP) of Tourism & Hospitality industry listed firms in India on the basis of CG norms-based practices scores (as per the norms of Clause 49 of SEBI's Listing Agreement) and firm performance (RoE and RoA) for the selected time frame of 2009-2016.

The research hypothesis for the study is:

Ho: Board Structure and Management Practices do not have significant relationship with firm performance.

H1: Board Structure and Management Practices have significant relationship with firm performance.

DATA AND STUDY SAMPLE

The data for the study was derived from the published financial statements and the CG reports of listed Tourism & Hospitality firms in India for a seven-year period, 2010-2016. The study sampled 60 firms from PROWESS database of CMIE (Centre for Monitoring Indian Economy). Firm performance is financial performance and RoA (Return on Asset) and RoE (Return on Equity) are used as FP measures.

Eleven parameters of CG disclosure practices norms related to Board Structure and Management were selected from clause 49 of Listing Agreement of SEBI and BSMP-Index - (Board Structure and Management Practice Index) was constructed. The eleven Board Structure and Management related parameters are provided in Table 2. Actual score is taken for all eleven parameters. To construct the index, attributes within a specified governance mechanism have been given

score using binary coding with value 1 for compliance and 0 for non-compliance. This was followed by aggregation of score of attributes in a specific governance mechanism divided by the

maximum possible score (11) and multiplied by 100. This score is calculated for each listed company for a time period of seven financial years of 2009-10 to 2015-16.

Table 2: Board Structure and Management Practices Parameters

Board Structure and Management Practices of CG as per SEBI's Clause 49 of Listing Agreement	Clause of Listing Agreement
II. Board of Directors.	
(1) Chairman and CEO are two different persons.	49(IIA)
(2) Chairman of the Board is non-executive director.	49(IIA) 2
(3) There is at least one Women Director in the Board of Directors.	49(IIA) 1
(4) At least 50% of the Board of Directors are non-executive directors.	49(IIA) 1
(5) At least 50% of the Board of Directors are independent directors.	49(IIB) 1
(6) Independent Directors holding at least one meeting in a year.	49(IIB) 6
(7) Familiarization/Training Programme imparted for Independent Directors and disclosed in annual report.	49(IIB) 7
(8) Non-executive directors compensation & Disclosures given.	49(IIC)
(9) There are at least four meetings of BoD in a year.	49(IID)
(10) The annual report contains a declaration on Code of Conduct for BoDs signed by CEO.	49(IIE)
(11) The Whistle Blower Policy mentioned on Company website and in the Board's Report.	49(IIF)

ANALYSIS AND RESULTS

BSMP compliance has been analyzed in reference to compliance reporting of firms and firm performance (FP) is taken as Return on Equity and Return on Assets.

BSMP Compliance Reporting by Tourism & Hospitality Firms in India

Compliance reporting has been calculated for BSMP score. The minimum, maximum and mean values of compliance were calculated to find pointers towards overall compliance. Table 3 presents these values over the seven years for the selected firms under study.

The maximum value on 11 parameters of BSMP was 11 recorded in the year 2015-16 and the minimum value of 3 was recorded in the year 2010-11. The mean score BSMP of CG was 6.19 in 2009-10 which increased to 9.04 in 2015-16. The number of companies reporting was 53 in 2009-10 which increased to 60 in 2012-13 and 2013-14 but it decreased to 51 in 2015-16. The table shows that the reporting pattern has improved in the 2014-15 and 2015-16 on BSMP parameters of CG. The range (difference between the Maximum and Minimum value) has decreased in 2015-16. SEBI amended Clause 49 of Listing Agreement in the year 2014 that provides for mandatory and non-mandatory provisions for all the listed firms and this might have been the reason for improved in BSMP related CG practices in Tourism & Hospitality firms.

Table 3: Consistency of BSMP Compliance over the Seven Years

BSMP Compliance	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Number of Companies Reported	53	56	56	60	60	50	51
Minimum Value of Score	4	3	4	3	4	6	6
Maximum Value of Score	9	9	9	9	10	11	11
Mean Value	6.19	6.29	6.41	6.33	6.57	8.94	9.06

DESCRIPTIVE STATISTICS OF BSMP COMPLIANCE OF TOURISM & HOSPITALITY FIRMS IN INDIA

Descriptive statistics is prepared of BSMP Compliance of Tourism & Hospitality firms in India in Table 4.

The table shows that in 2009-10 only 53 firms were reporting CG practices which increased to 60 in 2013-14 (means 100% firms were reporting), but later number reduced to 51 in 2015-16. Five firms which were not reporting CG practices during 2015-16 were delisted from stock exchanges and four which were listed on Delhi Stock Exchange or Jaipur Stock Exchange or Ahmadabad Stock Exchange are now

no more listed firms as these three stock exchanges have stopped functioning. Nobody stops the non-listed firms from

reporting on CG practices but none of the non-listed firms were following the disclosure of CG practices.

Table 4: Descriptive Statistics of BSMP Compliance of Tourism & Hospitality Firms in India

BSMP Compliance	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Number of Companies Reported	53	56	56	60	60	50	51
Mean	56.26	57.14	58.28	57.58	59.7	81.27	82.55
St. Deviation	12.359	12.823	12.594	12.488	12.787	12.779	12.387
St. Error	1.698	1.714	1.683	1.612	1.651	1.807	1.734

The maximum mean Index value of BSMP-Index was 82.55 recorded in the year 2015-16 and the minimum mean Index value was 56.26 in the year 2009-10. There was consistent increase in the BSMP-Index value over the year from 56.26 to 82.35 over the seven years except 2012-13.

It can be inferred that CG practices for BSMP parameters had improved over the years from 2009-10 to 2015-16.

COMPARISON OF FIRM PERFORMANCE VARIABLES

Firm performance variables are compared to assess the overall performance of the Tourism & Hospitality firms over the period of 7 years. The two variables of firm performance are the indicators better utilization of Assets and Equity. The results are shown in Table 5.

Table 5: Comparison of Firm Performance Variables in Tourism & Hospitality Firms

		Financial Year (2009-2016)						
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Returns on Equity	Mean	3.30	-.37	1.50	-1.09	-5.14	-22.41	-33.60
	Std. Deviation	26.70	50.48	30.55	21.29	34.83	128.15	170.45
	N	50	52	53	56	56	50	50
Returns on Total Assets	Mean	3.32	3.29	2.83	2.68	.6802	1.6612	1.99
	Std. Deviation	4.40	5.44	6.90	8.07	9.24	10.89	12.23
	N	50	52	53	56	56	50	50

The performance of firms on the basis of RoE had decreased significantly over the seven years. Mean of RoE was positive only in 2009-10 and 2011-12 when RoE was 3.30 in 2009-10 and 1.50 in 2011-12. Remaining 5 years had a negative mean of RoE.

RoA also had a decreasing trend in all the years under study. Starting from mean value of 3.32 in 2009-10, the value decreased to 1.99 in 2015-16. This can be inferred that the firms are not consistent in their performance. The return to the investors was very less and even negative in the form of RoE. The factors such as heavy debt and tax liability might have been the reasons behind it. Low RoE and RoA can be industry-specific as most of the annual reports report poor global economic environmentS. The impacts of such events tend to be long term.

REGRESSION RESULTS

The firm performance variables and BSMP Index were analyzed to study the difference in the performance of the

selected firms under study. Panel least square method was used at 95% level of confidence for panel data (Table 6).

Table 6: Regression Results

Variables	RoE	RoA
Coefficient	-18.14	-1.82
Standard Error	4.31	0.66
t- Statistics	-4.204	-2.75
Prb./Sig. Value	0.000001	0.0062

The regression results indicated negative association of BSMP-Score with RoE and RoA as coefficients were negative and were statistically highly significant. Similar findings have been reported in studies conducted in other countries.

Ferrer et al. (2012) in Philippines found negative and significant association between Board related variable and RoE. Guo et al. (2012) study in Sri Lanka found negative and significant relationship of Board related variables with RoA.

CONCLUSION

Gulliet et al. (2010) study in U.S found that hospitality companies were under tremendous pressure to adopt strict governance principles and prove to investors that their governance is in the shareholders best interest. The same trends were seen in Tourism and Hospitality firms in India.

Board related CG practices have improved in the industry in 7 years under study. More improvements are seen in 2014-15 and 2015-16. Mean value of BSMP score has increased from 6.19 in 2009-10 to 9.04 in 2015-16 but BSMP subcategory of CG practices has significant and negative association with RoE and RoA.

The negative association between Board structure and firm performance suggests that India's legal requirements are sufficiently strict but do not produce valuation gains. This points towards the need for creating a system of board characteristics that increases valuation.

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