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Interdependency between internationalization, firm performance, and corporate governance

Allan Muliyanto & Deddy Marciano
University of Surabaya, Surabaya, Indonesia

ABSTRACT: The purpose of this research was to identify the interdependency between internationalization, performance and corporate governance. Data used by this paper were from financial statement information of manufacturing companies listed on Indonesian Stock Exchange over period 2011-2015. Pooling data were applied for a sample which contains 84 manufacturing companies with five years data. This paper also applied Two Stages Regression as a statistical tool to identify the relationship between these three main variables. This research found significant interdependency relations between internationalization, performance, and corporate governance of manufacturing companies listed on Indonesia Stock Exchange.

Keywords: internationalization, performance, corporate governance

1 INTRODUCTION

In the era of globalization, companies all over the world intend to internationalize themselves to increase their market share and take a part of global markets. It is important as Jane (2012) mentioned that they are able to reach new markets and acquire new sources of capital globally. They also can diversify corporate risks and reduce costs so they are going to have a strong competitive advantage. In its process, internationalization affects the companies' activities. Companies surely will meet the risk exposures namely currency risk, liquidity risk and tax risk. Another potential risk comes from the host country such as social, cultural legal formal aspects and even terrorism.

Some papers furthermore have found that internationalization process will also affect companies' performance. Hosea & Marciano (2015) pinpointed three levels that affect the firms' performance during the process of internationalization. At the low level, there will be a negative relationship. As companies enter the new global market, they will have to solve information asymmetry. At the medium level, increasing firms' performance occurs as companies are able to manage and solve asymmetric information problem in the global market. Finally, at a high level of internationalization, firms' performance decreased as they are unable to manage the complexity of an increasing pressure in the global market.

Zhang et al. (2012) remarked that on the one hand, internationalization requires the companies to do a lot of things in the new global market. On the other hand, performance can also affect companies' internationalization. Jung & Bansal (2009) argued that performance affects internationalization in two ways. First, performance takes the role of a benchmark. Companies compare their actual performance with last period performance and other companies' performance. They will make strategic planning and decision based on the comparison results. Second, the increased performance could change companies' behavior and encourages them to be more risk-taking. By having increased performance, they become more confident to manage more risk and even reach the global market to internationalize.

Furthermore, internationalization also affects companies' corporate governance. As stated by Al Mamun & Badir (2014), companies need to expand its internal and external corporate governance mechanism to maintain its competitive advantage. The authors also found that internationalized companies implement its governance using the intra-convergence and inter-convergence. Heinrich (2005)