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Foreign Investors and Control Power of Company Engaged in Energy and Basic Materials through Global Energy Crisis in Indonesia

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Abstract

This study aims to investigate the control power of foreign investors that can weaken the domestic position in managing Indonesia's natural resources when facing the global energy crisis. The control power is reflected in financial decision-making, which consists of investment decisions, funding decisions, and dividend decisions. The sample companies in this study are listed on IDX in the energy and basic materials sector in 2020, where supercycle commodities occurred. The total sample is 166 companies, with 66 companies to be observed. Using multilinear regression using ROA and Tobin's Q as control variables, the authors find the effect on investment decision making where foreign investors have a significant positive in company liability. However, its effect is negative on company equity. Foreigner investors also influence funding decisions where foreign investors have a significantly positive effect on firm size. However, foreign investors have a significantly negative effect on the decision-making of dividends.

Keywords
Foreigner investor; control power; global crisis energy; financial decision; Indonesia

I. Introduction

The Global Energy Crisis (GEC) is a strategic issue because the global crisis in 2007 was expected to recover soon. The confidence of the world community that considered the United States as a superpower could immediately overcome this crisis. But in reality, this crisis spread more widely to Greece and some European countries. The crisis was influenced by several factors, firstly because the world was facing extreme weather changes, as proven by the results of the 2007 IPCC study showing that since 1850 there have been 12 hottest years based on global surface temperature data. The total temperature increase from 1850-1899 to 2001-2005 was 0.76. The total sea-level rise recorded in the 20th century is estimated at 0.17 m. The second factor was the increasing demand in the Energy sector after the Covid-19 pandemic. During the pandemic, demand for the energy sector decreased. Data from April 2020 showed that countries with a total lockdown saw on average a 25% drop in energy demand per week, while partial lockdowns led to a decline of 18% on average while demand for gas and oil dropped by 2% and 9%, respectively (Charikleia Karakosta, 2021). Development is a systematic and continuous effort made to realize something that is aspired. Development is a change towards improvement. Changes towards improvement require the mobilization of all human resources and reason to realize what is aspired. In addition, development is also very dependent on the availability of natural resource wealth. The availability of natural resources is one of the keys to economic growth in an area. (Shah, M. et al. 2020)

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Also, projections of future world energy consumption in the last few decades before 1980 reflected the expectation of sustainable growth from an estimated 3 percent per year which means energy consumption will increase fourfold in the next 50 years. (Goldberg, 1992). The increase in energy consumption in the face of availability will be directly proportional to the high competition in obtaining Energy Resources, leading to world conflicts. The conflict will be a big risk considering that energy is an important aspect of technological and economic development (Chow, 2003). In the competition for Energy Resources, the state plays the role of producer and consumer; producers are countries that produce or own energy sources, and consumers are countries in need of these energy commodities. However, competition does not end there, but further interactions where competition occurs between consumer countries. Consumers compete to dominate countries that have high Energy Resources. Hunter (1996) said that one of the countries with large reserves of energy sources in Indonesia, which makes Indonesia an object of contention in the Global Energy competition.

Indonesia is endowed with abundant natural resources, especially oil, natural gas, and coal. Indonesia has enormous potential in energy; oil reserves of 9 billion barrels with a production capacity of 500 million barrels per year, gas reserves of 182 trillion cubic feet with a production capacity of 3 trillion cubic feet per year, and coal reserves of 19.3 billion tons with a production capacity of 130 million tons per year (Prasetyono, 2008).

But unfortunately, not all Indonesian people can enjoy their natural wealth. Without a long bureaucracy or with the naked eye, it is obvious that only a few groups can utilize this wealth for their personal gain. Due to a large number of domestic entrepreneurs who prefer to cooperate with foreign companies that operate directly in the country massively using Energy Resources in Indonesia, for example, PT Freeport, which digs gold mines in Papua, PT Newmont Minahasa Raya, which extracts gold mines in Sulawesi, PT Newmont Nusa Tenggara which is excavating copper mines and in the oil sector is the Cepu Block in Central Java which an American oil company now controls, i.e., Exon Oil Company.

This is supported by the rapid globalization of capital markets, making developing countries, including Indonesia, more open to foreign investment. This certainly impacts foreign ownership allows access to resources, capital markets, and management expertise (Shrivastav S, 2017). The Indonesia Stock Exchange (IDX) in 2018 stated that an average of 44% foreign ownership in companies that IPO in Indonesia made Indonesia one of the countries with high foreign ownership. Foreign Investors mostly being placed representatives in the firm board, whether as commissioners or directors. Kirchmaier & Grant (2005) explained that the board of directors is the main mechanism in exercising control, especially in controlling decision-makers. The director has the main role in their position on the board, namely as a representative of shareholders or institutional investors. The statement clarified that institutional investors are very important controlling shareholders and actively participate as directors on the board of directors (Nekhili, 2013).

Based on this explanation, a question arises on how significant foreign investors influence decision-making in companies engaged in natural resources and energy availability because Indonesia has an enormous opportunity to play a role in global energy politics. Handono Mardiyanto (2008) stated that showing controlling power in a company could reflect its financial decisions. These decisions are faced with three decisions, i.e., funding decisions, investment decisions, and dividend policies. Suppose foreign investors have a significant influence on a company's control power, which is reflected in its financial decisions. In that case, this will certainly create an opportunity to weaken domestic investors' control power, which makes Indonesia not have a strong bargaining power to use its wealth to support future prosperity because it is true that Indonesia has large and abundant natural resources. But does Indonesia also have control power over this wealth, or has this wealth fallen to foreign investors.

II. Research Method

Data collection was carried out thoroughly after identifying the problem and supporting the research with references from previous research in the literature review section. Secondary data was used in conducting this research, i.e., data collected by people other than users. The secondary is preferred over primary because it is more relevant to the topic and less time-consuming for this research. The data used include categorical (non-financial factors) and numerical (financial factors). We collected data for three components: dependent, independent, and control variables. For the dependent variable, the authors used the accumulated value of the company's equity, company liabilities, firm size, and cash dividends. To set a value that was too large or too small, the author used Natural Logarithm for each variable; thus, the normality of the variable value was more accurate.

In addition, the independent variable, i.e., Foreign Investors from each company, were measured by the percentage of shares controlled by foreign investors to the total number of shares. Previous studies detailed the impact of each ownership on the control power of a company. Although the gap between each literature was still found, as discovered by Bremholm (2015), which carried out about Japanese firms, with the conclusion of the positive influence of foreign directors on performance and decision-maker of the company which positiveness with controlling of company. The presence of foreign directors is a signal that the company is moving to a new system, such as tighter monitoring, more transparency, improved risk-taking, more significant dividends, and more assets sold because the company does not need them. However, what is disclosed is contrary to Masulis (2012), which studied 9,970 American companies during 1998 – 2006. He found that American companies with foreign directors have negative results in controlling companies because the long travel time for foreign directors limits them from attending the board meeting and carrying out monitoring.

Last but not least, for the control variables, we extracted data mainly from company prospectuses, annual financial reports downloaded from the website of The Indonesia Capital Market Institute (TICMI), publication of financial overviews of the Indonesia Stock Exchange, as well as fact books published by the Indonesia Stock Exchange in 2020. In addition, the authors used two control variables. First was ROA, which will be an indicator to observe and assess the effectiveness of a company in using its assets to gain profits or as a measure of the company's financial performance. Tobin's Q will be externally compared because it is associated with market prices. This will be a financial indicator based on historical accounting performance that reflects expectations of possible manipulation by company management. The population in this study were companies listed on IDX as companies engaged in the energy sector or industry and companies engaged in basic materials or industries in 2020 because it was the year of supercycle commodities that have been described in the literature review occurred. After collecting data, it was found that 69 companies were categorized in the energy industry, and 93 companies were categorized in the Basic Materials industry, with total companies of 162.

This study uses a quantitative approach to investigate the relationship between foreign investors and the control power of a company's decision-making in companies listed in the energy and basic materials industry. The authors used Multilinear Correlation. This study uses the robust standard error to account for the heteroskedasticity problem and non-normality dispersions (White, 1980).

III. Result and Discussion

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
FI	66	.3582219	.2494753	.0057497	.9249983
Eq	66	25.43201	8.286031	0	30.99909
Lb	66	27.72307	1.977968	22.01291	31.84068
Size	66	28.59831	1.720239	22.36832	32.07089
CD	66	11.14619	2.39174	0	28.61268
ROA	66	.012616	.0106355	.0448811	.2634
Tq	66	5.302624	4.43226	.2001973	240.2193

Source by calculation of Author

The table above shows that foreign investors in companies listed on IDX in the Energy and Basic Materials sector have a mean value of .3582219. In other words, the average foreign ownership in the sample is 36%. The minimum ownership is 1%, and the maximum ownership is 92%.

The average company from the processed sample has equity of IDR 25, 4321, with a minimum value of 0 and a maximum value of 30, 99909. The average liability value was obtained from the mean value of 27, 72307 with a minimum value of 22, 01291 and a maximum value of 31, 84068. The ROA by the sample used has a minimum ROA of 4% and a maximum ROA of 26%. They distribute their dividends with a minimum value of 0 and a maximum of 28, 61268 IDR.

However, our data sets do not have high dispersion because the standard deviation is below 3; when the data reach higher than 3, the variance of our data will not violate the estimation results. However, a large variance was found in equity (standard deviation score is 8.286031) and Tobin's Q (standard deviation score is 4.43226). Therefore, the data is transformed into its natural logarithm.

Table 2. Correlation Matrix

	FI	Eq	Lb	Size	CD	CP	ROA	Tq
FI	1							
Eq	0.0322	1						
Lb	0.5864	0.1652	1					
Size	0.5947	0.4500	0.5654	1				
CD	0.314	0.0088	0.0572	0.1088	1			
CP	0.0275	0.4461	0.0588	0.4749	0.5438	1		
ROA	0.515	0.0018	0.1325	0.3144	0.4764	0.5490	1	
Tq	0.0542	0.3423	0.0052	0.3851	0.3355	0.0761	0.5525	1

Source by calculation of Author

We provide a pairwise correlation matrix in Table 4.4. We used independent variables that correlated below 60% to avoid multicollinearity issues (Huang and Zhao (2016). Based on the above result, no correlation exceeds 60; thus, each variable can be regressed simultaneously without any multicollinearity issue.

Table 3. Foreign Investor and Equity

EQ	Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
FI	-.0220991	8.800277	3.15	0.003	10.12566	45.30867
ROA	.6035428	3.897593	0.15	0.877	7.187634	8.39472
TQ	.0259497	.033085	0.78	0.436	.0920856	.0401863
Constant	25.00373	1.695636	14.75	0.000	21.0142	20.39326

Source by calculation of Author

The FI or Foreign Investor variable has a significant effect on the EQ or Equity variable of a company, proven by the significance value of 0.003, which is smaller than 0.05. The regression coefficient value is -.0220991, which can be interpreted as negative, which means that the higher the Foreign Investor value, the company's Equity value will also be affected or decreased. The value of R square is 0.1514, which can be interpreted that the independent variables collectively can affect the dependent variable by 15.14%, and other variables influencing the rest.

Table 4. Foreign Investor and Liability

LB	Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
FI	27.71716	0.0079949	-2.76	0.008	-0.380807	-.0061175
ROA	1.982909	2.126566	0.93	0.355	-2.268037	6.233855
TQ	-0.444533	.9418442	-0.47	0.639	-2.327253	1.438186
Constant	27.97448	.4097465	68.27	0.000	27.15541	28.79355

Source by calculation of Author

The FI or Foreign Investor variable has a significant effect on the LB or Liability variable of a company. This is proven by the significance value of 0.008, smaller than 0.05. The regression coefficient value is 27.71716, which can be interpreted as a positive influence. The higher the Foreign Investor value, the Liability value of a company will also be affected or increased. The value of R square is 0.1304, which can be interpreted that the independent variables collectively can affect the dependent variable by 13.04%, and other variables influence the remaining.

The results of the two tables above conclude that the presence of foreign investors affects the company's capital structure, where they prefer to use leverage (liability) or, in other words, the presence of foreign investors in a company will increase debt though do not increase the company's capital. This happens because the company prefers to increase its liability for company growth, resulting in dependency. With this dependence, the company will be more easily controlled by the creditor and minimize the positioning power of the company itself. The emerging character from the company will be biased because the company can no longer independently stand because it has dependence due to ongoing debt.

Table 5. Foreign Investor and Size

SIZE	Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
FI	4.387595	1.670616	2.63	0.011	1.048081	7.727108
ROA	-.0507604	.7399063	-0.07	0.946	-1.529812	1.428291
TQ	-.0256237	.0062807	-4.08	0.000	-.0381788	-0.013068
Constant	28.69701	.321894	89.15	0.000	28.05355	29.34047

Source by calculation of Author

The variable of FI or Foreign Investor has a significant effect on the SIZE variable of a company. This is proven by the significance value of 0.011, smaller than 0.05. The regression coefficient value is 4.387595, which can be interpreted as a positive influence. The higher the Foreign Investor value, the company's size value will also be affected or increased. The value of R square is 0.2904, which can be interpreted that the independent variables collectively can affect the dependent variable by 29.04%, and other variables influence the remaining.

As it is known, Firm Size is a measure of a company's size as a proxy for the greater scope of company control as measured by the total sales log (Bhabra and Maling; 2000). However, if the company size is large enough due to a large number of foreign investors in a company, it will trigger agency costs. With a large company size, moral hazard tends to occur, where managers usually take advantage of incentives that are following their interests, and there is the possibility that it is not included in the employment contract. Undoubtedly this will be detrimental to Indonesia because there is no ongoing effectiveness in maintaining company costs. This difference in interests can also lead to competition in terms of covering the need for natural resources in the occurring global energy crisis.

Table 6. Foreign Investor and Cash Dividend

CD	Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
FI	.5939996	5.536645	0.11	0.115	-10.4736	11.66159
ROA	52.5682	12.50105	4.21	0.000	27.57896	77.55745
TQ	-.0362649	.0469982	-0.77	0.443	-.1302129	.0576831
Constant	10.4625	2.408701	4.34	0.000	5.647577	15.27743

Source by calculation of Author

The FI or Foreign Investor variable has no significant effect on CD or how companies make decisions to distribute their Cash Dividends. This is proven by the significance value of 0.115, greater than 0.05. We can see that the variable that has significance for Cash Dividend is ROA. Surely this is considered one way because basically, ROA is a type of profitability ratio that can assess the company's ability to earn profits from the assets used, where companies will distribute their cash dividends when they earn sufficient profitability following the holding of the General Meeting of Shareholders (GMS).

The results of this study follow the results of research conducted by Handayani Ida (2020), where Return on Assets (ROA) has a positive effect on the Dividend Payout Ratio

(DPR). Positive Return on Assets (ROA) indicates that the total assets used for the company's operations can profit the company.

Table 7. Foreign Investor and Control Power

CP	Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
FI	86.65587	16.86149	5.14	0.000	52.95024	120.3615
ROA	.7022486	7.467857	0.09	0.926	-14.22579	15.63028
TQ	-.1099374	.0633914	-1.73	0.088	-.2366551	.0167802
Constant	92.13773	3.248869	28.36	0.000	85.64333	98.63212

Source by calculation of Author

The variable of FI or Foreign Investor has a significant effect on the variable of CP or Control Power of a company. Control Power is the accumulation of the company's financial decision-making consisting of Funding Decisions, Investment Decisions, and Dividend Policy. This is proven by a significance value of 0.000, less than 0.05. The regression coefficient value is 86, 65587, which can be interpreted as a positive influence. The higher the Foreign Investor value, the Control Power value of a company will also be affected or increased. The value of R square is 0.3337, which can be interpreted that the independent variables collectively can affect the dependent variable by 33.37%, and other variables influence the remaining.

IV. Conclusion

This study uses multilinear regression to explain the influence of foreign investors on financial decision-making that reflects a company's control power referring to Handono's (2008) research. This study uses Indonesian companies listed on IDX in the Energy and Basic Materials sector in 2020, where supercycle commodities happened. The total sample is 166 companies with 66 observations. The authors find a significant positive influence of foreign investors in making corporate financial decisions. In other words, the control power owned by foreign investors in the company is enormous.

The authors find a significant positive effect on investment decisions and funding decisions though not on dividend decisions. Foreigner investors have a positive influence on a company's control power, which will provide opportunities for weakening the domestic position, which is in line with the control power in Natural Resources in Indonesia. It provides opportunities for foreigners to maintain a relatively strong power position to regulate natural resources and energy availability in Indonesia when the global energy crisis occurs.

This study contributes to the discussion regarding foreign investors having great control power in companies engaged in natural resources and energy availability by filling the gap in the literature using more comprehensive proxies. This finding can be beneficial for companies to be more concerned in determining the number of foreign investors owning their shares because, with the large number of shares owned by foreigners, the control power of the company will be owned by foreigner’s more than domestic ones. Therefore, this will be quite detrimental to Indonesia as an entirety because since before, Indonesia has had large natural resources that should provide more power positioning in dealing with global politics energy.

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