Interdependency Between Internationalization and Firms’ Performance

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Abstract-This research analyzes whether there is an interdependency between internationalization (IS) and firms’ performance in manufacturing industry. This study includes 57 companies that are listed in the Indonesian Stock Exchange (IDX) from 2011 to 2015. In order to know which explanatory variables that significantly lead to the Relative Performance based on Historical Target (RPH) and Relative Performance based on Industrial Target (RPI), this research exercises two-stage of least squares regression analysis. The result reveals that IS has a significant positive effect on RPH at 0 and RPH itself has a positive effect on IS. It can be said that whenever the number of companies that internationalize themselves increase by a certain degree will have a positive impact on RPH and conversely. Other result shows that IS has significantly negative effect on RPI, however, RPI has an insignificant effect on IS. This means that the more companies internationalize themselves the more negative will be visible on their performance and conversely. Nevertheless, undertaking further research on the same topic with larger sampling population is necessary so that the puzzle whether or not IS and firm’s performance involving RPI and RPH remains interconnected can be explained more comprehensively.

Keywords: internationalization, firm performance, relative performance, interdependency

1. Introduction

Internationalization (IS) can provide companies with the following benefits, for instance, it can elevate (1) the economies of scale, (2) economies of scope, (3) information and innovation, (4) give access to obtain resources, (5) lower the risks and (6) increase the bargaining power. However, the drawback of IS is that the cost that is due to an uncertainty. IS can also increase the cost of transaction and other cost which occurs when the firms want to obtain information. These costs can lead to deflate the firms’ performance.

Based on the respective benefits and costs from the process of IS, it can be said that the process of IS will affect the firms’ performance. But, the question is that “Is the internationalization able to improve the firms’ performance?” This research topic had previously been studied by researchers to reveal the correlation between IS and the firms’ performance. The results of their studies remain contrast from one to another. Some researchers like Rugman (1979), Delios and Beamish (1999), Pangarkar (2008) remarked that the correlations were positive and creating linear patterns. However, some researchers such as Brewer (1981), Collins (1990), Colpan (2008), Qian (1997), Kistruck, Qureshi and Beamish (2013) with the U-shaped model, Hit et al., (1997), Driffield, Du and Girma (2008) with the inverted U-shaped model, and Contractor et al., (2003), Lu and Beamish (2004), Sung, Bell and Park (2008), Fisch (2012) with the S-Shaped model revealed the negative correlation and linear patterns.

Contractor et al.(2007) studied the correlation between IS and firms’ performance in India. They used return on assets (ROA) as a dependent variable. Meanwhile, the IS, age and size exercised as independent variables. The result showed that IS and firms’ performance were not correlated and it manifested the U-Shape pattern. Nevertheless, the age has significant correlation with ROA, likewise for the firm’s size. Rugman and Oh (2010) conducted their research on the same topic using ROA as a dependent variable, and then IS as independent variable along with the controlled variables such as size, advertising intensity, research and development (R&D). Their empirical studies revealed a positive correlation between IS and firms’ performance and it showed an inverted S-Curve pattern. The firm’s size has significantly correlated with ROA, meanwhile advertising intensity and R&D intensity were insignificant towards ROA.