

**THE INFLUENCE OF BOARD'S
HUMAN CAPITAL AND SOCIAL CAPITAL
TOWARDS FIRM PERFORMANCE IN
ASIAN TOURISM INDUSTRY**

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**THE INFLUENCE OF BOARD'S HUMAN CAPITAL AND
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IN ASIAN TOURISM INDUSTRY**

by

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LIST OF ABBREVIATIONS

AFC	Asian Financial Crisis
APEC	Asia-Pacific Economic Cooperation
CEO	Chief Executive Officer
CG	Corporate Governance
FE	Fixed Effect
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Square
RDT	Resource Dependence Theory
RE	Random Effect
PATA	Pacific Asia Tourism Association
PECC	Pacific Economic Cooperation Council
SMEs	Small and Medium Enterprises
UNWTO	United Nations World Tourism Organization
WTTC	World Travel and Tourism Council

PENGARUH MODAL INSAN DAN MODAL SOSIAL LEMBAGA PENGARAH TERHADAP PRESTASI FIRMA PELANCONGAN DI ASIA

ABSTRAK

Kajian ini mengkaji hubungan antara prestasi firma and kepelbagaian modal insan dan modal sosial lembaga pengarah, dalam konteks industri pelancongan. Modal insan merujuk kepada latar belakang pendidikan serta pengalaman pekerjaan pengarah, manakala modal sosial merujuk kepada jaringan luar pengarah melalui pegangan jawatan pengarah di firma yang lain. Sebanyak 85 firma pelancongan dari empat buah ekonomi di Asia, iaitu China, Hong Kong, Malaysia dan Singapura telah dikaji. Tempoh kajian merangkumi tahun 2001-2011. Keputusan kajian menunjukkan bahawa kepelbagaian jaringan luar lembaga pengarah dan kepelbagaian latar belakang pendidikan lembaga pengarah mempunyai hubungan positif yang bererti terhadap prestasi firma. Akan tetapi, hubungan tersebut juga menunjukkan sifat nonlinear yang bererti, di mana nilai koefisien kepelbagaian tersebut bertukar daripada positif kepada negatif selepas dikuadratkan. Ini menunjukkan bahawa tahap kepelbagaian yang terlalu tinggi boleh membawa kesan yang terbalik (negatif) terhadap prestasi firma. Selain itu, kajian ini juga menunjukkan bahawa kesan-kesan kepelbagaian modal insan dan modal sosial lembaga pengarah terhadap prestasi firma boleh berubah semasa situasi krisis, seperti krisis pengesanan, krisis kewangan dan krisis wabak penyakit, di mana krisis pengesanan bersifat terkejut, manakala krisis kewangan dan krisis wabak penyakit bersifat beransur-ansur. Krisis-krisis tersebut telah dibuktikan mempunyai pengaruh yang negatif terhadap bilangan ketibaan pelancong. Keputusan menunjukkan bahawa hanya krisis bersifat beransur-ansur mempunyai pengaruh yang positif dan bererti

terhadap hubungan antara prestasi firma dan kepelbagaian jaringan luar lembaga pengarah, manakala krisis bersifat terkejut and beransur-ansur mempunyai pengaruh negatif yang bererti terhadap hubungan antara prestasi firma dan kepelbagaian pengalaman pekerjaan lembaga pengarah. Secara keseluruhannya, kajian ini menunjukkan bahawa kepelbagaian modal insan dan modal sosial lembaga pengarah perlu dikawal dengan teliti supaya dapat meningkatkan prestasi firma, terutamanya pada waktu krisis berlaku.

THE INFLUENCE OF BOARD'S HUMAN CAPITAL AND SOCIAL CAPITAL TOWARDS FIRM PERFORMANCE IN ASIAN TOURISM INDUSTRY

ABSTRACT

This study examines the relationship between firm performance and board diversity in human capital and social capital in the context of the tourism industry. Human capital is represented by educational background and working experience of the board of directors; social capital is represented by external network ties via interlocking directorates of the board of directors. 85 tourism firms from the four economies in Asia, namely China, Hong Kong, Malaysia and Singapore are selected. This sample period of analysis is 2001-2011. The results show that only board diversity in external network ties and board diversity in educational background have significant positive relationship with firm performance. However, the relationships are also found to have significant nonlinear characteristics, of which the signs of the coefficients are changed from positive to negative after squaring the variables of the board diversity. It implies that over diversified of board capital could backfire firm performance significantly. Ultimately, this study finds that the relationship between firm performance and board diversity in working experience and external network ties are significantly moderated in a circumstance of crisis, such as terrorism, financial downturn and disease outbreaks, by which the crisis of terrorism is a sudden crisis while financial downturn and disease outbreaks are the gradual crisis. The crisis is proven to have significant negative impacts on tourism demand in the prior studies. The results show that gradual crisis has significant positive influence towards the relationship between firm performance and board diversity in external network ties, and both the gradual and sudden crisis have significant negative

influence towards the relationship between firm performance and board diversity in working experience. In conclusion, the findings of this study show that board diversity in human capital and social capital should be regulated carefully in order to improve firm performance, especially during a crisis period.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Corporate governance in Asia has been stressed since 1997 Asian Financial Crisis (AFC). Academic studies like Johnson et al. (2000) and Mitton (2002) find that weak corporate governance in Asia is one of the causes leading to AFC. The awareness of the importance of corporate governance in financial market after AFC has led to the structural change in financial and corporate institutions, or it is so-called corporate governance reform (CG reform). Following the reformation, corporate governance systems of many economies in Asia have been transformed for stronger regulation and have become better resourced regulators.

Throughout 1997 Asian Financial Crisis, we learn that the extent of corporate governance may influence managers' decision making in the firm (Johnson, Boone, Breach and Friedman, 2000). For instance, Kirkpatrick (2009) documents that corporate governance has influenced the risk-taking behavior of the manager when making decision on investment. Board of directors who is positioned in the middle between shareholders and managers is playing a pivotal role to closely monitor and supervise every strategic decision made by the managers in the firm. The role of the board of directors is important to ensure that the decisions made by the managers could bring sustainable growth to the firm. Due to the important role played by the board of directors in a firm, one of the CG reforms is mingling around board governance. The Asian Roundtable's endorsement of *Reform Priorities in Asia: taking corporate governance to a higher level* in 2011 hereby suggests that the board

of directors' performance should be improved in their participation in strategic planning, monitoring internal control and risk oversight systems.

The suggestion of the Asian Roundtable's endorsement indirectly gives us the notion upon the importance of directors' competency in a firm. Consistently, the endorsement further documents that "*board nomination should be transparent and include full disclosure about prospective board members, including their qualifications, with emphasis on the selection of qualified candidates*", which implies that policy makers do have a concern on directors' competency. In fact, recruiting competent directors is to ensure that the board could be functioned in optimal for firm performance betterment. The quality of the board of directors is especially important to ensure appropriate advice/supervision could be provided to the managers in making critical strategic decision for the firm. Herein, the human capital and social capital of the board of directors have become a subject of interest in academic research.

One may argue that the influence of board's human capital and social capital could be hardly observed or evaluated and hence, is less likely to be reflected in the firm's stock prices. However, in the context of the tourism industry which is highly competitive, tourism firms are required to make frequent strategic change in order to adapt to the changing environment. In the tourism firms, the supervisory role of the board of directors in strategic planning and implementation should be relatively more pronounced to cast the attention of investors. Investors of tourism industry are said must pay more attention on how board's human capital and social capital could strengthen the competitiveness of the firm under the unstable environment of tourism industry, since the board of directors is the ultimate decision maker in a firm. Even, the tourism industry is likely to be affected by a wide range of external crisis such as

natural disasters, war/terrorism, disease outbreaks and economic/financial downturn. This has further magnified the importance of board's human capital and social capital in driving the firms to sustain under the turbulence. Herein, the nexus between firm performance and the human capital and social capital of the board of directors in the context of tourism firms is worthy of research.

1.2 Motivation of the Study

In modern economies, large corporations are typically associated with the separation between shareholders and executives, with the former provides capital to sustain the business operating activities and the latter who are paid to manage the business operations activities. The relationship between shareholders and executives is sustained in the condition that the executives have to work with all the efforts to maximize the firm value for the sake of shareholders' benefits, while the executives are paid accordingly to their efforts put on the duties given. Corporate governance plays a significant role in this relationship, which to govern over the managers' conducts to ensure optimal firm performance could be established for the benefits of the shareholders.

One of the major issues in corporate governance is mingling around the role of the board of directors. Board of directors is the major part of the corporate governance, which is responsible to govern as well as supervise the managers in working to maximize shareholders' benefits. Board of directors is authorized to oversee and ensure the decisions made by the managers are in accordance with the business direction, and be able to bring positive influence towards firm performance.

From the intuitive point of view, there should be a significant relationship between the board of directors and firm performance.

Early studies of corporate governance in board-specific research area like Fama (1980), Hermalin and Weisbach (1991) and Bhagat and Black (2002) attempt to shed light on the influence of board composition, in terms of the ratio of the independent board of directors, towards firm performance. These studies are likely to emphasize on the role of the board of directors with respect to agency theory. They investigate whether the board's independent control could effectively govern over the managerial opportunism in the firm. Those studies are initiated due to the belief that the composition of the independent and non-independent board of directors could influence the efficiency of the monitoring mechanism towards the managers' agency conducts which could influence firm performance.

Instead of emphasizing on board structure from the perspective of directors' status (i.e. independent and non-independent directors), there are studies focusing on board structure from the perspective of the composition of board's human capital (education and working experiences) and social capital (external network ties). The attention on board's human capital and social capital is becoming more appealing in the research, for the role of the board of directors in reviewing and supervising the firms' strategic planning and implementation has been recognized, as documented in the studies of Lorsch and MacIver (1989), Demb and Neubauer (1992) and Bordeanet *al.*(2011). This can be seen from the literature that the studies on the human capital and social capital of the board of directors have been emerged in the recent years.

It is rather to focus on the diversity of board's human capital and social capital, instead of the human capital and social capital of individual director. This is because the board of directors works as a team in a board meeting when making an important decision. "One-man-show" could not be applied in a boardroom. The human capital and social capital of individual directors would be gathered in a board meeting, and the ultimate decision would be made by compiling all of the suggestions/information shared by all of the directors in the meeting. It indicates the worthiness of focusing on the issue on board diversity in human capital and social capital, rather than focusing on the individual director's human capital and social capital.

There has been a research gap by which contradictory arguments are raised in the literature upon the advantage and disadvantage of adopting greater board diversity in human capital and social capital. The studies, on one hand, document that adopting greater board diversity could provide a wider range of alternatives so that to improve the quality of the strategic planning and implementation. On the other hand, there are studies documents that diversified suggestions provided from greater board diversity could increase the difficulty of finding a consensus, since some of the suggestions might not be easily accepted by the other directors who are not in that area of expertise. Furthermore, manager could hardly make a conclusive decision from diversified points of view given in a meeting. It would however, impede the managing activities in the firm. In short, the contradictory arguments on the advantage and disadvantage of adopting greater board diversity in human capital and social capital is worthy of research from an empirical point of view.

This study specifically focuses on the sample from the tourism industry. This study claims that the supervisory role of the board of directors on strategic planning

and implementation is relative more pronounced in tourism firms. This is due to the unstable environment of the tourism industry (Wahab and Cooper, 2001 in Sundbo *et al.*, 2007; Orfila-Sintes *et al.*, 2005), by which the fluctuation of the tourism demand (Weiermair, 2006) which is likely to be influenced by several factors such as customers' income, inflation/ the prices of tourism products, the fluctuation of exchange rates, as well as the word-of-mouth effect¹. Different from the other industries such as manufacturing, agriculture and automotive industries which do not need much of strategic change, tourism firms are required to frequently revise the strategies to best fits to the rapidly changing environments (Pechlaner & Sauerwein, 2002). Even, a great extent of innovation is essential for tourism firms to increase its competitiveness through introducing new products like customization or ICT interaction approach (Weiemair, 2006; Sundbo, 2007). In this case, board's human capital and social capital are important to analyze the changing environment of the tourism industry, as well as the behavior of tourists from time to time. Only a competent board of directors could provide better quality of supervision towards strategic setting so that to ensure that the firm is able to seize the competitive advantages in the market.

Even, this study focuses on tourism firms in Asian region. The reason is that Asian tourism is one of the fastest growing industries among the others in the world, as shown in Table 1.1, and it has become one of the hottest topics of discussion either in policy conference or academic research area. The attractiveness of Asian tourism is further due to its potential growth in the future since Asia has abundant of natural heritage destinations or tropical rain forests which become the major attractions for sustainable tourism development. Next, due to the resurgence in Asian

¹ Empirical studies in tourism research have shown that these variables are significantly related to tourism demand.

economic growth as well as international trade, particularly in the intraregional trade, the demand for business travel has been increased. Moreover, the rising of middle-class incomes in many countries in Asia has boosted the demand for travel within the region. All of these are leading to the increase in investment to be injected in the Asian tourism market. It should not be shocked for the increasing of new tourism firms for profit seeking in the Asian tourism market. Herein, the competition among Asian tourism industries should be more vigorous. High competition in the Asian tourism market is believed could further magnify the role of the board of directors in tourism firms.

Table 1.1: International Tourist Arrivals from Year 1990 to 2010 (in millions), by Regions

	1990	1995	2000	2005	2010
Europe	261.5	304.1	385.6	439.4	476.6
		(14.0%)	(21.1%)	(12.2%)	(7.8%)
Asia and the pacific	55.8	82	110.1	153.6	203.8
		(32.0%)	(25.5%)	(28.3%)	(24.6%)
Americas	92.8	109	128.2	133.3	149.8
		(14.9%)	(15.0%)	(3.8%)	(11.0%)
Africa	14.8	18.9	26.5	35.4	49.5
		(21.7%)	(28.7%)	(25.1%)	(28.5%)
Middle East	9.6	13.7	24.1	36.3	60.3
		(29.9%)	(43.2%)	(33.6%)	(39.8%)

Source: World Tourism Organization (UNWTO)

Note: the numbers inside the parentheses are percentage in growth rate

Besides of focusing on the relationship between firm performance and board diversity in human capital and social capital, this study further claims that the relationship could be moderated during a crisis period. The literature demonstrates that the effect of board diversity in human capital and social capital could become more influential towards firm performance in the unstable environment. The underlying reason is that the board of directors becomes more proactive and less

likely to be influenced by the manager since the manager's bargaining power tends to be decreased during turbulence as well as when firm performance declines (Hermalin & Weisbach, 1998). Due to this reason, the advantage of adopting greater board diversity could become more pronounced in the critical circumstance as their advice/alternatives given for strategic setting are less likely to be put off by the manager. This is also consistent with the finding from the study of Hermalin & Weisbach (1998) showing that turbulent circumstance could maximize mobilization of board power to request for strategic change in order to drive the firm to adapt to the changing environment.

However, whether the positive or negative influence of the board diversity in human capital and social capital would be magnified in the circumstance of a crisis period is unknown in the literature. From an intuitive point of view, the magnification on both directions of the influence is possible. On one hand, with the adoption of greater board diversity in human capital and social capital, it could fasten the process of finding solutions to respond towards a crisis event. The gathering of diverse suggestions/opinions provided from greater board diversity in human capital and social capital could also enhance the quality of the decision made. On the other hand, the disadvantage of board diversity is also possible to be magnified during a crisis period, of which greater board diversity could further increase the chaotic situation in a board meeting, and may delay the process of making decision in response towards the crisis. The delay could constitute to the deterioration of firm performance due to the failing to timely seize the competitive advantages in the market during turbulence. In short, it is worth to investigate how the influence of board diversity in human capital and social capital could be moderated during a crisis period.

The tourism industry has been suffering from a wide range of external crisis such as natural disasters, war/terrorism, disease outbreaks as well as economic/financial downturn. The studies from empirical perspective have shown that the crisis has a significant negative relationship with the number of tourist arrivals, or tourism demand. There are studies also provide empirical evidences showing that the performance of tourism firms is significantly and negatively affected by the crisis. In fact, in the tourism literature, one of the main focal issues in research is mingling around the influence of the crisis towards the tourism industry. The attention of research on the crisis has motivated this study to further investigate whether the relationship between firm performance and board diversity in human capital and social capital could be moderated in the circumstance of a crisis period, in the context of tourism industry.

In conclusion, as board of directors is responsible to maximize shareholders' benefits, the quality of the board of directors in driving a firm to maximize firm performance should be concerned. In this study, board's quality is measured from the perspective of board diversity in human capital and social capital. The issue of the influence of board diversity in human capital and social capital on firm performance is especially worthy of research in the context of the tourism industry. Therefore, this study is motivated to investigate the relationship between firm performance of tourism firms and board diversity in human capital and social capital, and further to investigate whether the relationship could be moderated during a crisis period.

1.3 Problem Statement

Although tourism is an emerging industry in the world, the sustainability of tourism firms has been worried. In fact, the performance of the tourism industry has been challenged by a wide range of uncertainties. The uncertainties are predominantly attributed to the volatility of tourism demand, which is affected by a number of factors such as relative price, overall tourists' income, exchange rates as well as the word-of-mouth of tourists. Furthermore, various kinds of crisis such as natural disasters, disease outbreaks, war/terrorism and economic/financial downturn have additionally increased the burden of tourism firms in the unstable environment. Due to the globalization of tourism industry in which international tourism has become the major source of income for the industry, a crisis occurs in a country may hence constitute to the sluggishness of the global tourism industry (Madininos and Vassiliadis, 2008). All of these uncertainties have cast the attention of policy makers to look into the issue of sustainability of the tourism industry in the long run.

To survive in the highly unstable environment, the responsibility of the board of directors in tourism firms to oversee and supervise the strategic planning and implementation should be emphasized. However, it is not simply to intake as much as directors possessing various backgrounds of expertise or social networks into the boardroom in order to strengthen the board quality or efficiency. As the board of directors is working as a team via board meeting, recruiting greater number of directors does not necessarily bring positive influence to the firms. Literature has discussed the merit and demerit of adopting greater board diversity in human capital and social capital. Both of the advantage and disadvantage of adopting greater board diversity in human capital and social capital have hampered the setting of the best

regulation towards the composition of the board's human capital and social capital for firm performance betterment.

Although the studies on board diversity in human capital and social capital have been established prior to the present study, limited studies shed light on the effect of the board diversity, specifically in human capital and social capital, towards firm performance represented by stock return. Even, none of the prior investigations shed light to the tourism industry. In fact, stock return is a well-recognized proxy for firm performance. The lack of investigation from this perspective has created a puzzle on whether the advantage of adopting greater board diversity in human capital and social capital could more than to offset the disadvantage and exert positive influence on the firm performance, or vice versa. Since the stock return is predominantly a reflection of investors' perception of the firm's business performance or growth opportunity, it is important to understand how the board diversity could affect the investors' evaluation upon the firm value. The use of stock return is also able to understand whether investors perceive the influence of the board diversity in human capital and social capital towards the tourism firms. Unwise regulation on board diversity may increase the difficulty in seeking external financing for future growth opportunity.

It has been recognized that external crisis such as natural disaster, disease outbreaks, war/terrorism, economics/financial downturn are negatively related to the performance of tourism firms. The burden of tourism firms further increases following the increase in the number of crisis in the recent years as shown in Hall (2010). Although the effect of a crisis may cease within a short period of time (Lean and Smyth, 2009; Salleh et al., 2008)), the way of tourism firms handling the crisis could influence the perception of investors or stakeholders upon the ability of the

firms to protect their welfare/benefits in the firms. Throughout the period of a crisis, the weaknesses of those firms in crisis management could be magnified. In this case, investors tend to shift their investment from the weaker firms towards the other firms which are more worthy of investment. It gives us the notion that no matter whether the effect of a crisis is transitory or permanent, the firms' ability to sustain the firm performance during a crisis period is the most critical concern for future growth opportunity.

In fact, tourism firms have struggled to sustain its firm performance whenever a crisis occurs. For instance, following the crisis event of 911 terrorism attacks in the year 2001, the annual report of Cathay Pacific Airways Limited in Singapore demonstrates several measures taken by the firm in dealing with the crisis, such as reducing capacity through selective frequency reductions as well as implementing a series of cost-reduction measures, and even press ahead with new product initiatives and customer service enhancements to grab the market confidence in the turbulence. Year 2003 annual report of Beijing Capital Tourism Cooperation Limited in China also reveals the actions taken by the firm in dealing with the SARS disease outbreaks in the year, including restructuring management team and emphasizing on the relationship with customers, as well as exploring the pioneering projects/products to grab the market attentions during that critical period of time. The annual report of China Travel International Investment Hong Kong Limited in Hong Kong also documents that the firm has leveraged on this opportunity during the outbreak of SARS to expand its travel network in the Mainland and overseas, besides of undertaking a number of cost control mechanism during the turbulence.

Taking a quote from the 2008 annual report of Hotel Royal Limited in Singapore (which is a year of financial crisis): *“the measure of a Board’s*

*performance is also tested through its **ability** to lend support to management, especially **in time of crisis** and to steer the Group in the right direction”*, it is said that the role of board in tourism firms is especially concerned during the crisis period. Hence, the influence of board diversity in human capital and social capital towards firm performance should become more pronounced during crisis period. None of the studies reveal whether the influence of board diversity in human capital and social capital could be moderated during crisis period. This has led to a stage of neglect on incorporating the issue of board diversity in the research of tourism crisis management. One of the plausible reasons is that the study of the board diversity is still immature to set as a reference for policy setting.

Mat Som et al. (2014) demonstrate that the gestation period to occur of a crisis is a critical factor to influence tourism demand. The authors find that a crisis which occurs gradually, or has a longer gestation period to occur is relatively more significant to influence tourism demand compared to the crisis which occurs in sudden, or has a shorter gestation period to occur. This study, hence conjectures that the relationship between firm performance and board diversity in human capital and social capital could be moderated in different ways in the circumstance of sudden crisis and gradual crisis respectively. According to Seymour and Moore (2000), sudden crisis occurs unexpectedly, giving lesser time to tourism firms to prepare for responses towards the crisis; gradual crisis occurs slowly, giving tourism firms a plenty of time to observe and plan strategies for responding towards the crisis. It is unknown whether the gestation period of a crisis is a main factor to influence the effect of board diversity in human capital and social capital towards firm performance. It may be possible for the advantage of greater board diversity in human capital and social capital could be magnified when the firms are running out

of time to response to the circumstance of a sudden crisis. It is also possible that the advantage of greater board diversity in human capital and social capital could only be significantly seen when the firms are given sufficient time to solve the miscommunication problem arising from greater board diversity, such as in the circumstance of a gradual crisis. The contradictory hypothesis could be made in this case, leading to a research gap in the literature.

In conclusion, although recruiting a competent candidate to sit in a board is essential, but the main problem is still mingling around the issue of board diversity in human capital and social capital. The unknown on the nexus between board diversity in human capital and social capital and firm performance has hampered policy makers in tourism firms to set regulation from this perspective so that to enhance the board efficiency, so that to improve firm performance. The problem is extended on whether the effect of the board diversity in human capital and social capital towards the performance of the tourism firms could be positively or negatively moderated in the circumstance of the sudden crisis and gradual crisis respectively. Unwise adoption of board diversity in human capital and social capital could constitute to the inefficient crisis management, eventually lead to the deterioration of firm performance in the turbulence.

1.4 Research Questions

Referring to the problems discussed above, two research questions have been established as shown in the following.

- i) Does board diversity in human capital and social capital significantly affect firm performance?

- ii) Does the effect of board diversity in human capital and social capital could be moderated in the circumstance of the sudden crisis and gradual crisis?

1.5 Objectives

Pointing to the research questions above, this study aims to investigate the effect of board diversity in human capital and social capital towards firm performance. More specifically, two objectives have been developed as shown in the following:

- i) To investigate the relationship between firm performance and board diversity in human capital and social capital.
- ii) To investigate whether the relationship between firm performance and board diversity in human capital and social capital could be moderated in the circumstance of the sudden crisis and gradual crisis.

1.6 Significance and Contribution of the Study

This study fills the research gap by conducting in-depth study on the relationship between firm performance and board diversity in human capital and social capital. Although previous studies have linked the board diversity issue with several subjects of discussion such as board efficiency, firm valuation as well as firm innovation performance, limited studies are found to link the effect of the board diversity with firm performance measured by stock returns. Stock returns are a common proxy for firm performance in finance research, and it represents investors' perception towards the worthiness of investing in the firms. In other words, stock returns demonstrate the performance of the firms in an industry by which investors

are willing to pay for the stock price which is seen equivalent to the value of the firm. Even, maximizing firm performance is the ultimate responsibility of the board of directors so that to maximize shareholders' benefits. Hence, the investigation on the relationship between firm performance and board diversity in human capital and social capital is worthy to be studied. The findings from the relationship could set as a reference for tourism firms to regulate the board diversity so that to be able to confide the investors when seeking financing for future growth opportunity.

The effect of overall board diversity in both human capital and social capital towards firm performance is revealed in this study. The findings could enhance to the body of existing literature as limited studies are found to provide empirical evidence on the effect of the overall board diversity. Prior studies focusing on the board diversity issue like Kim and Lim (2010) and Goodstein et al. (1994) merely investigate the effect of a single aspect of board diversity either in human capital or social capital. It is important to understand the effect of the overall board diversity in a firm as controlling for a single aspect of board diversity is impractical in reality. Also, this study reveals individual effect of board diversity in human capital and social capital respectively. Both of the findings on the effect of the overall board diversity and board diversity in individual term are important to set as a reference for adjusting the composition of the board diversity in human capital and social capital respectively, while controlling for the overall board diversity. The findings of this study could also initiate a future study to provide more advanced mathematical calculation for the best mixture of board's human capital and social capital, as well as the optimal board diversity for the overall aspects of human capital and social capital which should be adopted so that to maximize firm performance.

This study even examines the nonlinearities between firm performance and board diversity in human capital and social capital. To-date, none of the studies look into this perspective of investigation. Since the advantage and disadvantage of adopting greater board diversity in human capital and social capital are revealed in the literature, it is believed that there is a threshold by which the advantage of adopting greater board diversity is more than to offset the disadvantage, or vice versa. From the intuitive point of view, adopting moderate extent of board diversity should create lesser communication problems and should have a more efficient discussion at the board meeting. However, the cost of adopting moderate extent of board diversity is that the board might not have sufficient knowledge or information to realize the embedded opportunities in the market so that to optimize firm performance, or it is said that the quality of strategic setting may be relatively lower. The findings on nonlinearity are useful to give the notion whether over diversified of board's human capital and social capital could backfire firm performance. The findings may also initiate future studies to find out the optimal extent of board diversity in human capital and social capital so that to maximize firm performance.

This study further takes the initiatives to investigate whether the effect of board diversity in human capital and social capital towards firm performance could be moderated during a crisis period. Limited studies in the literature are found investigating from this perspective. The investigation upon the moderating effect of a crisis towards the relationship between firm performance and board diversity in human capital and social capital is important to provide empirical evidences to scholars upon the importance of incorporating the board diversity issue in the crisis management study. In other words, the findings could explore a new research area in crisis management on looking into how board diversity in human capital and social

capital could drive the firm to suffer minimal loss during a crisis period. In this context, the setup of a crisis management committee among board members is encouraging for tourism firms to regulate the diversity of board's human capital and social capital when managing a crisis. This could enhance the efficiency of managing a crisis while preventing unnecessary problems arisen from the internal environment of the firm. In reality, it is found that tourism firms are rarely to set up the crisis management committee among the board members. This may be due to the lack of empirical research to support for the policy setting. The findings of this study are hence to tackle the research gap from this perspective.

To further investigate the moderating effect of a crisis on the effect of board diversity in human capital and social capital, this study classifies the crisis into sudden and gradual crisis, according to Seymour and Moore (2000). The crisis typology is believed could reveal more information from the findings. For instance, in the circumstance of a sudden crisis which does not given sufficient time for tourism firms to response on it, whether the advantage of adopting greater board diversity in human capital and social capital could be more pronounced to provide immediate and good quality of alternatives to the firms for responding towards the crisis; or only the effect of the board diversity in human capital and social capital could be significantly moderated in the circumstance of a gradual crisis, of which the gradual crisis gives sufficient time to the firms to overcome the disadvantage of the miscommunication problem arising from adopting greater board diversity in human capital and social capital. Only by understanding the influences of the board diversity in human capital and social capital towards firm performance in different circumstance of crisis period, an effective measure could be implemented to minimize extensive decline of firm performance in the future crisis period.

By focusing on tourism firms, this study uses a more comprehensive definition of tourism industry according to UNWTO. The segments of tourism industry defined by UNWTO are based on the conditions that the segments could produce tourism characteristic products. Tourism characteristics products are the products that satisfy two criteria: (1) tourism expenditure² on the product (either good/services) should represent a significant share of total tourism expenditure (2) tourism expenditure on the product should represent a significant share of the supply of the product in the economy (share-of-supply condition). This criterion implies that the supply of tourism characteristic product would cease to exist in meaningful quantity in the absence of visitors. By using the industrial codes listed by UNWTO, it is more comprehensive to represent for tourism industry, instead of merely concentrating on several industries like hotel, air flight and restaurant industries as shown in the previous studies of tourism research.

In short, this study conducts in-depth analysis to investigate the relationship between firm performance and board diversity in human capital and social capital. Since none of the previous studies focus on the issue of board diversity in human capital and social capital, specifically in tourism firms, the findings of this study could certainly enrich the tourism literature in this aspect of research. The findings may initiate future studies on the issue of the board diversity so that to provide more in-depth references for policy makers in tourism firms to set regulation on board diversity in human capital and social capital for firm performance betterment. Also, the findings of this study would suggest to tourism firms for the essence of establishing crisis management committee so that the firms could easily regulate the board diversity in human capital and social capital, and this is important to improve

² Tourism expenditure refers to the amount paid for the acquisition of consumption goods and services as well as valuables, for own use or to give away, for and during tourism trips.

the efficiency of managing a crisis and sustain the firm performance during a crisis period.

1.7 Chapter Summary

This study fills the research gap in tourism literature by investigating the relationship between firm performance and board diversity in human capital and social capital. Human capital is represented by educational background and working experience, while social capital is represented by the external network ties via interlocking directorates. Further analysis is conducted to investigate whether the relationship could be moderated during a crisis period. The crisis such as natural disaster, war/terrorism, disease outbreaks and economics/financial downturn which have led to a decline in tourism demand as well as the performance of tourism firms are studied. This study focuses specifically on Asian tourism firm. The reason is that the role of the board of directors in supervising strategic setting in tourism firms is said more pronounced to cast the attention of investors, and hence board's human capital and social capital are much more significant to influence the performance of the tourism firms. The findings of this study are critical to give the notion on the importance of regulating board diversity in human capital and social capital so that to optimize the firm performance, as well as to strengthen the quality of the board of directors from the perspective of the composition of the human capital and social capital, so that to minimize the negative impact of crisis striking the tourism industry in the future.

CHAPTER 2

THE CHALLENGES IN TOURISM INDUSTRY

2.1 The Importance of Tourism Industry to Socio-Economic Development

Tourism sector has become increasingly important to a country's economy in the recent years. United Nations World Tourism Organization (UNWTO) shows that the revenues generated in tourism equals or may surpass oil exports, food products as well as automobile industries. One of the factors contributing to the significant amount of revenues generated is attributed to the growing international tourism. This is because international tourism attracts the inflow of foreign currencies, which has significantly stimulated dramatic growth of the country's economy. International tourism is hence known as the world's largest voluntary transfer of resources from the rich to the poor. According to UNWTO, there is an increase in the number of international tourist arrivals for 6.2% annually (growing from 25 million to 980 million), from year 1950 to 2011, with the rate of income generated by these arrivals increases vigorously reaching US\$ 919 billion in 2011.

Due to its ability to earn a huge amount of income, tourism has brought many of the developing countries to get out of the dependency on one industry like agriculture or manufacturing (Tooman, 1997). This is because over relying on one source of income to sustain the economic growth contains risks attributed by the uncontrollable externalities in the competitive global market, including the price fluctuation, as well as the increase of export competition. Developing countries may even face the shortages of skilled labor in manufacturing industry. As such, tourism is one of the best alternatives to diversify a country's source of income. A supportive

article reported by United Nations World Tourism Organization (UNWTO) in August 2012 indicates that the President of Mongolia, Elbegdorj Tsakhia decides to diversify the country's economy via tourism, instead of merely focusing on the mining industry in Mongolia (UNWTO, August 2012).

Besides, there are other benefits brought by the development of the tourism sector. First, the growth of tourism helps to boost the development of small and medium enterprises (SMEs) simultaneously, for example retail, restaurant, bar, etc. Even, boosting the SMEs has increased the employment rate in the country. Third, ecotourism or nature-based tourism, one of the prevalent tourism products, has helped to conserve and preserve the green environment for tourism attraction. In sum, the role of tourism should not be neglected for its contribution on social development as well as natural environment, besides of its significant role to act as a money spinner to the economy. The importance of tourism in socioeconomic development is shown in a quote by WTTC President and CEO, David Scowsill: *“Haiti is still recovering from the devastating earthquake of 2010, but the Government, led by President Martelly, has embarked on a path to return the country to growth. In doing so, he has rightly recognized the role that Travel & Tourism can play in bringing jobs, economic prosperity and social opportunity to the island.”* (UNWTO, Nov 2012).

2.2 The Challenges in Asian Tourism Industry

According to Pacific Asia Travel Association (PATA), Asia has the greatest growth of tourists besides Europe. There are several reasons leading to the vigorous growth of Asian tourism. First, it is due to the resurgence in economic growth as well

as international trade, particularly for the intraregional trade, which consequently lead to the increasing demand for business travel. Next, middle-class incomes are rising in many Asian countries, associated with the popular enthusiasm for “rising Asia”, hence boosting demand for travel within the region. Third, the growth is also facilitated by the effort of government to ease or reduce the travel restrictions and visa requirements. In fact, tourism in Asia has the potential to continue to grow in the future.

The rising of Asian tourism implies that the Asian tourism industry has to bear the burden in continuously providing appealing tourism products/services to sustain the growth in the future. Due to the rising of tourism demand in Asia, high level of investments to be injected into the market for new resorts, hotels, attractions and airline services are unavoidable. This can be seen from the effort of Malaysian government in implementing several strategies to attract investment in the tourism market, such as the launching of the Tourism Infrastructure Fund (TIF) and The Special Fund for Tourism and Infrastructure. The surge for new tourism firms should not be shocked as investment funds are continuously injected into the Asian tourism market for profit seeking. As such, tourism industry in Asia would suffer from extensive competition within the region for attracting the tourists’ attention. These have constituted to the concern on the sustainability issue of tourism firms in the long run.

The challenges mentioned above give the notion that tourism firms need to reinforce its’ internal strength in order to sustain in the highly competitive environment in the long run. In this case, the board of directors is the one responsible to ensure the strategies set by the managers are aligned with the changing external environment, and to ensure the strategies are able to drive the firms for better firm

performance. In short, to confide the investors to further invest in the Asian tourism industry, of which the environment is highly competitive, the tourism firms need to enhance its' abilities to seize the competitive advantage in the environment, including the quality of the board of directors.

2.3 The Challenges of Crisis in the Tourism Industry

Besides of competition, the tourism industry is also challenged by a wide range of external crisis such as natural disasters (e.g. tsunami, earthquake), disease outbreaks (e.g. SARS, H1N1), war and terrorism (e.g. U.S. 911 attacks, Bali bombings) as well as economic and financial downturn. These crisis events have been proven could hinder tourists to travel, and ultimately lead to the decline in tourism demand (Lydecker, 1986; Ross, 2005). From the business perspective, Ward (1993) denotes that a crisis is the business risk which may cause the failing in meeting the objectives of firms' business plan. Here, the crisis events which have constituted to a dramatic decline in tourism demand is said could have significant negative impact towards the performance of tourism firms. Table 2.1 presents various kinds of crisis events which have significantly affected international tourism demand, according to Hall (2010).