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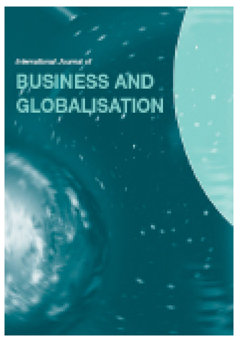

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Supervisory board and Indonesia's company internationalisation

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Abstract: This study aims to examine the role of supervisory board on internationalisation of Indonesia's listed companies. Based on the agency theory, supervisory board may improve the international company performance through company oversight. Specifically, this study investigates the effect of supervisory board composition, size, and expertise on international performance. The sample of this study is 61 manufacturing listed companies from 2012–2016 periods. The result shows that supervisory board composition has a positive and significant relationship with the company internationalisation. While, supervisory board size and expertise have no effect on company internationalisation. In addition, the company age and leverage also contribute to the internationalisation of companies.

Keywords: supervisory board; internationalisation; Indonesia.

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1 Background of the study

Going to international market is frequently a good initiative for strategic revitalisation as a global economics has been growing (Calabrò et al., 2013). Liu et al. (2011) argue that there is a rapid growth of internationalisation of companies from emerging market. Strategic orientations and institutional factors are the main drivers to achieve the goal of internationalisation for companies which operate in developing countries (Liu et al., 2011). The internationalisation is a process of entering new international market which has been identified through opportunities identification (Muzychenko and Liesch, 2015). Dunning (1980) concludes that the reasons companies going to international market are marketing, resources, efficiency and strategic-asset seeking. In addition, other experts also add that client following and merger and acquisition are other motive why a company is going to international market (Erramilli and Rao, 1993; Gilbert and Zok, 1992). In addition, Rodtook and Altinay (2013) identify several reasons for going to international market for Thai hotel chains: spreading risk, increasing profit, learning new knowledge from outside market, building a word recognised brand and creating the marketing networks. Therefore, a company sell in international market tends to have a higher sales revenues and profit compared to a company only exist in local market. Further, an international company may have a sustainable competitive advantage.

Study on internationalisation performance have been done by previous researchers (Barroso et al., 2011; Calabrò et al., 2017; Lehrer and Celo, 2017; Lin, 2012; Liu et al., 2011; Ma et al., 2016; Rodtook and Altinay, 2013; Segaro, 2012; Singh and Gaur, 2013; Yarbrough et al., 2017). Barroso et al. (2011) investigate the role of board of directors in internationalisation of 45 companies listed in Spain Stock Exchange. They conclude that director's tenure, directors' managerial experiences and directors' academic achievement are sources of degree international diversifications. Calabrò et al. (2017) investigate the involvement of non-family members in governance structure and internationalisation of German family companies. They find that there is a positive and significant relationship between involvement of non-family members and internationalisation. Lehrer and Celo (2017) develop the concept of internalisation for German family companies and provide a novel way thinking about company internationalisation. Further, Lin (2012) investigates the effect of family ownership on company internationalisation using longitudinal data of Taiwan listed companies. Lin (2012) reveals that the family ownership significantly influences the company internationalisation. Ma et al. (2016) analyse the development of subnational institutional environment in the home country and its effect on company internationalisation. They conclude that there is a significant relationship between institutional environment and internationalisation. Rodtook and Altinay (2013) survey the reasons going to international market for Thai hotel chains and conclude that the reasons are:

1 spread risk
2 to increase profit
3 to learn new knowledge
4 to build worldwide brand recognition and create a marketing network
5 to maintain and support the relationship between Thailand and neighbouring countries.

Segaro (2012) examines the effect of ownership, governance and top management team on internationalisation of family small-medium enterprise (SME). Singh and Gaur (2013) find that there is the effect of family ownership, institutional ownership and group affiliation on new foreign investment as proxy of internationalisation. Finally, Yarbrough et al. (2017) conclude that there is a significant relationship between board political experience and internationalisation. Based on the previous studies above, it can be concluded that studies on internationalisation focus on the internal factor such as role of board directors (Barroso et al., 2011), ownership (Segaro, 2012), non-family member involvement in governance structure (Calabrò et al., 2017), subnational institutional environment in home country (Ma et al., 2016), governance (Segaro, 2012), top management (Segaro, 2012), institutional ownership (Singh and Gaur, 2013), group affiliation (Singh and Gaur, 2013) and board political experiences (Yarbrough et al., 2017). In addition, Barroso et al. (2011), Nas and Kalaycioglu (2016) and Yarbrough et al. (2017) analyse the role of directors in company internationalisation for one-tier board system. However, most prior studies in two-tier boards system, focus on the effect of supervisory board and company performance (Huang, 2010), supervisory board for an anti-corruption strategy (Previtali and Cerchiello, 2017), and effective in two-tier board (Bezemer et al., 2014). Thus, there is a lack of exist a specific study that discuss about supervisory board (Previtali and Cerchiello, 2017).

This study establishes several contributions to the literature. First, this study addresses the supervisory board issue in two-tier board by focusing on the uniqueness of Indonesian system. Supervisory board is measured by composition, size, and supervisory board expertise. Second, this paper analyses how supervisory board affect the company internationalisation. Third, this research contributes to the literature due to this is the first study that investigate the effect of supervisory board on company internationalisation in developing country. Most of prior researches of corporate governance focus on governance factors such as board of directors and company performance rather than company's internalisation (Nas and Kalaycioglu, 2016). This paper is organised as follows: Section 1 is background of the study, Section 2 is theoretical aspect, Section 3 is research methods, Section 4 is result and discussion, and Section 5 is conclusions and recommendation.

2 Theoretical aspect

2.1 Internationalisation

Globalisation has substantially changed the business prospect (Barroso et al., 2011). Company has designed the internationalisation strategy in order to gain a sustainable competitive advantage. Internationalisation strategies have been more important due to globalisation (Barroso et al., 2011). Welch and Luostarinen (1988) define internationalisation as the ways of escalating involvement in international markets. There are several advantages of going to international market. Chen (2011) identifies several benefits of internationalisation, such as:

1 economies of scale and scope

2 cheap inputs

3 risk diversification.

These advantages drive companies to make more profit, grow and survive (Chen, 2011). However, internationalisation also brings challenges and threats to companies and thus is significant costly and risky. Tihanyi et al. (2000) argue that internationalisation may bring companies with organisational problems, such as coordination difficulties, information asymmetry between headquarter and subsidiaries and incentive misalignment (Zaheer, 1995). From agency theory (Jensen and Meckling, 1976), variation degree of company internationalisation is determined by governance structure, such as board tenure and board expertise.

2.2 Supervisory board

In two-tier boards system, there are two types of board, namely board of directors (management board) and supervisory board (board of commissioners). The role of supervisory board is derived from agency theory (Jensen and Meckling, 1976). The supervisory board have responsibility to monitor and control the strategy which taken by management board, including internationalisation strategy. In addition, the present of supervisory board also reduce the agency conflict between principal and management board. Thus, supervisory board is viewed as a crucial internal corporate governance in two-tier board system (Previtali and Cerchiello, 2017). However, supervisory board involves only in decision-control (Bezemer et al., 2014), it is a difficult to maintain trust relationship between both boards (management board and supervisory board) due to poor in joint meeting (Bezemer et al., 2014), and it generates information asymmetry between both boards (Jungmann, 2006).

2.2.1 Supervisory board composition

Supervisory board composition means the proportion of supervisory board independence. Hillman and Dalziel (2003) suggest that board composition can reduce the resources dependencies. Supervisory board composition has an important role to limit the opportunistic behaviour of management board (Eisenhardt, 1989). Sanders and Carpenter (2003) conclude that the company internationalisation is associated with the outside board.

The effectiveness of board composition has been much studied extensively in one-tier board system (e.g., Biswas et al., 2018; Dalton et al., 1998; Kavitha et al., 2019; Nguyen et al., 2019; Shukeri et al., 2012). Surprisingly little evidence that discuss board composition in two-tier boards system (e.g., Bezemer et al., 2014; Chiang and He, 2010; Previtali and Cerchiello, 2017). Thus, limited prior studies investigate the effect of board composition and company internationalisation (Wang et al., 2015; Nas and Kalaycioglu, 2016). Wang et al. (2015) investigate the effect of board composition on internationalisation. They conclude that higher proportion of board composition bring into higher degree of company internationalisation. Using 221 exporting companies, Nas and Kalaycioglu (2016) find that board composition has a negative and significant relationship with export performance. Nguyen et al. (2019) employ mailed questionnaires for 170 independent board as respondents in Vietnam. They find that independent board tend to conduct on advisory rather than monitoring role. Thus, the hypothesis of this study is as follow:

H1 Supervisory board composition has a positive impact on company internationalisation.

2.2.2 Supervisory board size

Supervisory board size is total number of supervisory board member. Larger number of board size will increase agency problem due to less effective in their task to monitor the board of director (Bozec, 2005). While Dalton et al. (1998) note that larger number of board give positive benefits which related with company performance. According to Kumar and Singh (2013), the effectiveness and complexity in making decision is depend on the number of board members.

Singh and Gaur (2013) analyse the effect of board size and company internationalisation. They find that company with higher board size tends to have the higher degree of company internationalisation. Nas and Kalaycioglu (2016) use sample from 221 exporting companies for 2007–2010 periods. They find that board size has a positive and significant impact on export performance. Kavitha et al. (2019) examine the effectiveness of board size for 1,024 company-year observations from 2009 to 2016. They find board size has no significant impact on the discretionary disclosures in India. Based on the above explanations, the hypothesis is as follow:

H2 Supervisory board size has a positive relationship with company internationalisation.

2.2.3 Supervisory board expertise

Supervisory board expertise is the number of supervisory boards who has an economics, business management and accounting background. Expertise of board members may come from the educational background each board members. As suggested by Darmadi (2013), financial degrees of board create financial expertise of board members in helping them to accomplish their tasks. According to Harjoto et al. (2019), different background of board bring divers in perspectives in term of the goal of company whether to maximise principals' interest or stakeholders' interests. While, Previtali and Cerchiello (2017) note that different experience and competencies of supervisory board could sustain and support the decision taken by board of directors. In addition, supervisory board with financial expertise improves their ability to analyse financial reporting and advise board of directors in financial strategy (Sarwar et al., 2018).

Study in Indonesia, Darmadi (2013) investigates the effect of education of supervisory board members on company performance for 160 companies. He finds that supervisory board who has financial expertise has no significant impact on company performance. Barroso et al. (2011) examine the relationship between board knowledge and internationalisation. They find that there is a significant relationship between knowledge of board and internationalisation. Tseng and Jian (2016) conclude that board members' educational background has a significant effect on firm's branding success. Thus, following hypothesis is developed:

H3 Supervisory board expertise has a positive effect on company internationalisation.

3 Research methods

The object of research is basic industry and chemical sector companies listed in Indonesia Stock Exchange (ISE). Final sample of this study is 320 company-years. This paper uses secondary data which gathered from annual report, financial report and other non-financial information. The data are taken from IDX sites, companies' website and other relevant websites. Company's internationalisation is dependent variable which is measured by a company international sales divided by total company sales (Daniels and Bracker, 1989; Tallman and Li, 1996). In addition, supervisory board is measured by three proxies: supervisory board composition, size and expertise. Supervisory board composition is the proportion of supervisory board independence to total supervisory board, which is employed by many previous researchers (Vafeas and Theodorou, 1998; Haniffa and Hudaib, 2006; Li and Roberts, 2018; Adeabah et al., 2019; Kavitha et al., 2019). Meanwhile, supervisory board size is the number of supervisor board members which is also used by previous researches (Bozec, 2005; Mak and Kusnadi, 2005; Kumar and Singh, 2013). Further, supervisory board expertise is the number of supervisory board who has an economics, business management and accounting background (Hsu, 2007; Darmadi, 2013; Sarwar et al., 2018). This study also employs several control variables to avoid the model specification error (Rasli et al., 2013). The control variables are company size (Campbell and Mínguez-Vera, 2008; Kumar and Singh, 2013; Tseng and Jian, 2016), company age (Arosa et al., 2010), company leverage (Foong and Idris, 2012; Alsartawi, 2019) and company profitability (Kross and Schroeder, 1984; Kavitha et al., 2019). The multiple regression analysis is applied in this study. The research model is as follow:

$$\text{Inter} = \alpha + \beta_1\text{BoaCom it} + \beta 2\text{BosSize it} + \beta_3\text{BoaExp it} + \beta_4\text{ComAge it} \\ +\beta_5\text{ComSize it} + \beta_6\text{ComLev it} + \beta_7\text{ComPro it} + \varepsilon$$

where

Inter	internationalisation
BoaCom	supervisory board composition
BoaSize	supervisory board size
BoaExp	supervisory board expertise
ComAge	company age
ComSize	company size
ComLev	company leverage
ComPro	company profitability.

4 Result and discussion

The final number of samples is 64 companies. Table 1 provides the statistic descriptive of the variables. Means value of internationalisation is 0.06 which is far lower compared to means value of prior work of Calabrò et al. (2013). They find the means value of internationalisation around 0.21. In addition, the average number of supervisory board composition is 0.37 which is lower than the finding of Chen et al. (2005) and Yammeesri and Kanthi Herath (2010). They find the means value of board composition approximately 0.32. The means value of supervisory board size is 4.60 which is lower compared to the means value of board size from prior work of Kamardin and Haron (2011) (eight members) and finding of Rose (2005) (five members) for Danish's companies. Supervisory board expertise is 0.72. The supervisory board members expertise is dominated by economics, management and accounting background.

For the control variables, the means value of company age around 30.94 year. The maximum of company age is 100 year. The averages value of company size about Rp.10,702,585 million (approximately US $752 million). The means value of company leverage is 0.48. Further, the means value of the profitability of company around 1.49. It can be seen in Table 1.

As mention above, the multiple regression analysis is used to accept or reject the hypothesis. However, the classical assumptions must be conducted in order to have blue model (Wooldridge, 2003). First classical assumption is normality. In this study, univariate normality is applied and skewness value is used. Manning and Munro (2004) argue that normality test can be used the value of skewness divided by standard error and its value must be lesser than 2.59 for observation 300 and 3.59 for above 300. All variables are tested for normality, except supervisory board expertise (because it measured by dummy). In the first step, only one variable (BoaCom) is normal and transformation was conducted by using log natural (Ln) and square root (sqrt). Finally, all variables are normal. The result of normality and transformation is demonstrated in Table 2.

Table 1 Statistic descriptive of research variables

Variables	*Min.*	*Max.*	*Mean*	*SD*
Inter	0.00	0.96	0.06	0.16
BoaCom	0.03	0.75	0.37	0.12
BoaSize	2.00	12.00	4.60	2.25
BoaExp	0.00	1.00	0.72	0.45
ComAge	3.00	100.00	30.94	16.64
ComSize (rp. million)	7,648	288,314,000	10,702,585	33,078,886
ComLev	0.00	0.88	0.48	0.59
ComPro	–0.22	166.00	1.49	13.39

Note: Internationalisation (Inter), supervisory board composition (BoaCom), supervisory board size (BoaSize), supervisory board expertise (BoaExp), company age (ComAge), company size (ComSize), company leverage (ComLev), and company profitability (ComPro).

The next classical assumption is multicollinearity. This study applies the variant inflation factor (VIF) to see whether any multicollinearity problem exists in the model. If the value of VIF is less than 10, it can be concluded that there is no multicollinearity problem (Gujarati, 1995). Further, White (1980) test is used to see any heteroscedasticity problem in the model. The result shows that there is heteroscedasticity problem which is indicated by significant value of chi square is greater than 0.05 (White test = 60.45, chi-square = 0.00). Due to heteroscedasticity problem in the model, the corrected heteroscedasticity regression analysis is conducted (Gujarati, 1995).

Table 2 Result of univariate normality test

Variables	*SE/err*	*Conclusion*	*Transformation*		*Conclusion*
			Ln	*Sqrt*	
Inter	23.18	Not normal	–1.513		Normal
BoaCom	2.31	Normal			Normal
BoaSize	16.58	Not normal	1.795		Normal
BoaExp	Dummy	-			Normal
ComAge	8.63	Not normal		0.546	Normal
ComSize	49.34	Not normal	1.921		Normal
ComLev	95.25	Not normal	–0.614		Normal
ComPro	84.97	Not normal	–0.587		Normal

Note: Internationalisation (Inter), supervisory board composition (BoaCom), supervisory board size (BoaSize), supervisory board expertise (BoaExp), company age (ComAge), company size (ComSize), company leverage (ComLev), and company profitability (ComPro).

Table 3 Multivariate regression

Variables	*Coef.*	*Sig.*	*VIF*	*Conclusion*
Const	0.36	0.69		
BoaCom	2.36	0.00***	1.48	Accept
BoaSize	–0.06	0.70	1.61	Reject
BoaExp	0.27	0,14	1.05	Reject
ComAge	0.21	0.00***	1.27	Significant
ComSize	–0.05	0.10	1.23	Not significant
ComLev	–0.03	0.27	1.12	Not significant
ComPro	0.06	0.00***	1.10	Significant
F significant		0.00***		
R square		0.11		

Notes: *, ** and *** indicate significant at 10%, 5% and 1%. Internationalisation (Inter), supervisory board composition (BoaCom), supervisory board size (BoaSize), supervisory board expertise (BoaExp), company age (ComAge), company size (ComSize), company leverage (ComLev), and company profitability (ComPro).

The result of corrected heteroskedasticity regression can be seen in Table 3. Model feasibility is satisfied due to the significant F is less than 0.05. Further, the value of R^2 is 0.11. It means that independent variables can explain the internationalisation as much as 11% and the rest are determined by other variables which excluded in the model. Supervisory board composition has a significant positive effect on internationalisation. Partially, the present of supervisory board composition tend to increase the degree of company internationalisation. While, supervisory board size and supervisory board expertise have no relationship with company internationalisation. Furthermore, two control variables that is age and company profitability have a significant and positive relationship with the internationalisation. It means that older company tends to have higher degree of internationalisation compared to young company. In addition, higher profitability company is likely to be more internationalisation of company.

The positive effect of board composition on company internationalisation is aligned with Wang et al. (2015) and Calabrò et al. (2009). Supervisory board composition facilitates the advice and reputation (Pfeffer and Salancik, 2003). In addition, it allows faster and more profitable internationalisation process. The result of the effect of supervisory board size on internationalisation is not consistent with Singh and Gaur (2013) and Nas and Kalaycioglu (2016). While, the finding of supervisory board expertise consistent with prior work of Barroso et al. (2011). They find board expertise has no effect on company internationalisation.

5 Conclusions and recommendation

Globalisation has impact on strategies taken by company, especially internationalisation strategy in order to gain the sustainability competitive advantages. This study investigates the role of supervisory board which proxied by composition, size, and expertise in determining the degree of internationalisation. In addition, only supervisory board composition has a positive effect on company internationalisation. Further, this study also documented that the company size and profitability are other significant company characteristics in determining the internationalisation. Practically, this study implies that to be higher degree of internationalisation may be increase the number of outside supervisory board members. Theoretical implication is that the agency theory can explain the role of supervisory board to be internationalisation. This study has several limitations, such as research object. Therefore, the future research can add more samples and use other perspectives to explain why company go international market.

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