

How the Relationship between Corporate Governance and Foreign Portfolio Investment Expediate Supply Chain Growth in Indonesia?

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Abstract--- Objective of the study is to examine the role of corporate governance in nationwide supply chain growth through foreign portfolio investment (FPI). FPI is considered as mediating variable between corporate governance and apply chain growth. To approach the objective of this study, primary data were collected and analysed through statistical software. Data were collected from Indonesian economists. Total number of three hundred questionnaires were used in this process. After data collection, it was analysed with the help of PLS. Findings of the study highlighted that corporate governance has important role in FPI and supply chain growth. Any fluctuation in corporate governance has direct impact on FPI and supply chain growth. Corporate governance leads to FPI and FPI leads to supply chain growth. The study is beneficial for Indonesian supply chain companies while making the strategies.

Keywords: supply chain, corporate governance, foreign portfolio investment, audit committee independence, board size, firm age.

1. Introduction

In the current competitive environment, corporate governance is now becoming a most significant element of organizations [1-3]. It has significant role in sustainability of business [4]. Companies are using corporate governance as a strategic tool to enhance performance and to gain competitive advantage. Therefore, corporate governance is one of the most important part of successful business. Corporate also has relationship with foreign investment and supply chain growth. It promotes foreign portfolio investment (FPI) which increases the nationwide supply chain growth in all fields. As increases in investment increases the businesses. There is increasing in these years FPI [5] which increases the investment in the country [6]. Increasing trend of FPI has seen in most of the countries. It is also increasing in Indonesia as it is shown from below Figure 1. Continuous increases in FPI has effect on supply chain activities.

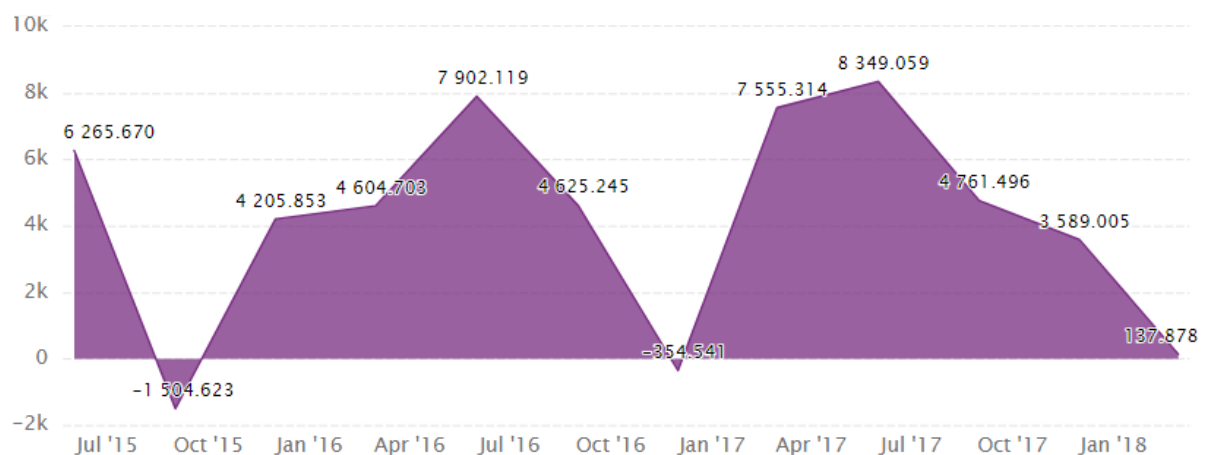


Figure 1. Foreign Portfolio Investment: US Million: Quarterly Indonesia

Source: WWW.CEICDATA.COM

Increases in challenges has effect on supply chain and FPI. Thus, companies must insurance good corporate governance to insurance better FPI and supply chain. Various challenges also linked with size of board [9], independence of audit committee [10] and firm age [11]. Therefore, companies must address; board size, independence of audit committee and firm age while FPI and supply chain.

Various studies discussed corporate governance in detail, however, these studies did not consider board size, independence of audit committee and firm age to examine the effect on FPIU and supply chain growth [12-15]. Therefore, this study is an attempt to fulfil this research gap by examining the effect of corporate governance on FPI and supply chain growth in Indonesia.

Hence, the objective of the study is to examine the role of corporate governance in nationwide supply chain growth through foreign portfolio investment (FPI). Additionally, the sub-objectives are as follows;

1. To examine the effect of board size on FPI.
2. To examine the effect of audit committee independence on FPI.
3. To examine the effect of firm age on FPI.
4. To examine the effect of FPI on supply chain growth.
5. To examine the mediating role of FPI between corporate governance and supply chain growth.

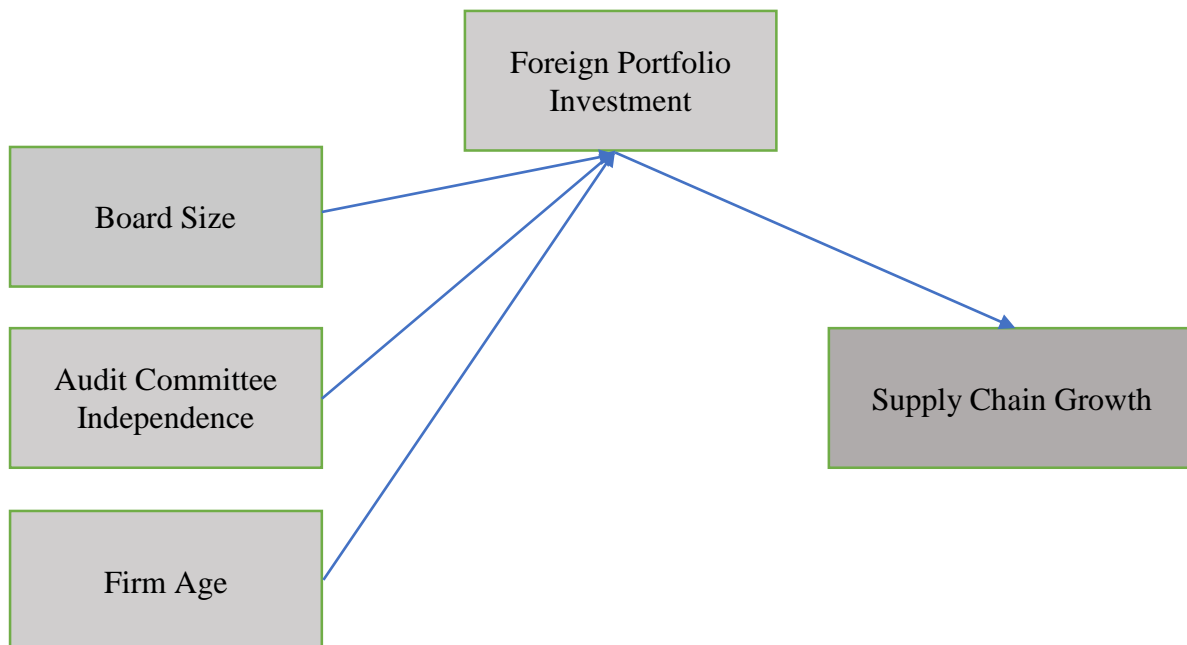


Figure 2. Theoretical Framework

2. Literature Review

Corporate governance has been a typical issue. It began in 1992 in the UK with the Cadbury Committee Report. This Report on corporate governance was the yield of numerous prominent companies that were concerned with delicate insurance of investors against the personal circumstances of supervisors and executives [11]. Because of the corporate scandals, the US Congress endorsed the Sarbanes - Oxley Act on July 2002; this Act expected to upgrade the act of corporate governance and make it increasingly straightforward to investors and any clients of

financial reporting. Furthermore, as indicated by Organization for Economic Development [16], foreign portfolio investments may likewise help the home capital market by method for the production of cutting-edge usage and strategies to watch the portfolios. For instance, budgetary detailing clients and investors can use features, alternatives, swaps, supporting instruments, and so on to oversee portfolio opportunity. This can be helpful for residential markets, by enhancing risk management [17] and opportunities for all financial experts. Foreign portfolio venture can help reinforce and enhance the working of local capital markets, thus realizing better capital allotment and a more

advantageous economy which ultimately effect positively on nationwide supply chain activities. Open markets likewise profit opportunities to foreign financial experts by enhancing their portfolios and reducing risk management. However, political influence on stock returns may increases the risk [18].

Corporate governance has important role in supply chain growth through FPI. Better corporate governance has significant effect on FPI [19-21] and FPI increases the supply chain growth [22, 23]. Therefore, both corporate governance and FPI has important effect on supply chain growth which has contribution in nations economy. As the supply

chain has vital role in economic development [24, 25]. Thus, supply chain has important role in economic development, therefore, supply chain and logistic performance is most crucial [26, 27]. Corporate governance has many benefits for supply chain companies which increases the overall growth rate as shown in Figure 3. It provides the rules and regulations, transparency, independent oversights, reduce in liability and increases the investors' confidence which effect positively on FPI. The current study selected three important elements of corporate governance include; board size, audit committee independence and firm age.

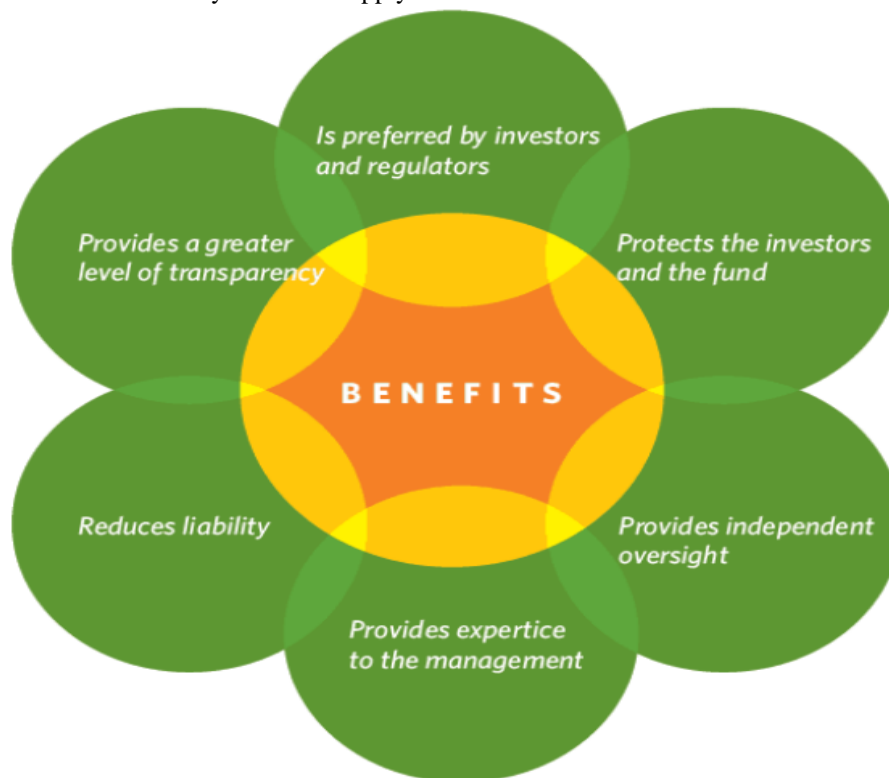


Figure 3. Benefits of Corporate Governance for Supply Chain Firms

Karamanou and Vafeas [28] found numerous signs that provide the confirmation about the relationship between the market reaction and announcements of Board of Management's anticipations as well as Audit Committee characteristics, audit committee independence and board independence which are positively related with FPI. The indication from this study designates that investors requires more confidence in the forecasts that are subject to inspection of what is perceived as the most common effectiveness of corporate governance mechanisms.

Board size based on the total members of board. The past research studies have examined board size and considers it as one of the key governance highlights in spite of the fact that the

discoveries are uncertain with respect to the size of effective boards [29, 30]. Board size is the most part seen as a governance feature that impacts the capacity of the board to screen as bigger boards are generally viewed as an effective tool for growth. It is important link with the growth of supply chain companies.

However, a big board is known as to have coordination and process issues; a bigger board may not adequately screen the executives from the coordination and process issues that are typical in big board sizes [31]. Observational investigations have been done to approve this reality, yet results are regularly conflicting except for Yermack [30] discoveries which strengthens the Jensen and Meckling [31] argument.

Essentially, some past investigations found a negative connection between portfolio investment and board size. Mangena and Tauringana [32] neglected to build up a critical connection between board size and foreign portfolio venture, in spite of the fact that the coefficients are certain. These outcomes point to the belief that board size should be considered while FPI [28, 33]. Therefore, there is a relationship between board size and FPI which has influence on supply chain growth.

H1: There is a relationship between board size and FPI.

H2: FPI mediates the relationship between board size and supply chain growth.

Moreover, an independent audit committee has been the focal point of a larger part of audit committee examines although the studies are not consistent. The audit committee effectiveness enhances after some time. This requires making an independent audit committee under the board of directors as per the Code of Conduct for every single recorded firm and interior control components [11]. It has significant relationship with FPI.

Regarding corporate governance, Mangena and Tauringana [32], [57-61] results show that foreign portfolio is definitely connected with audit committee freedom. Chambers [34] emphasized the job of audit committee. An independent audit committee is increasingly fit for security of investors. For instance, attributable to the weak governance controls and the insufficient minority investors' security in China, the independent directors in the audit committee are bound to successfully screen Chinese firms recorded in Hong Kong.

As per Muniandy [35], Bliss, et al. [36], the auditor's evaluation of the risk firms is influenced by the audit committee's autonomy. In this manner, it tends to be expressed that different institutional settings shape the need to legitimize the outcomes in further research in different settings. Both audit committee independence and FPI has impact on supply chain growth. Thus, it is hypothesized that;

H3: There is a relationship between audit committee independence and FPI.

H4: FPI mediates the relationship between audit committee independence and supply chain growth.

Additionally, age of the company also has major role. The old companies may have more experience of managers and may understand the estimation of good corporate governance and revelations to

enhance their performance. Alsaeed [37] inspected the organization age in connection to intentional exposure; he doesn't discover any association with voluntary disclosure. Camfferman and Cooke [38], [57-59] proposed that age of organization should be examined since more old companies may have improved their financial reporting activities over time. These financial reporting activities has influence on FPI.

Prior studies on company age and FDI shows a relationship between age and FPI [39]. The company has more age can better utilize its resources and other opportunities as compared to the companies which are new. Additionally, company age also has important link with performance [40-43]. Therefore, company age, FPI and supply chain growth has relationship with each other's.

H5: There is a relationship between firm age and FPI.

H6: FPI mediates the relationship between firm age and supply chain growth.

Additionally, from above discussion, it is concluded that;

H7: There is a relationship between FPI and supply chain growth.

3. Method

This study used primary data collected from the Indonesian economists. This study focused the supply chain growth nationwide and carried out in Indonesia. First of all, economists are identified, and their email addresses were gathered. After that the response was collected with the help of email.

A questionnaire was developed to collect the data. Questionnaire was based on close ended questions. Likert scale was preferred with five-point rating. Five point scale was preferred based on the reason that it is most suitable to increase the originality of data [44].

Total 200 questionnaires were sent with the help of email. From these 200 questionnaires, 70 were returned. Thus, the analysis was carried out with the help of 70 questionnaires. To overcome the issues of small sample size, partial least square (PLS) a statistical tool was used. As it is suggested by various studies that it is suitable to analyse data through small sample size [45-47].

4. Results

4.1 Measurement Model

As the current study has small sample size, that is why PLS-structural equation modeling is used to get results from collect data. Various previous studies also used small sample size with PLS [48, 49]. Moreover, PLS version 3 is used in this study.

Figure 4 depicts the factor loadings which shows internal item consistency. It confirms that all items have factor loadings above 0.5 [50]. All variables have reliability above 0.7 and average variance extracted (AVE) above 0.5 which confirms convergent validity [51].

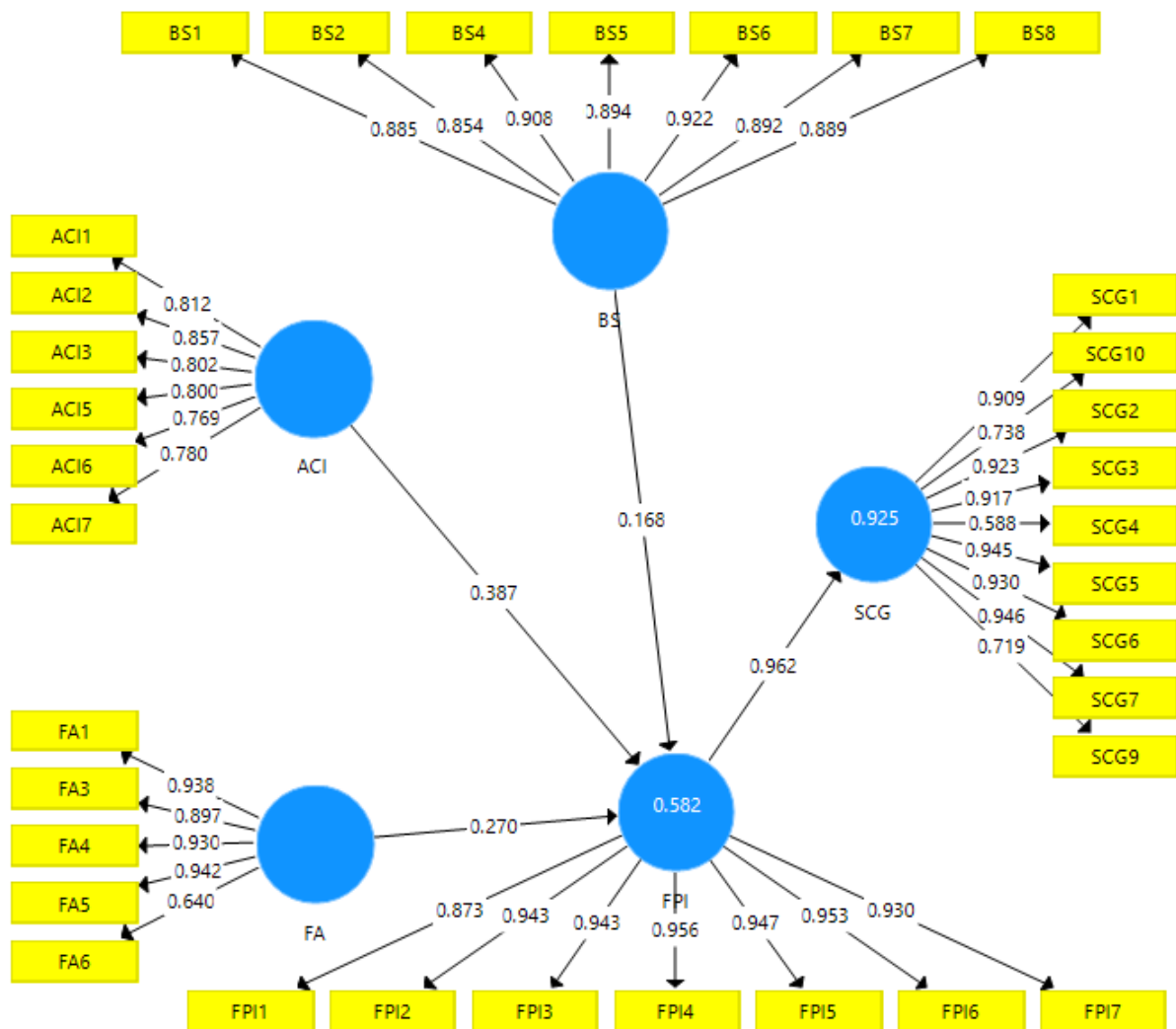


Figure 4. Measurement Model Assessment

Table 1. Measurement Model Assessment

	α	rho_A	CR	(AVE)
ACI	0.89	0.892	0.916	0.646
BS	0.957	0.958	0.965	0.796
FA	0.922	0.951	0.942	0.769
FPI	0.976	0.977	0.98	0.875
SCG	0.951	0.968	0.96	0.731

Table 2. Cross-Loadings

	ACI	BS	FA	FPI	SCG
ACI1	0.812	0.463	0.855	0.619	0.712
ACI2	0.857	0.517	0.828	0.642	0.72
ACI3	0.802	0.426	0.733	0.607	0.662
ACI5	0.8	0.781	0.492	0.608	0.555
ACI6	0.769	0.613	0.556	0.581	0.559
ACI7	0.78	0.662	0.489	0.563	0.528
BS1	0.717	0.885	0.493	0.576	0.54
BS2	0.681	0.854	0.429	0.514	0.477
BS4	0.753	0.908	0.509	0.584	0.567
BS5	0.7	0.894	0.469	0.546	0.52
BS6	0.778	0.922	0.538	0.584	0.563
BS7	0.73	0.892	0.549	0.577	0.551
BS8	0.718	0.889	0.477	0.563	0.557
FA1	0.778	0.472	0.938	0.642	0.721
FA3	0.785	0.589	0.897	0.687	0.739
FA4	0.787	0.519	0.93	0.619	0.691
FA5	0.827	0.55	0.942	0.658	0.741
FA6	0.46	0.211	0.64	0.34	0.458
FPI1	0.641	0.626	0.551	0.873	0.808
FPI2	0.678	0.582	0.652	0.943	0.917
FPI3	0.665	0.516	0.608	0.943	0.904
FPI4	0.735	0.627	0.69	0.956	0.755
FPI5	0.736	0.597	0.664	0.947	0.905
FPI6	0.728	0.63	0.668	0.953	0.92
FPI7	0.729	0.562	0.674	0.93	0.88
SCG1	0.662	0.559	0.605	0.896	0.909
SCG10	0.679	0.491	0.687	0.614	0.738
SCG2	0.686	0.555	0.637	0.91	0.923
SCG3	0.684	0.532	0.673	0.887	0.917
SCG4	0.326	0.172	0.35	0.53	0.988
SCG5	0.712	0.591	0.692	0.937	0.945
SCG6	0.715	0.622	0.664	0.922	0.93
SCG7	0.689	0.569	0.671	0.931	0.946
SCG9	0.632	0.463	0.689	0.633	0.719

4.1 Structural Model

Structural model was carried out to check the relationship between variables. First of all, the relationship between independent variables, mediator and dependent variable was examined. After that the indirect effect through meditation was examined that whether FPI is a mediating variable. Figure 5 is the process which shows the mediation effect and direct effect between variables.

According to these results, it is found that independent variables; board size, audit committee independence and company age has significant relationship with supply chain growth. Increase in board size, audit committee independence and company age have positive effect on supply chain growth. Moreover, it is revealed that FPI has positive relationship with supply chain growth. These results supported H1, H3, H5 and H7. All the direct results are given in Table 3.

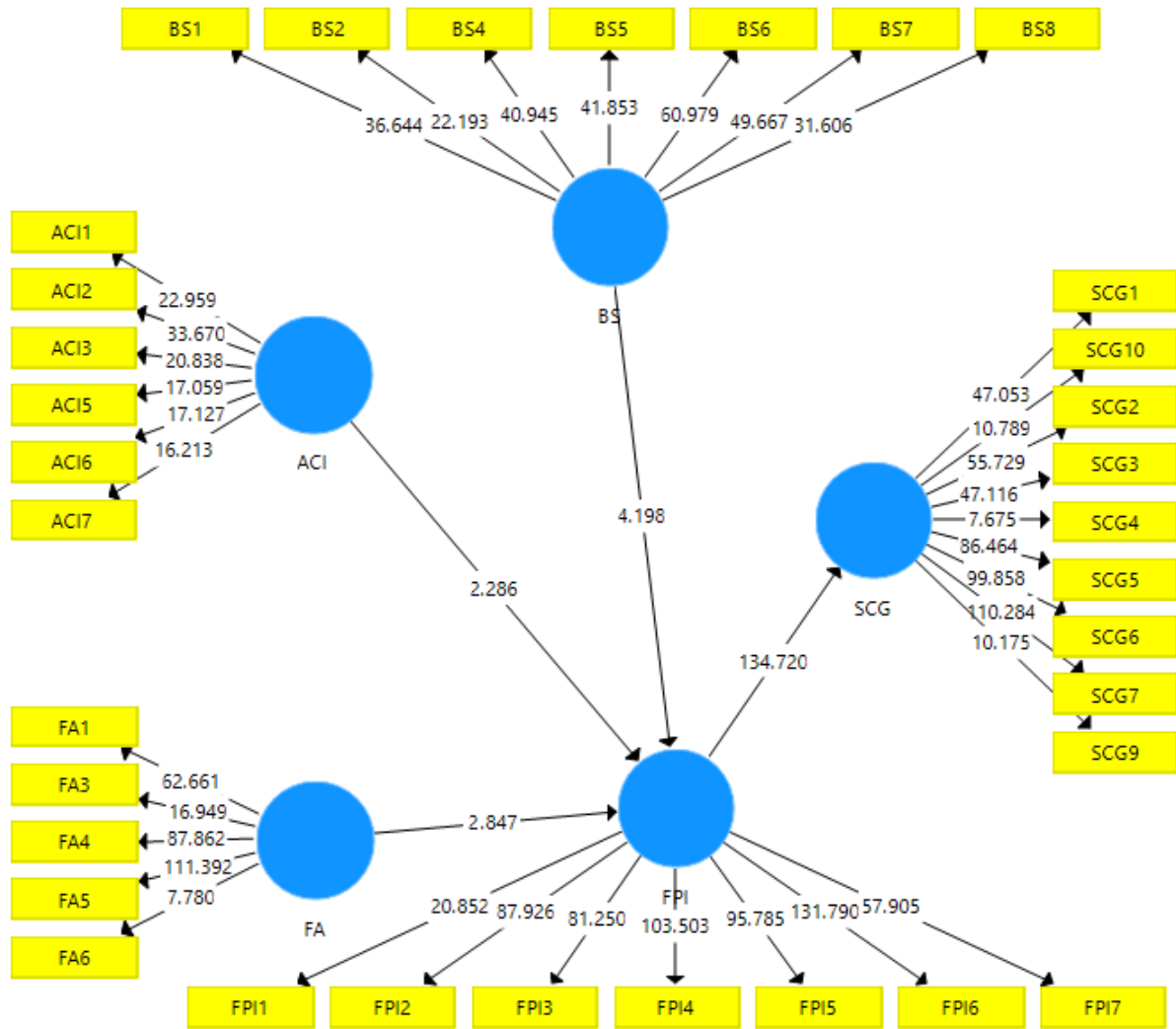


Figure 5. Structural Model Assessment

Table 3. Structural Model Results

	(O)	(M)	(STDEV)	T Statistics	P Values
ACI -> FPI	0.387	0.385	0.172	2.246	0.025
BS -> FPI	0.168	0.16	0.040	4.089	0.000
FA -> FPI	0.27	0.278	0.09	2.847	0.002
FPI -> SCG	0.962	0.963	0.006	148.488	0.000

Moreover, meditation effect through FPI is given in Table 4. It shows that mediation effect between audit committee independence and supply chain growth is significant. In line with these results, it is shown that mediation effect of FPI between firm age and supply chain growth is also significant. These results supported H4 and H6. However, H2 is rejected because the mediation effect between board size and supply chain growth is insignificant. R-square value shows substantial effect as the

variance explained is 92.5% [52] shown in Table 6 and Figure 3.

Table 4. Structural Model Results (Indirect effect)

	(O)	(M)	(STDEV)	T Statistics	P Values
ACI -> FPI -> SCG	0.372	0.371	0.166	2.239	0.026
BS -> FPI -> SCG	0.161	0.154	0.14	1.148	0.252
FA -> FPI -> SCG	0.259	0.268	0.09	2.914	0.006

Table 5. R-Square

	R Square
Foreign Portfolio Investment (FPI)	0.582
Supply Chain Growth (SCG)	0.925

5. Conclusion

The current study carried out to check the role of corporate governance to boost FPI and supply chain growth. The study carried out in Indonesia. Data were collected from Indonesian economists. Collected data were analysed through structural equation modelling (SEM) techniques [53, 54].

While findings of the study, it is investigated that corporate governance has important role in FPI and supply chain growth [55, 56-63]. Increase in board size increases the FPI and supply chain growth in Indonesia. Moreover, if the audit committee is independent in their work, it increases the FPI and supply chain growth. Increase in company age also increases the growth in supply chain and FPI. Thus, Indonesian government should focus on corporate governance to improve FPI and supply chain growth. Future research is required to add other corporate governance elements such as board independence and size of audit committee in the model of the current study.

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