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Does governance unlock the economic benefits of social, natural and intellectual capital in tourism?

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Abstract

Purpose – Given the increasing importance of tourism in the global economy, it has become crucial to test the factors that impact foreign tourists' earnings (FTE). The study, therefore, aims to test the impact of natural, social and intellectual capital on FTE. Further, it also investigates how governance (through formal and informal institutional structures) shapes the relationship between the aforementioned capitals and FTE.

Design/methodology/approach – The study uses data from 38 OECD countries for 10 years (2014–2023) and applies panel data econometrics. Country and time-fixed effects are accounted for, and robust standard errors are calculated to deal with heteroskedasticity and serial correlation.

Findings – Main findings indicate none of these capitals, i.e. the natural, social, or intellectual capital, have a direct significant impact on FTE. However, governance remains the prime factor that makes the natural, social and intellectual capital effective for tourism and earnings related to foreign tourism. Thus, no form of capital is impactful on FTE if good governance and institutional support are inadequate.

Originality/value – The study is the first of its kind to test the impact of natural, social and intellectual capital under the influence of governance practices.

Keywords Natural capital, Social capital, Intellectual capital, Governance, Tourism earnings, OECD economies

Paper type Research paper

1. Introduction

The global tourism industry has grown significantly in the last 2 decades (Rastogi and Kanoujiya, 2023). The sector creates foreign exchange, steers regional development, supports numerous jobs and businesses, and underpins many local communities (OECD, 2020). Nations are now promoting tourism and attracting global tourists to unlock economic returns, in addition to several other socio-cultural benefits (Bilen *et al.*, 2017; Mohapatra, 2018). By contributing to the world economy, tourism enhances the country's financial, social, and economic conditions (Mohapatra, 2018). According to the UNWTO (2022), the industry's worldwide economic contribution is approximately USD 3.5 trillion. For OECD member and partner economies, tourism remains a key sector within the growing services economies. On average, tourism directly contributes 4.4% of GDP, 6.9% of employment, and 21.5% of service-related exports to OECD countries (OECD, 2020).

It is seen that several factors drive the tourism industry (Fatma and Bhatt, 2024). For example, literature signifies that the attractiveness of tourism depends on the beauty of the flora and fauna, culturally rooted societies, societies with higher development, and, most importantly, institutional support. Such factors can be collectively bracketed as a nation's natural capital, social capital, intellectual capital, and prevalent governance structures. While studies (Liu *et al.*, 2022; Mustafa *et al.*, 2023; Rastogi and Kanoujiya, 2023; Volgger and Pechlaner, 2015) have examined the impact of such factors on tourism influx and the resultant foreign tourist earnings (FTE), the extant literature insufficiently discusses the role of such capitals in conjunction with governance. Foreign Tourist Earnings (FTE) refer to the revenue generated by a destination country from foreign tourists through their spending on goods and services, reflecting their economic contribution. In

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particular, the literature also fails to articulate how formal and informal organizations shape governance practices, which, in turn, affects the impact of the aforementioned capitals on foreign tourists. Further, the literature remains relatively silent on how countries with various forms of capital could not utilize the full potential and boost tourism. It may happen that poorly managed resources (capital) not only lead to detrimental effects on tourism but also on economic sustenance, necessitating the importance of governance. Institutions, both formal and informal, are essential to good governance, which in turn affects the efficacy of capital. Such an investigation remains a pressing research gap in the tourism literature.

Therefore, considering the importance of tourism on OECD economies, we aim to investigate the impact of natural, social, and intellectual factors on FTE when supported by governance. The study sets the following objectives:

(1) To investigate the impact of natural, social, and intellectual capital on FTE.

(2) To investigate how governance shapes the impact of natural, social, and intellectual capital on FTE.

Collecting data from 38 OECD countries for 10 years (2014–2023), the study uses panel data econometrics to arrive at the statistical results. Country and time-fixed effects are computed, and robust standard errors are calculated (Wooldridge, 2010). The main results indicate none of these capitals, i.e. the natural, social, or intellectual capital, have a direct significant impact on FTE. However, governance positively moderates the relationship between these capitals and FTE. Therefore, governance remains the prime factor that makes the natural, social, and intellectual capital effective for tourism and earnings related to foreign tourism. In summary, no form of capital is impactful on FTE in the absence of good governance.

The study contributes to the theory and practice in multiple ways. It offers empirical support based on institutional theory that integrates both formal and informal institutional pressures. The study contributes to the theory by contemplating the role of formal and informal institutions in shaping the governance practices that foster the efficacy of the various forms of capital of tourist destinations. The current study will prove to be an essential contribution to the field of governance and tourism as we argue that it is not viable to reap the long-term benefits of natural, social, or intellectual capital in the form of increased tourist influx without appropriate governance policies and practices in place. The current study also suggests two-fold policy measures, i.e. short-term and long-term. The study also suggests that policymakers may use short-term measures to gain immediate benefits. However, it must be planned and executed cautiously so as not to affect the long-term sustenance. Thus, the study also contributes through its implications on policymaking, which remain the cornerstone to foster the long-term benefits of tourism earnings.

The remainder of the study is structured to include theory and literature in Section 2, methodology in Section 3, results in Section 4, a discussion in Section 5, and finally, the concluding remarks in Section 6.

2. Literature review

The theoretical underpinnings have been explained, followed by the relevant literature in the following section.

2.1 Institutional theory

The application of institutional theory as an effective theoretical tool for tourism studies has been discussed in the literature (Lavandoski *et al*., 2014; Mzembe *et al*., 2023). However, addressing the missing link between governance and its results, foreign tourist inflow in this context is essential. Institutional theory provides a sound theoretical background that helps to understand

the intricate connections between governance structure and the profound impact it has on various sectors (Scott, 1987), including the tourism industry (Mustafa *et al*., 2023). The institutional theory addresses both formal and informal institutions comprehensively. It explains the impact of both written and unwritten regulations and norms on government actions. This dual perspective emphasizes how explicit laws interact within a particular institutional framework with the frequently subtle but powerful influences of informal practices (Scott, 2008, p. 56). It argues that societal norms, customs, and rules impact government actions. It demonstrates how institutions direct policymaking, highlighting the role played by the government in steering outcomes. Institutions have an impact on day-to-day processes and practices, but they also influence the strategic choices that are made (Peng *et al*., 2008). By making these strategic choices, policymakers can change institutional structures, which will change their ability to effectively influence and shape desired policy outcomes. This also offers explanations of how the legitimacy and effectiveness of government institutions shape investor confidence, strategize for tourism, and affect overall revenue generation. This theory also helps to understand the interplay between formal and informal institutions that impact tourism at a macro and micro level. In the context of governance, institutions involve a continuum of elements, from legislation and bureaucratic procedures to cultural norms and societal expectations. Institutions essentially shape the rules of engagement, influencing the decision-making processes and behavior of both macro and micro levels, i.e. for organizations and individuals, respectively (Schmutzler *et al*., 2019).

Governance, which is strongly linked with institutional theory, refers to the mechanisms through which societies organize and manage themselves (Gjaltema *et al*., 2020). The effectiveness of governance is contingent upon the strength and coherence of institutional structures. Well-defined and well-enforced regulations contribute to transparent decision-making, accountability, and overall societal order. Institutional theory emphasizes the role of these structures in shaping not only the behavior of government entities but also the actions of businesses, communities, and individuals within the larger societal framework.

It is essential to uncover the interaction between institutional theory and governance that extends to the realms of the tourism sector for the obvious reasons that the regulatory environment enforced by the government shapes tourism as an outcome. The attractiveness and sustainability of tourist destinations are directly impacted by the policies, laws, and administrative practices put in place by governments. Responsible tourism can be facilitated by a well-organized governance structure that supports infrastructure, upholds safety regulations, and protects the cultural and environmental integrity of the destination. This particularly holds true in the case of attracting foreign tourists since governance systems that prioritize transparency, ease of access, and sustainability have a significant impact on the preferences and experiences of tourists. On the other hand, a governance system that is ineffective or inconsistent causes a lot of problems. These difficulties include but are not limited to, excessive tourism, environmental deterioration, and discord within the local population. Ultimately, these difficulties lead to a decline in the sustainability and quality of tourist experiences.

Essentially, institutional theory emphasizes how important governance is to tourism development, stressing the inevitability of strong institutional frameworks to guide the sector toward favorable and long-term results.

2.2 Previous studies and hypothesis

2.2.1 Foreign tourist earnings (FTE). Tourism serves as a key component and an indicator of development for countries. Tourists, both domestic and foreign, contribute to the socio-economic development (Jeyacheya and Hampton, 2020). However, it is foreign tourists who serve as a barometer as they bring valuable foreign exchange in terms of spending into a country's economy. The effects of FTE are evident in the country's GDP in sectors such as hospitality, transportation, retail, and so on, thereby strengthening economic activities (Figini and Patuelli, 2022; Wagner, 1997). Although indirectly, FTE affects employment, jobs and income. This contributes to the economic wellbeing of the local population. Over the long

run, the sustenance of resources and its positive impact on FTE growth creates an environment that stimulates the tourism infrastructure, contributing to the development of related industries and fostering economic diversification (Kronenberg and Fuchs, 2022). The multiplier effect of FTE is witnessed in the economy as the expenditure incurred by foreign tourists ripples through, which eventually creates additional income opportunities (Pham, 2020). The additional opportunities are not limited only to the tourism sector; they also extend to other ancillary industries such as food and beverages, transportation, and so on, contributing to all-inclusive economic development. The increasing influx of foreign tourists and the FTE often leads to additional revenues in the form of tax, which can be invested wisely to fuel the development and extend the reach of public services (Figini and Patuelli, 2022; Odunga *et al*., 2020). The importance of FTE is often based on the argument that it provides a positive economic feedback loop, thereby fostering economic growth, enhancing the standard of living, and solidifying a country's position in the global economy.

2.2.2 Governance. In the extant literature, governance has received a lot of attention (Kaufmann *et al*., 2011; Singh, 2023). The discussion on the application of governance revolves around government actions and public management (Del Gesso *et al*., 2022). According to Bramwell and Lane (2011), governance encompasses a wide range of actors, including communities, non-state actors like the private and voluntary sectors, and official government agencies. Governance also refers to the various systems that these actors use to organize actions, establish rules for making decisions, and regulate processes. Several studies have identified partnership and government policy as crucial governance mechanisms that are necessary to achieve sustainable growth of tourism (Hall *et al*., 2023; Loulanski and Loulanski, 2011).

Beaumont and Dredge (2010) suggested the use of the term governance to refer to "all forms of organization relationships." This is because the term's periphrastic usage is linked to the interconnections and interdependencies between politics, stakeholders, and public policy. They also conclude that effective governance results in achieving the goals, i.e. the development of tourism resulting in a higher inflow of tourists. Hall (2011) postulated that it is critical to comprehend how institutional arrangements impact governance because they shape the state's actions in the tourist policy space and, as a result, the tools and metrics it uses to pursue its objectives. Research also revealed that the institutional intricacy, scarcity of resources, and absence of a designated authority to supervise management and the setting up of best practices and standards describe the existing governance framework for tourism (Dawson *et al*., 2014). Effective and efficient governance practices, as discussed in the literature, depend on the resources available, such as natural capital (Liu *et al*., 2022; Singh *et al*., 2018), social capital (Kamble and Bouchon, 2016; Lins *et al*., 2017; Lyssimachou and Bilinski, 2023), and intellectual capital. In this study, we use governance variable "which evaluates the performance of a country's regulatory framework and infrastructure environment to facilitate sustainable competitiveness, based on 33 quantitative indicators"[1] from The Global Sustainable Competitiveness Index: Governance Performance Index. In terms of base effects, it can be hypothesized that GOVERNANCE impacts FTE.

H0. Governance impacts foreign tourist earnings (FTE); all else is constant.

2.2.3 Natural capital (NC). Natural capital is defined as "the elements of the natural environment that provide valuable goods and services to people" (Natural Capital Committee, 2015). It includes the availability of natural resources like water, biodiversity, agriculture, environmental degradation, and energy. It is important to note that the accessibility of natural capital resources at a particular destination does not immediately result in economic growth. However, utilization or over-utilization may bring immediate results at the cost of weakening the future scope of development (for example, exploitation of natural heritage sites). Therefore, we hypothesize:

H1. Natural Capital (NC) positively affects foreign tourist earnings (FTE); all else is constant.

Rapidly growing tourist influx may provide short-term economic returns. However, this might have a detrimental impact on natural capital that attracts tourists. In such a scenario, good governance can help negate the negative impact of the rapid growth of tourist influx, for example, by focusing on environmental impact assessment. The impact assessment might also control for unsustainable development projects, which are aimed to offer economic prosperity in the short run by attracting more tourists. Therefore, we hypothesize:

H2. Strong governance complements the effect of Natural Capital (NC) on foreign tourist earnings (FTE).

2.2.4 Social capital (SC). Putnam (1993), while expansively defining the term social capital as "a propensity of people in a society to cooperate to produce socially efficient outcomes," argues that societies with more social capital result in better economic development. Social capital has also been discussed in literature from the organizational perspective, contending that a company's ability to engender trust with its stakeholders and investors, fostered by social capital investments, pays off (Lins *et al*., 2017). Economic downturns have a detrimental impact on social capital, but it is less obvious how rising social capital and tourism growth are interrelated (Kamble and Bouchon, 2016; Lyssimachou and Bilinski, 2023). A collapsing economy results in less financial resources available for social capital initiatives, such as integration, health, and community development. It increases individual dejection and criminality, all of which have a long-term detrimental impact on a country's ability to attract foreign tourists. Therefore, we hypothesize:

H3. Social Capital (SC) positively affects foreign tourist earnings (FTE); all else is constant.

There is no denying that tourism is beneficial in the short-term, especially in fostering intercultural exchanges and promoting local businesses. Creating a welcoming environment for tourists is undoubtedly beneficial; however, unrestrained development and mismanagement of tourism bring a lot of long-term problems, such as social incoherence, particularly in the form of insolence for local customs and traditions. In order to unleash the full potential of the tourism industry, it is essential that good governance practices are institutionalized. Therefore, we argue that good governance practices should complement the economic advantages of social capital and bring positive outcomes in the form of higher tourist influx, and we hypothesize:

H4. Strong governance complements the effect of Social Capital (SC) on foreign tourist earnings (FTE).

2.2.5 Intellectual capital (IC). The institutional theory contends that institutions influence the economic performance of tourism by determining costs related to transaction and transformation. These institutions function as the supply side. Within tourism, the supply side must indubitably continuously innovate and adjust to tourists, with customer demand serving as a potent catalyst for innovation (Omerzel and Jurdana, 2016). The existing literature establishes how innovation is driven by intellectual capital (Ahuja, 2000; Subramaniam and Venkatraman, 2001). Intellectual capital and performance are argued to be linked, and it is contended that businesses and nations who fall behind on this problem do so at their own risk (Bradley, 1997). Therefore, the accumulation and management of intellectual capital is the competitive advantage of knowledge-based industries (Wang, 2013).

H5. Intellectual Capital (IC) positively affects foreign tourist earnings (FTE); all else is constant.

Governance has a profound impact on the state of intellectual capital, which has a direct and positive impact on the direction of growth of tourism and, hence, the economy. Studies have shown (Cajaiba-Santana *et al*., 2020; Mustafa *et al*., 2023) a positive relation between increased investment in intellectual capital and higher growth rates or faster recoveries, and vice-versa. In

the short-run, governance practices leading to lower expenditures to reduce deficits may seem like a good idea. However, in the long-run, such practices are unsustainable since they do not provide the foundation required to promote development. Therefore, we hypothesize:

H6. Strong governance complements the effect of Intellectual Capital (IC) on foreign tourist earnings (FTE).

The testing of the complementary effects of governance on NC, SC, and IC follows Panayi *et al*. (2021), where the two terms are multiplied and added to the regression equation. The conceptual model, derived from the theoretical underpinnings and the literature review, is shown in Figure 1.

3. Methodology

3.1 Sample, variables, and data

The study sample consists of 38 OECD countries (see Appendix). The economic diversity that the OECD data represents provides a microcosm of global economic conditions, which offers strong insights into different stages of development, trade dynamics, and policy responses that can be applicable to the broader international context. The data of OECD countries can provide valuable insights in the global context as there exists interconnectedness between OECD countries in terms of trade, finance, and technology. We select a sample of 38 countries based on their membership in the OECD, and the sample represents a diverse range of economies, forming a significant group capable of representing the broader global context in this study and thereby enhancing the generalizability of the findings.

The variables used in the study are listed in Table 1. The dependent variable of the study is FTE from tourism ($b). The data for this variable are collected from Statista [2]. This online platform offers over 1,000,000 statistics on over 80,000 topics from over 22,500 sources in over 150 countries and is accessed 31 million times a month (as of December 2022). The company claims to cover around 170 industries with its content.

The independent variables of interest include indicators of sustainable competitiveness, such as governance, natural capital, social capital, and Intellectual capital. The variables are defined in Table 1 and are expected to impact the selected tourism outcome variables. The data for these variables are collected from the Global Sustainability Competitiveness Index website [3].

The study included three macroeconomic control variables, namely the inflation index, unemployment rate, and economic growth rate, to affect the microenvironment in statistical modeling. The data for these variables is collected from the Macrotrends website [4].

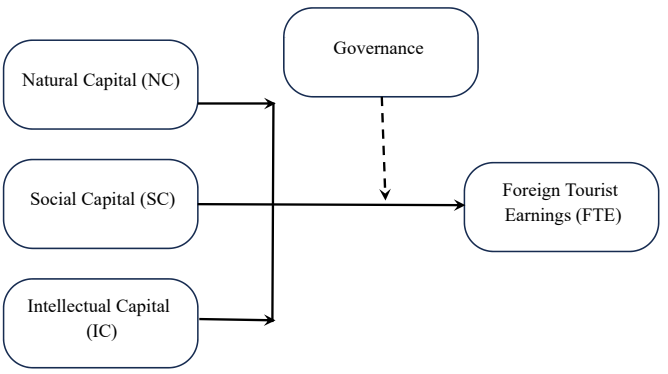

Figure 1. Conceptual model. Note: Solid lines represent direct effect and dotted lines represent moderation effect. Source: Authors' own creation

Table 1. Variables

Variable name	Symbol	Measurement	Source
Foreign tourist earnings	FTE	Revenue a country earns from foreign tourists' spending	https://www.statista.com/https://data.oecd.org/industry/tourism-receipts-and-spending.htm
Natural capital	NATURAL	Resources that feed the population, provide energy, and materials	https://solability.com/global-sustainable-competitiveness-index/global-sustainable-competitiveness-index-2022
Social capital	SOCIAL	Cohesion between generations, genders, income groups and other society groups	
Intellectual capital	INTELLECTUAL	Fundament for the ability to compete and generate wealth	
GOVERNANCE	GOVERNANCE	Direction and framework provided by government interventions, expenditure, and investments	
Consumer price index	CPI	Change in the prices of a basket of goods and services that are typically purchased by specific groups of households	https://data.oecd.org/price/inflation-cpi.htm
Unemployment rate	UNEMP	Percent of people of working age who are without work, are available for work, and have taken specific steps to find work	https://data.oecd.org/unemp/unemployment-rate.htm
GDP growth rate	GDP-GROWTH	Standard measure of the value added created through the production of goods and services in a country during a certain period	https://data.oecd.org/gdp/gross-domestic-product-gdp.htm

Source(s): Authors' own creation

3.2 Model specification

The study uses panel data for 38 countries over 10 years, from 2014 to 2023. Therefore, it is crucial to apply panel data econometrics, which combines the benefits of both cross-sectional and time series data, to produce richer insights (Wooldridge, 2010). Panel data analysis addresses entity-specific (in this case, country-specific) and time-specific effects, which is known as two-way fixed effects modeling in econometric terms. The entity-fixed effects capture differences in the intercept across entities (countries), while the time-fixed effects capture differences in the intercept across time periods.

In this study, the fixed effects are significant (see Table 4), indicating that they effectively capture the variation in the data. When fixed effects are significant, they provide a robust analytical framework (Baltagi, 2021; Wooldridge, 2010). Moreover, the use of the fixed-effects model (as opposed to pooled OLS or random effects) is justified theoretically. The fixed-effects estimation technique accounts for entity-specific heterogeneity (in this study, sampled listed countries), which may bias the estimates. Each entity is assumed to possess unique characteristics. Fixed-effects models are appropriate for controlling such bias by removing the effect of unobserved heterogeneity (Wooldridge, 2013). The sample consists of multiple countries and is likely influenced by individual fixed effects, such as geography-specific factors. These factors suggest that unobserved heterogeneity is correlated with some observed regressors. Fixed-effects models are consistent in such cases, whereas pooled OLS may yield inconsistent results (Singh and Rastogi, 2024). Accordingly, we specify the fixed-effects model, which can generally be expressed as follows:

$$y_{it} = \alpha + \beta X_{it} + \gamma i + \delta_t + \epsilon_{it}$$

Where y_{it} is the dependent variable for the entity (country) i at time t, X_{it} is a vector of independent variables, α is the intercept, β is the vector of coefficients for the independent variables, γ_i is the entity (country) fixed effect, δ_t is the time fixed effect, ϵ_{it} is the error term.

The testing of the complementary effects of governance on NC, SC, and IC follows Panayi *et al.* (2021), where the two terms are multiplied and added to the regression equation.

4. Results

4.1 Summary statistics

Table 2 presents the summary statistics of the variables. The summary statistics indicate that the deviation of the variables is a good indication of variation to continue regression. In exceptional cases, the negative minimum value of the variable GDP-GROWTH captures the effects of the COVID-19 pandemic. The values range of FTE provides solid ground for econometric analysis to capture the impacts across 38 countries sampled for the study.

4.2 Correlation matrix

Table 3 provides the correlation coefficients between the variables. First, the correlation coefficients between the regressors are not large enough to cause multicollinearity issues. Second, the variance inflation factors (VIFs) values, which are less than 2, induce confidence against multicollinearity issues (Wooldridge, 2010).

4.3 Regression results and hypothesis testing

Table 4 presents the regression results. Surprisingly, models 1, 2, and 3 indicate that the individual impact of the variables NATURAL, SOCIAL, INTELLECTUAL, and GOVERNANCE is insignificant on the dependent variable FTE. However, the variables NATURAL, SOCIAL, and INTELLECTUAL interact with GOVERNANCE to produce a consistent positive impact on FTE (see Rows 5, 6, and 7 of models 4, 5, and 6). These positive interaction terms indicate that GOVERNANCE complements the effects of NATURAL, SOCIAL, and INTELLECTUAL capital, effectively making these variables impactful. Without GOVERNANCE, the aforementioned capitals do not produce any significant impact on FTE. We thus, reject the hypotheses H0, H1, H3, and H5, and fail to reject H2, H4 and H6.

4.4 Diagnostics, robustness, and endogeneity

Country and year-fixed effects are significant (Table 4: Rows 15 and 16). The diagnostics indicate the presence of heteroskedasticity (Table 4: Row 17). Therefore, robust standard

Table 2. Descriptive statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
(1) FTE	299	23.74	36.21	0.00	241.98
(2) NATURAL	380	48.10	8.96	24.13	69.20
(3) INTELLECTUAL	342	55.31	8.30	35.06	79.73
(4) GOVERNANCE	380	57.53	6.58	40.30	76.00
(5) SOCIAL	380	3.95	0.19	3.40	6.04
(6) CPI	342	119.04	30.24	97.75	542.44
(7) UNEMP	380	6.86	3.89	1.90	26.50
(8) GDP-GROWTH	380	2.39	3.37	−11.20	24.50

Source(s): Authors' own creation

Table 3. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	VIF
(1) FTE	1.000								–
(2) NATURAL	−0.095	1.000							*1.11*
(3) INTELLECTUAL	0.058	−0.205*	1.000						*1.51*
(4) GOVERNANCE	−0.143*	−0.047	0.247*	1.000					*1.37*
(5) SOCIAL	−0.223*	0.037	0.383*	0.348*	1.000				*1.30*
(6) CPI	0.020	−0.079	−0.180*	−0.046	−0.193*	1.000			*1.12*
(7) UNEMP	0.007	0.099	−0.432*	−0.447*	−0.188*	0.073	1.000		*1.43*
(8) GDP-GROWTH	0.002	−0.012	−0.082	−0.049	−0.067	0.108*	−0.040	1.000	*1.05*

Note(s): ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$, VIF: Variance Inflation Factors
Source(s): Authors' own creation

Table 4. Regression results

Variables	(1) FTE	(2) FTE	(3) FTE	(4) FTE	(5) FTE	(6) FTE
NATURAL	0.390			−1.785**		
	(0.255)			(0.831)		
SOCIAL		−0.00174			−2.234*	
		(0.00740)			(1.235)	
INTELLECTUAL			−0.575			−3.147**
			(0.369)			(1.457)
GOVERNANCE	0.326	0.330	0.282	−1.474**	−1.708	−2.231*
	(0.269)	(0.266)	(0.264)	(0.674)	(1.153)	(1.164)
NATURAL x GOVERNANCE				0.0375***		
				(0.0131)		
SOCIAL X GOVERNANCE					0.0387*	
					(0.0214)	
INTELLECTUAL x GOVERNANCE						0.0448**
						(0.0223)
CPI	0.0543**	0.0589***	0.0596***	0.0489**	0.0528**	0.0607***
	(0.0214)	(0.0225)	(0.0227)	(0.0206)	(0.0213)	(0.0218)
UNEMP	−0.416	−0.339	−0.245	−0.507	−0.352	−0.418
	(0.667)	(0.660)	(0.723)	(0.664)	(0.695)	(0.783)
GDP-GROWTH	0.720	0.713	0.910	0.726	0.748	0.973
	(0.475)	(0.477)	(0.645)	(0.463)	(0.478)	(0.640)
Constant	0.612	19.39	45.76**	106.6**	137.2**	187.3**
	(22.90)	(16.14)	(20.19)	(45.50)	(68.02)	(74.16)
Observations	299	299	261	299	299	261
R^2	0.897	0.897	0.887	0.899	0.898	0.889
Model F	49.84***	52.86***	40.45***	54.76***	54.57***	41.98***
Country-fixed Effects, F	41.27***	41.58***	34.80***	45.15***	43.16***	36.56***
Year-fixed Effects, F	4.31***	4.98***	5.85***	4.37***	4.97***	5.97***
BP Test, χ^2	1788.05***	1803.84***	1506.40***	1801.62***	1781.94***	1474.98***

Note(s): Standard errors in parentheses, ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$, BP: Breusch-Pagan/Cook-Weisberg test for heteroskedasticity. Ho: Constant variance. STATA 12 is used for econometric analysis
Source(s): Authors' own creation

errors are calculated, which captures the effects of heteroskedasticity and serial correlation, if any (Wooldridge, 2010), and helps arrive at correct common errors and right t-statistics. Further, the insignificance of the Durbin-Wu-Hausman statistics for the variables of interest shows that the results are fairly robust against endogeneity issues. The test statistics that include the variables of interest are: NATURAL [Durbin $x2 = 1.076$ ($p = 0.299$); Hausman $F = 1.06$ ($p = 0.303$)]; NATURAL [Durbin $x2 = 1.076$ ($p = 0.450$); Hausman $F = 1.064$ ($p = 0.303$)]; INTELLECTUAL [Durbin $x2 = 0.867$ ($p = 0.351$); Hausman $F = 0.855$ ($p = 0.356$)]; and, GOVERNANCE [Durbin $x2 = 0.416$ ($p = 0.518$); Hausman $F = 0.410$ ($p = 0.522$].

Further, in a fixed effects model such as country and year fixed effects, the constant term represents the combined effect of omitted fixed factors that do not vary over time or across entities. However, the constant term that remains significant in some models in Table 4 suggests that some time-variant or country-variant factors may still be missing. Therefore, we include three macro-level country-specific variables (CPI, UNEMP, GDP-GROWTH) as a proxy to curtail the omitted variable bias, which is not likely to be captured by country or year-specific effects. Lastly, while completely eliminating endogeneity is impossible (Panayi *et al.*, 2021) and too many controls can distort the model (see Angrist and Pischke, 2009), we try to

safeguard the model estimates against endogeneity bias by taking measures as mentioned above.

5. Discussion

The findings of the study uncover three vital considerations for countries that focus on harnessing the power of tourism and cannot continue to do so over a long period of time unless they properly govern the resources (capital) that they have. Positive interaction terms (see Table 4) in a regression model suggest complementary effects if their interpretation aligns with the theoretical or empirical context of the study. The testing of the moderating effects of governance on the relationship between the types of capitals (NC, SC, and IC), where the two terms are multiplied to produce a combined effect on FTE, serves as a testimony to the arguments built and tested in this study. In other words, the positive interaction terms (NATURAL x GOVERNANCE; SOCIAL x GOVERNANCE; INTELLECTUAL x GOVERNANCE) in the regression models capture the combined and synergistic effects of the two variables on FTE, beyond their individual effects. This indicates that the combined effect on the dependent variable is greater than the sum of their individual effects.

Our findings reveal the nuanced nature of capital available to a destination and demonstrate that natural, social, and intellectual capital have a conditional effect on foreign tourist arrivals, dependent on the presence of effective governance. The availability of none of these capitals, in the long-run, significantly affects the FTE. This means that the mere availability of these capitals does not translate into an influx of foreign tourists. As our findings reveal, strong governance remains the prime factor that makes the natural, social, and intellectual capital effective for tourism and earnings related to foreign tourism. Thus, no form of capital is impactful on FTE, if good governance and institutional support are inadequate. Interaction terms in the context of this study indicate moderation, thereby leading to complementary effects. The findings highlight that the exploitation of natural, social, or intellectual capital (resources) might lead to short-term benefits, such as economic gains, infrastructure development, or promotion of local business. However, these benefits harvested at the cost of these resources prove to be detrimental in the long-run.

The improper governance of: (1) natural capital leads to leads to environmental degradation and disruptions in ecosystems, (2) social capital leads to social incoherence, which in turn increases dejection and criminality at an individual level and disregard for local customs and traditions collectively, and (3) intellectual capital leads to weak foundation essential to promote development. Strong governance practices are essential for creating social equality by providing equal access to resources, which helps to alleviate exacerbating social inequalities, thereby preventing social unrest and instability. Prudent governance practices are essential as properly utilizing these capitals today can significantly impact the availability and quality of resources for future generations. The availability of these capitals for future generations will eventually decide the foreign tourist influx and dollars earned eventually.

The inappropriate governance leading to the depletion of these resources makes the destination wane and results in a dwindling influx of foreign tourists. Therefore, to sustain and grow in the long-run, as our study discovers, it is imperative to balance the usage of natural resources using appropriate governance policies.

5.1 Theoretical contributions

The present study contributes to the academic literature primarily in two ways. First, we explain the main argument of this study in conjunction with relevant literature, and then we articulate the contributions to the institutional theory. Bastos Lima *et al*. (2019) argued that environmental governance is more relevant to tourism development than other governance forces, such as vertical accountability and public administrative procedures. We, on the other hand, contend that not only environmental governance (natural capital governance) but also

social and intellectual governance is essential for long-term sustenance. The present study disagrees with Campos-Soria *et al*. (2018), who concluded that nature tourism has a limited scope in developing countries. However, our study argues that nature tourism is important across all 38 countries, both developed and developing, provided these resources are governed well. Our study goes beyond and extends the work of Goncalves *et al*. (2016), who argued that the quality of natural capital determines the tourist influx. However, we argue that such findings are subject to the presence of strong governance practices, without which the natural capital dilutes and is likely to become ineffective in creating a pull in the long haul.

Our study extends the institutional theory by emphasizing the role of formal and informal institutions in shaping governance policies. This study implies that there is a combined effect of formal institutions, such as laws and regulations, government policies, informal institutions, and social norms and values, in shaping tourism policies. This study also proves to be a vital piece of work in the field of governance and tourism as we contend that without the proper governance policies and practices in place, reaping the long-term benefits of natural, social, or intellectual capital in terms of higher tourist influx is impossible. Our study, centered around strong and effective governance practices within the broader discourse on institutional theory, offers a nuanced perspective on the effect of the symbiotic relationship between formal and informal institutions on governance policies, which in turn affects the tourism industry. Thus, the study brings novel theoretical contributions by integrating the intuitional theory in the context of tourism.

5.2 Practical/policy implications

It is important to focus equally on winning foreign tourists to earn tourism dollars in the short and long term. Therefore, in this study, we are focusing on short-term and long-term measures, as explained below.

Policymakers need to focus on short-term measures without compromising the long-term sustenance of the capital available to a destination. These short-term measures prove to be a quick win. There is a need to focus on cleanliness initiatives, multilingual signage and support, information kiosks for foreign tourists, extended hours of operation, and so on. Targeted marketing campaigns highlighting the current strengths of the destination, such as natural beauty and cultural events, can add on to create a pull of foreign tourists. Building on the very nature of institutional theory, promoting public and private collaborations to leverage the existing and new infrastructure and expertise to provide tourists with positive experiences. Also, being predominantly a service sector, it is essential to run short-term training programs for the tourism workers to make them: (1) sensitive to different cultures, (2) adopt responsible tourism practices, and (3) adhere to regulations. In order to evaluate the efforts, performance monitoring is also essential. Indicators like foreign tourist arrival, average length of stay, sentiment analysis, and short satisfaction surveys can help monitor the effectiveness of these measures and may offer insights for the long term.

While short-term measures may help exploit low-hanging fruits, sustainable tourism development necessitates a long-term perspective and implementing robust, long-term measures. The governance policies must focus on strategically enhancing natural, social, and intellectual capital through conservation, cultural preservation, and workforce development. There is a need to focus on building sustainable tourism infrastructure by investing in projects such as eco-friendly transportation, renewable energy sources, waste management systems, and so on. Policies should also focus on creating an environment where eco-tourism practices are promoted. This can be achieved by educating tourists and the local community about conservation efforts, thereby bearing the minimal impact of tourism on the environment and ecology. To improve the state of social capital, there is a need to integrate tourism development plans with broader community development goals to ensure long-term social and economic benefits for residents. This can be achieved by policies that can slowly and carefully introduce community-based tourism projects and tourism initiatives led by local communities so that they directly benefit from tourist dollars and participate in decision-making processes. It is

essential to invest in preserving the culture by investing in the restoration and maintenance of historical sites, traditional crafts, and cultural performances to preserve local heritage for future generations. This will also help in mitigating the potential risks associated with tourism development, such as environmental degradation and cultural erosion. Lastly, but very importantly, it is vital to have impact assessments of governance policies and to craft and adopt strategies as needed.

6. Conclusion

Global tourism is undergoing unremitting changes, with the increasing focus of many countries to leverage economic benefits from the industry. However, care needs to be taken in the governance of natural, social, and intellectual capital and resources to unleash the full economic benefits of global tourism. Therefore, our main argument is that, for the desired effects of OECD tourism to be realized by harnessing the full potential of capital available, good governance has a role to play. Our results support this argument. The panel data econometrics results from 38 OECD countries for 10 years signify that governance remains the prime factor that makes the natural, social, and intellectual capitals effective for tourism and earnings related to foreign tourism. Thus, no form of capital is impactful on foreign tourist earnings if good governance and institutional support are inadequate.

The study contributes to the institutional theory by supporting the role of formal and informal institutions in shaping the governance practices that foster the efficacy of the various forms of capital of tourist destinations. The study also contributes through its implications on policy making, which remain the foundation to foster the long-term economic benefits of tourism.

Finally, our study has some limitations that can be converted into the scope of future research. It would be interesting to segregate the impact of formal and informal institutional governance on the desired outcome variable of interest. Second, it would be great to see future studies considering the differences based on state (developing vs. developed) and size of the economy regarding the relationships studied in this paper. Further, future studies can consider the destination-fixed [5] effects to draw a comparative statement as well. Future studies can also examine the role that formal and informal institutions play in shaping governance practices.

Notes

1. https://solability.com/the-global-sustainable-competitiveness-index/governance-capital
2. https://www.statista.com/?kw=statista&crmtag=adwords&gad_source=1&gclid=Cj0KCQiAw6yuBhDrARIsACf94RVkeMrXxBTxv3W-pvkICRImCkvnpM3gKSEbzCOPfkUMdq7b5JGZ-WkaArt9EALw_wcB
3. https://solability.com/the-global-sustainable-competitiveness-index/the-index/downloads
4. https://www.macrotrends.net/
5. Here destination mean the type of destination, such as beach or costal resorts, islands, cultural cities, national parks, adventure destinations, spa retreats, wine regions, ski resorts, and so on.

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Appendix

Table A1. List of 38 OECD countries

Australia	Finland	Korea	Slovak Republic
Austria	France	Latvia	Slovenia
Belgium	Germany	Lithuania	Spain
Canada	Greece	Luxembourg	Sweden
Chile	Hungary	Mexico	Switzerland
Colombia	Iceland	Netherlands	Türkiye
Costa Rica	Ireland	New Zealand	United Kingdom
Czechia	Israel	Norway	United States
Denmark	Italy	Poland	
Estonia	Japan	Portugal	

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