Internationalization, Capital Investment, and Performance: Evidence from Indonesia

Deddy Marciano, Liliana Inggrit Wijaya, Endang Ernawati, Zunairoh, Alisha Alawiyah

Faculty of Business and Economics, University of Surabaya, Indonesia
**Corresponding author. Email: liliana@staff.ubaya.ac.id*

ABSTRACT
This research aims to analyse the influence of internationalization on company performance and company value, the influence of company performance and capital investment on internationalization, and the influence of capital investment on foreign sales growth. The number of objects of this research are 11 manufacturing sector companies listed on the Indonesia Stock Exchange 2014-2023. This research has 110 observations. The research results show that internationalization (FATA) has a significant positive effect on company performance, but internationalization (FSTS) has a significant negative effect on company performance. Internationalization has an insignificant negative effect on company value. Company performance has a significant positive effect on internationalization. Capital investment has a positive and insignificant effect on internationalization. Capital investment has a significant positive effect on foreign sales growth.

Keywords: Nationalized, Company performance, Capital investment, Company value, Foreign sales growth

1. INTRODUCTION

Currently, global markets are increasingly integrated and connected to each other. This makes it easier for companies to send their goods to various countries and as a result competition between companies becomes increasingly fierce. Companies must face competitors from other countries who have high quality goods. Therefore, the company began to decide to implement an overseas expansion strategy. As a result, the company's income does not only come from the domestic market but also from foreign markets. This overseas expansion strategy is called internationalization (Guo 2024).

Internationalization can be through foreign direct investment (FDI), international joint ventures, indirect exports, direct exports, and licensing (franchising, management contracts, contract manufacturing) (Liu, Kim, and Yoo 2019). Companies undertake FDI to gain monopolistic profits. The advantages obtained by the company are economies of scale, knowledge, distribution network, product diversification. These profits can make the company enlarge its market, so that income can increase and production costs can be reduced as a result of which the company's performance will increase (Ballerini et al. 2024).

The realization of the potential for increasing efficiency and the potential for increasing the value of a company are factors that determine the benefits and costs of internationalization. Internationalization not only improves company performance but can also increase the value of a company. An increase in company value can be caused by an increase in expected revenue or profitability (Purkayastha et al. 2024). In addition, low agency problems can be the reason for high company value. Internationalization itself cannot be separated from the role of company capital investment. Companies that have large capital investments will see overseas expansion as a profitable action. Apart from that, companies that have large capital investments should expand overseas to gain competitive advantage (Batsakis et al. 2023; Liu et al. 2019; Zhao et al. 2022).

The structure of this paper includes chapter 1 reviewing the introduction and background of the research, chapter 2 literature review, chapter 3 method, chapter 4 results and discussion, and finally the conclusion.

2. LITERATURE REVIEW

Nationalization has a positive effect on company performance. This is in line with the statement which states that by internationalizing the company's income will increase and production costs will be lower, so that the company's performance will increase (Sadeghi, Aliasghar, and Bouguerra 2023). Internationalization helps companies to use their resources, so that company performance can increase. In addition, the greater the degree of company internationalization, the value and benefits of assets will increase, so that company performance will increase.

H1: Internationalization is thought to have a positive influence on company performance.

Internationalization has a positive relationship to company value. This is supported by statements regarding agency theory. When the company's agency problems are low, the potential for company value to increase is large. Internationalization can expand the customer base and increase company efficiency, so that income can increase as a result, company value will increase (Yu, Fletcher, and Buck 2022).

H2: Internationalization is thought to have a positive influence on company value.

Company performance has a negative effect on internationalization. This happens because companies that have performed well will refocus on the domestic market to reduce risk (Mostafiz et al. 2024). Countries that have large populations, such as China and Indonesia, have large domestic market development potential. Therefore, companies that have good performance in that country tend to focus on the domestic market, so it can be concluded that as the company's performance increases, the company tends to focus more on the domestic market and is less willing to take risks.

H3: Company performance is thought to have a negative influence on internationalization.

Capital investment negative influence on internationalization. Capital investment has a negative effect on internationalization. Developing countries should expand their markets abroad. This is because the domestic market is small, so large investments can generate increased income in the international market. The negative relationship between capital investment and internationalization can occur because companies tend to avoid risks, foreign sales cannot be generated in less than one year, or because companies focus on the domestic market (Freeman et al. 2023).

H4: Capital investment is thought to have a negative influence on internationalization.

When a company enters a foreign market, the investment made by the company leads to activeness in entering the export market. Therefore, the greater the capital investment issued by the company, the faster the company will carry out expansion and the internationalization process. This is also supported by the statement which says that the benefits of investment related to production and product quality occur when companies access new markets (Bhandari et al. 2023).

H5: Capital investment is thought to have a positive influence on foreign sales growth.

3. METHOD

Based on the approach, this research has a quantitative approach because it uses numerical data. The data used in this research is secondary data in the form of panel data. All data used in this research was taken from the financial reports of manufacturing sector companies listed on the Indonesia Stock Exchange for the 2014-2023 period. Data taken from the Indonesian Stock Exchange website (www.idx.co.id),company website, and IDN financials website (www.idnfinancials.com).This research uses a ratio measurement level. The population used in this research is all manufacturing sector companies listed on the Indonesia Stock Exchange for the 2014-2023 period, while the samples taken must have several criteria, namely: (1) The company operates in the manufacturing sector and is listed on the Indonesia Stock Exchange for the 2014-2023 period. 2023; (2) The company has audited financial reports for the 2014-2023 period; (3) The company has complete data for the variables to be studied. The following Equation 1 until Equation 5 are the equation used in this research:

Model 1: $ROA_{it} = \alpha + \beta 1.FATA_{it} + \beta 2.FSTS_{it} + \beta 3.SIZE_{it} + \beta 4.AGE_{it} + \beta 5.FX_{it} + \beta 6.DEBT_{it} + \beta 7.MBV_{it} + e$ (1)

Model 2: $ROS_{it} = \alpha + \beta 1.FATA_{it} + \beta 2.FSTS_{it} + \beta 3.SIZE_{it} + \beta 4.AGE_{it} + \beta 5.FX_{it} + \beta 6.DEBT_{it} + \beta 7.MBV_{it} + e$ (2)

Model 3: $TOBIN'S\ Q_{it} = \alpha + \beta 1.FATA_{it} + \beta 2.SIZE_{it} + e$ (3)

Model 4: $FATA = \alpha + \beta 1.ROA_{it} + \beta 2.CAPEXTA_{it} + \beta 3.SIZE_{it} + \beta 4.AGE_{it} + \beta 5.FX_{it} + \beta 6.DEBT_{it} + \beta 7.MBV_{it} + e$ (4)

Model 5: $FSG_{it} = \alpha + \beta 1.CAPEXTA_{it} + \beta 2.SIZE_{it} + \beta 3.DEBT_{it} + \beta 4.MBV_{it} + e$ (5)

To description: ROA_{it} is return on assets, ROS_{it} is return on sales, TOBIN'S Q_{it} is the value of the Company, $FATA_{it}$ is foreign assets to total assets, $FSTS_{it}$ is foreign sales to sales, F.SG is foreign sales growth, CAPEXTA is capital investment, $SIZE_{it}$ is size, AGE_{it} = age, FX_{it} is exchange rate, $DEBT_{it}$ is debt ratio, MBV is market-to-book-value.

4. RESULTS AND DISCUSSIONS

Table 1. Regression results for Models 1, 2, and 4

Dependent	Model 1		Model 2		Model 4	
Variables	Coefficient	t-Statistics	Coefficient	t-Statistics	Coefficient	t-Statistics
C	0.678	3.941	-1.037	-3.796	2.971	8,732
FATA	0.311	4.487***	0.198	4.162***		
FSTS	-0.211	-2.941**	-0.293	- 3.946534***		
SIZE	-0.035	-2.853**	0.052	4.501***	-0.099	-8,787***
AGE	-0.001	-1.748*	-0.002	- 3.702502***	0.005	6,533***
FX	-0.032	- 1.11232686	-0.088	-2.523**	0.075	5,023***
DEBT	-0.051	-1.022	-0.114	-2.422**	0.161	5,057***
MBV	0.013	2.225**	0.002	0.312	-0.006	-0.482
ROA					0.181	5,107***
CAPEXTA					0.133	1,712*
R-Squared	0.791		0.816		0.888	
Adjusted R-Squared	0.719		0.886		0.976	
Prob. (F-Statistics)	0		0		0	

Note: *** significance 1%; ** 5% significance: * 10% significance

Based on Table 1., it is known that Internationalization has a significant positive influence on company performance. This means that when internationalization increases, company performance will increase. The internationalization variable can have a positive effect on company performance because the benefits received are greater than the costs incurred.

Table 2. Regression results for Models 3 and 5

Dependent	Model 3		Model 5	
Variables	Coefficient	t-Statistics	Coefficient	t-Statistics
C	2,143	2,680	0.045	0.112
FATA	-0.230	-1,719*		
SIZE	-0.096	-1,615	-0.003	-0.125
DEBT			0.152	0.786
MBV			-0.042	-1,213
CAPEXTA			1,726	2,390**
R-Squared	0.020		0.094	
Adjusted R-Squared	0.002		0.059	
Prob. (F-Statistics)	0.334		0.033	

Note: *** significance 1%; ** 5% significance: * 10% significance

There are several benefits gained from internationalization, namely that companies gain knowledge about managing business abroad, including purchasing or using cheaper production factors, greater market power, and geographic diversification. The benefits obtained can increase company income and lower production costs. In addition, companies that internationalize gain increased value and benefits from the assets they own. Internationalization has an insignificant negative effect on company value. This occurs because foreign investment allows managers to pursue personal interests. Therefore, the activities carried out by managers do not increase firm value. Company performance has a significant positive influence on internationalization. Companies with good performance have the resources that make it possible to internationalize. In model 4, capital investment has an insignificant positive effect on internationalization (Ballerini et al. 2024; del Campo, Urquía-Grande, and Pascual-Ezama 2023). Larger capital investments tend to focus on developing business in international markets. This is because several companies in developed and developing countries gain more profits from international markets. Some of these companies have small domestic markets, making it more profitable to expand their business to foreign markets. Therefore, international markets are important for multinational companies located in export-oriented countries (Freeman et al. 2023; Guo 2024). Apart from that, the reason companies with large capital investment start to expand into foreign markets is that companies can increase knowledge and capabilities that can help companies to develop their business.

From Table 2., say that Capital Investment has a significant positive influence on foreign sales growth. Capital investment has a positive effect on foreign sales growth because when a company enters a foreign market the investment made will lead to activeness in exploring export markets. When a company's capital investment becomes larger, the company expands into foreign markets more quickly so that the internationalization process occurs more quickly (Batsakis et al. 2023; Zhao et al. 2022). This is also supported by the statement which states that the benefits of investment related to production and product quality occur when companies access new markets (Mostafiz et al. 2024; Sadeghi et al. 2023).

5. CONCLUSION

Of the five hypotheses, only two hypotheses were accepted, namely internationalization had a significant positive effect on company performance and capital investment had a significant positive effect on foreign sales growth. Therefore, companies are advised to increase internationalization, capital investment and reduce debt. Companies that can increase internationalization, increase company size, and reduce debt ratios are proven to be able to improve company performance. Increased company performance can increase investor confidence, so that share prices and company value can increase. Investors are advised to invest in companies that have entered foreign markets, have a high market-to-book-value, have a debt ratio that is not high, and have been around for a long time. The company's performance has improved, and the company's rapid expansion shows that the company has good prospects in the long term. Future research is recommended to conduct research on other sectors and stock exchanges in other countries. Apart from that, it is hoped that future researchers can add R&D variables to their research.

The implications drawn from the study on internationalization, capital investment, and performance in Indonesia are multifaceted and significant for various stakeholders. Firstly, the findings underscore the potential benefits of international expansion for Indonesian firms, highlighting the role of foreign market presence in enhancing competitiveness and diversifying revenue streams. This suggests that firms should strategically consider global expansion opportunities to tap into new markets, access resources, and mitigate risks associated with domestic market volatility. Secondly, the study emphasizes the importance of capital investment in driving firm performance, indicating that investments in productive assets, innovation, and technology are essential for sustainable growth and value creation. Therefore, policymakers and industry players should focus on creating an enabling environment that facilitates access to capital and incentivizes investment in critical areas such as infrastructure, research and development, and human capital. Finally, the research underscores the need for rigorous performance evaluation frameworks that capture the complex interplay between internationalization, capital investment, and firm performance. By understanding these dynamics, firms can develop informed strategies to optimize their internationalization efforts, allocate resources efficiently, and enhance overall performance in the Indonesian market and beyond. Overall, the study provides valuable insights that can guide strategic decision-making, policy formulation, and business practices to foster sustainable economic development and competitiveness in Indonesia's increasingly globalized economy.

REFERENCE

Ballerini, Jacopo, Aleksandr Ključnikov, David Juárez-Varón, and Stefano Bresciani. 2024. “The E-Commerce Platform Conundrum: How Manufacturers’ Leanings Affect Their Internationalization.” *Technological Forecasting and Social*

Change 202(November 2023). doi: 10.1016/j.techfore.2023.123199.

Batsakis, Georgios, Vasilis Theoharakis, Chengguang Li, and Palitha Konara. 2023. “Internationalization and Digitalization: Their Differing Role on Grocer and Non-Grocer Retailer Performance.” *Journal of Retailing* 99(3):400–419. doi: 10.1016/j.jretai.2023.07.005.

Bhandari, Krishna Raj, Peter Zámborský, Mikko Ranta, and Jari Salo. 2023. “Digitalization, Internationalization, and Firm Performance: A Resource-Orchestration Perspective on New OLI Advantages.” *International Business Review* 32(4). doi: 10.1016/j.ibusrev.2023.102135.

del Campo, Cristina, Elena Urquía-Grande, and David Pascual-Ezama. 2023. “Internationalizing the Business School: A Comparative Analysis of English-Medium and Spanish-Medium Instruction Impact on Student Performance.” *Evaluation and Program Planning* 98(July 2020):102279. doi: 10.1016/j.evalprogplan.2023.102279.

Freeman, Susan, Tiia Vissak, Niina Nummela, and Ryan Trudgen. 2023. “Do Technology-Focused Fast Internationalizers’ Performance Measures Change as They Mature?” *International Business Review* 32(5):102168. doi: 10.1016/j.ibusrev.2023.102168.

Guo, Jiachen. 2024. “How Geopolitical Risk Affect Firms’ Internationalization Performance: Evidence from China.” *Heliyon* 10(9):e30152. doi: 10.1016/j.heliyon.2024.e30152.

Liu, Yuhan, Junic Kim, and Jaewook Yoo. 2019. “Intangible Resources and Internationalization for the Innovation Performance of Chinese High-Tech Firms.” *Journal of Open Innovation: Technology, Market, and Complexity* 5(3):52. doi: 10.3390/joitmc5030052.

Mostafiz, Md Imtiaz, Farhad Uddin Ahmed, Janja Tardios, Paul Hughes, and Shlomo Y. Tarba. 2024. “Configuring International Entrepreneurial Orientation and Dynamic Internationalization Capability to Predict International Performance.” *International Business Review* (February):102275. doi: 10.1016/j.ibusrev.2024.102275.

Purkayastha, Anish, Amit Karna, Sunil Sharma, and Dhiman Bhadra. 2024. “Role of Resource Investment Management and Strategic Resource Deployment Capabilities in Internationalization-Performance Relationship.” *Journal of International Management* 30(2):101122. doi: 10.1016/j.intman.2024.101122.

Sadeghi, Arash, Omid Aliasghar, and Abderaouf Bouguerra. 2023. “Unpacking the Relationship between Post-Entry Speed of Internationalization and Export Performance of SMEs: A Capability-Building Perspective.” *Journal of International Management* 29(1):100982. doi: 10.1016/j.intman.2022.100982.

Yu, Honglan, Margaret Fletcher, and Trevor Buck. 2022. “Managing Digital Transformation during Re-Internationalization: Trajectories and Implications for Performance.” *Journal of International Management* 28(4):100947. doi: 10.1016/j.intman.2022.100947.

Zhao, Xiaoyang, Changjun Yi, Yun Zhan, and Minmin Guo. 2022. “Business Environment Distance and Innovation Performance of EMNEs: The Mediating Effect of R&D Internationalization.” *Journal of Innovation and Knowledge* 7(4):100241. doi: 10.1016/j.jik.2022.100241.