

## **THE ANALYSIS OF THE INVESTMENT ATTRACTIVENESS IN SOUTH SULAWESI PROVINCE**

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### **ABSTRACT**

This research aimed (1) to analyze the factors which were most important as the determinant of the investment attraction in South Sulawesi Province, (2) to analyze which variables should be straightened out by the Government in the investment development in South Sulawesi Province; The variables in the research included the variables of institutions, socio politics, regional potentials, manpower and productivity, and physical infrastructures, financial access, internal conditions of the region and external conditions of the region. In order analyze the determinant variables of the investment and the formulation of policy strategy of the government based on the perception of the expert actors in investment in South Sulawesi Province, the method used was the Analytical Hierarchy Process (AHP). The total quota of the samples used in the research comprised 78 respondents consisting of 37 candidate investors and 41 investors. Based on the results of research the most important factor in attracting investors to invest is the institutional factors and socio-political factors. whereas based on the final weighting result of the variable determinant of investment attractiveness of variable cost and business competition variable get the lowest weight so that need to be done by improvement of Local Government of South Sulawesi Province.

**Keywords:** Analytical Hierarchy Process(AHP), Investment Attractiveness Rating, Investment Climate, Regional Investments

### **1.0 INTRODUCTION**

Investment is an expenditure made by the government and companies to raise the standard of living in the future. Investment or investment is a component of the national value-added, which is the purchase of capital goods and production equipment to increase the ability to produce

goods and services available in the economy. According to Jongwanich and Kohpaibon (2008), Investment is one of the fundamental pillars of fundamental in economic development, investment plays an important role in the process of growth in developing the economy.

Investment decisions are an important factor in the financial function, that corporate value is solely determined by investment decisions. The statement implies that investment decision is important, because to achieve the company's goal of maximizing wealth (wealth) shareholders will only be generated through investment activities Hidayat company (2010). Firat and Fettahoglu (2011) and Singh (2012) argue that rational Investors can make an optimal investment decision. The efficient market hypothesis suggests that investment decision-makers as individuals are rational and aim to maximize utility.

Jahanzeb et al. (2012), Peteros and Maleyeff (2013) jointly argue that decision-making is a process of selecting the best alternative from a number of alternatives available under the influence of complex situations. Investment decision-making will be greatly influenced by the information obtained as well as investor knowledge of the investment, whereas each investor has different levels of ability and knowledge. Investment decision making is influenced by: (1) the extent to which investment decisions can maximize wealth, and (2) behavioral motivation, investment decisions based on investor psychological aspects. Investment decision makers do not always behave in a way that is consistent with the assumptions made according to the perception and understanding of information received, on the other hand Drury (2012) explains that the investment decision-making process in the two-stage model includes the process of control and planning process.

The investment decision-making process has its own phase. The decision-making process is slightly different from the "basic" capital investment process, since investment theory is largely concentrated in the stage of analysis and acceptance of processes from decision-making. Many surveys show that the investment process is linear or is seen as a recurring process. Sykianakis & Bellas (2005).

Nevertheless, researchers in the field of psychology found that people often behave strangely when it comes to money in which the economic decisions that are made often appear irrational. Cognitive Errors and extreme emotions can cause investors to make poor decisions Hirschey and Nofsinger (2008). Domborsky (2009) Investment is a major factor determining regional and city development, even foreign investors investing in an area can significantly affect the overall city, regional, and possibly national economy.

## **2.0 DATA AND METHODOLOGY**

### **2.1 Location Of The Study**

The research will be conducted in South Sulawesi province where the object of research is potential investors and investors who have business in the area of South Sulawesi Province Indonesian Country.

### **2.2 Population And Sample**

In the selection of respondents to survey the characteristics of potential investors and investors, based on the opinion of Kuncoro (2009), set by Judgment Sampling. This method is one type of purposive sampling. Quota number of sample used in this research is 78 respondents. Respondents who are sampled are prospective entrepreneurs and business actors who have small, medium and large companies in the province of South Sulawesi. Respondents selected are the respondents who have the ability, knowledge, experience and understanding of the business activities of South Sulawesi Province. The data collection of business perception about attractiveness and the picture of regional investment is done by in depth interview with guided questionnaire Analytical Hierarchy Process (AHP).

### **2.3 Method Of Analysis**

This research is quantitative and comparative research. Quantitative approach basically emphasizes its analysis on numerical data (numbers) processed with statistical method then interpreted in the sense qualitatif. Dengan quantitative method will be obtained the significance of group differences or significance relationship between variables studied .

Factors and variables used in this study in accordance with that used by KPPOD in his research on the attractiveness of local investment in 2004. Analyzer used is AHP (Analytical Hierarchy Process). AHP breaks down a hierarchical area investment problem as shown in the figure below. The AHP method used in this study was developed by Render et al (2000).

The selection of analysis tools is based on the consideration that AHP is one of the tools or models of decision making with the main input is human perception. AHP is one method that breaks a complex problem into groups in a hierarchy. With AHP weighting a factor or variable can be done in accordance with human perception so it is expected to describe the actual condition (Saaty, 2002). This study breaks the problem of regional investment into several determinants of local investment attractiveness based on determinants of investment attractiveness set by KPPOD into several variables Analyzer used is AHP (Analytical Hierarchy

Process).

## **2.4 Research Variable**

1. Institutional factors, consisting of legal certainty variables, government apparatus variables, and regional policy variables.
2. Social-political factors, consisting of security variables, socio-political variables, and cultural variables of society.
3. Regional economic factors, consisting of economic potential variables and economic structure variables.
4. Labor factors, consisting of variable availability of labor, and variable labor costs.
5. Physical infrastructure factors, consisting of variable availability of physical infrastructure and physical infrastructure quality variables.
6. Access to finance factors include debtors' profit indicators, financing guarantees, and financing schemes.
7. Internal condition factors include cost variables, business competition, and government support.
8. External conditions include global economic indicators and government policies.

## **3.0 RESULTS AND DISCUSSIONS**

### **3.1 Characteristics Of Respondents**

The number of respondents in this study amounted to 78 consisting of 37 prospective investors or 47.4 percent and 41 investors or 52.6 percent who have businesses in the South Sulawesi Province. Male respondents 79.5 percent and women 20.5 percent from within the City of Makassar area of 44.9 percent and outside the area of Makassar City of 55.1 percent coming from several districts that are still within the province of Sulawesi South. Most respondents were 40-49 years old, 41.0 percent. Most respondents were S1 with 51.3 percent of total respondents. These data indicate that in general, the information obtained from the respondents is quite good, because their education level is mostly senior high school that is 88.4 percent more. Only about 11.5 percent of the respondents who graduate from junior high school down.

Most of the respondents were in the field of trade was 24.4 percent of total respondents followed by the processing industry and restaurants with the same amount of 12.2 percent. The position of most respondents is the president director of 65.9 percent of the total respondents. CV legal entities are the most respondents with the number of 63.4percent of the total respondents, then PT legal entities as much as 36.6 percent. Investors who own business assets Rp. 200 million up to Rp. 10 billion is the highest respondent that is equal to 53,7 percent. Business with age more

than 5 years is the highest respondent in this research that is equal to 53,7 percent from total respondent. From the results of data collection, the turnover of most respondents is Rp. 100 million to 1 billion ie 36.6 percent.

### 3.2 Results and Discussion

By using AHP (Analytical Hierarchy Process) method, the researcher can calculate factor weight and rank the weight of determinant factor of local investment attraction. This study breaks the problem of regional investment into several determinants of investment attractiveness of the region determining the attractiveness of investment into several variables. With the help of Expert Choice software, an assessment process will be conducted. This process begins by comparing in pairs starting from all predetermined criteria. Followed by sub criteria against other sub-criteria, and lastly compare between alternative one with other alternative according to level of priority desired. In this process is used to determine the value of inconsistency of the elements in the assessment.

**Table 3.2.1: First and Second Level Weight Determinants of Investment Attraction**

First Level		Second Level		Final Weight
Factor	Weight	Variable	Weight	
Institutional	320	Legal certainty	0,482	0,154
		Regional Finance	0,123	0,039
		Regional Policy	0,302	0,096
		Compensation	0,093	0,030
Social politics	165	Social politics	0,467	0,080
		Security	0,383	0,065
		Culture	0,150	0,026
Labor & productivity	133	Labor costs	0,162	0,017
		Availability of Manpower	0,213	0,022
		Labor Productivity	0,626	0,064
Regional		Regional Economy	0,232	0,047
		Economic Structure	0,182	0,037
		Geography Condition	0,079	0,016

Potential	132	Leading Commodities	0,195	0,040
		Market Access	0,313	0,064
Access to Finance	85	Profit Debtor	0,531	0,041
		Financing Guarantee	0,261	0,020
		Financing Scheme	0,208	0,016
Internal Conditions	75	Cost	0,153	0,008
		Business competition	0,164	0,009
		Government Support	0,683	0,036
External Conditions	49	Global Economy	0,532	0,024
		Government policy	0,468	0,021
Physical Infrastructure	40	Availability of Physical Infrastructure	0,337	0,010
		Quality of Physical Infrastructure	0,663	0,019
<b>TOTAL</b>				1,00

Source: Primary Data, processed

Table 3.2.1 above is the Matrix Priority Calculation Result which shows investor and prospective investor perception about determinant factor of investment attraction in South Sulawesi Province. The most important factor in attracting investors is the institutional factor. In institutional factors, the legal certainty variable is the most important variable when compared with the regional / local policy variables, regional financial variables, and the compensation variable. The weight of the legal certainty variable is 48.2 percent, while the weight of the regional / local policy variables is 20.2 percent, the weight of the regional financial variable is 12.3 percent, and the weight of the compensation variable is 9.3 percent.

Institutional factors are factors related to the ability or capacity of the government of South Sulawesi Province in carrying out government functions. The capacity of local government is reflected through its ability in terms of certainty and law enforcement, the formulation of regional development policy through local regulations and regional finance, as well as services to the community by providing stimulus and motivation to investors by increasing the amount of compensation to attract investors to invest in South Sulawesi Province.

The socio-political factor in South Sulawesi Province is also an important attraction factor for investors. Variables in socio-political factors include security variables, socio-political variables,

and cultural variables. Social political variables ranks first with the weight of 46.7 percent, followed by security variables with weight of 38.3 percent and cultural variables with a weight of 15.0 percent. Socio- political factors relate to socio-political relationships among elements of society, government and business in South Sulawesi Province, this of course must be supported by the speed of the authorities in tackling security issues in a region. And how the culture of society so as not to discriminate against investors.

Labor & productivity factor has three variables, namely variable of labor cost, variable of labor availability and variable of labor productivity. Labor and productivity factors are related to the human resources available in the area which can be seen based on the ratio of the number of productive age population and the ratio of job seekers to the labor force as well as to the wage level through the Minimum Wages indicator (UMK). In labor factor, labor productivity variable is the most important variable, it can be seen from the magnitude of weight reaching 62,6percent, bigger when compared with the weight of labor availability variable with weight of 21,3percent and variable of labor cost which amounted to 35.7 percent.

Regional potential factor, there are five variables are regional economic variable, economic structure variable, geographical condition variable, commodity superior variable, and market access variables. The potential of a region is influenced by the ongoing regional economic conditions, regional economic structures as stated in GRDP, geographical conditions by looking at environmental factors that support to do business, also see favorable commodities when developed and see market access that can facilitate market investors its products. Of the five variables, market access variables are the more important variables in the area potential factor with the weight of 31.3 percent, greater when compared with the regional economic variable weighted by 23.2 percent, the superior commodity variables of 19.5 percent, the variable economic structure with a weight of 18.2 percent, and the last variable geography conditions with a weight of 7.9 percent.

The financial access factor is in fifth place and has three variables, namely profit variable of debtor, financing guarantee variable, and financing scheme variable. Businessmen always consider easiness in accessing finance by observing how the borrower produces the expected profit with a financing guarantee in accordance with the borrower's ability, as well as a clear financing scheme. Of the three variables, the debtor's profit variable is the more important variable in the access factor of finance with the weight of more than 50 percent that is equal to 53.1 percent, greater when compared with the weight of the financing guarantee variable of 26.1 percent and the variable financing scheme with the weight by 20.8 percent.

Internal condition factors are in the sixth order and have three variables: cost variable, business

competition variable, and government support variable. Internal condition can be seen through the condition of the cost either in the form of funds or resources that must be issued, business competition in accordance with competition policy and law to prevent unhealthy business competition, and of course must get support from head of region or local government. Of the three variables, government support variables are the more important variables in the internal conditions factor with weight of 68.3 percent, greater when compared with the weight of business competition variables of 16.4 percent and the variable cost with a weight of 15.3 percent.

In external condition factor there are two variables that is global economic variable, and policy variable of government. External conditions as a factor that is not directly related to the company but greatly affect the investment process such as regional economic competition in the global market and also the government policy is simpler so as to make the investment climate becomes more conducive. Of the two variables, the global economic variable is a more important variable in external condition factor with weight of 53.2 percent when compared with the weight of government policy variable which is only 46.8 percent.

The determinant factor of investment attractiveness in South Sulawesi Province is the least is the factor of physical infrastructure, there are two variables namely physical infrastructure availability variable and physical infrastructure quality variable. The increasing availability of physical infrastructure and physical facilities and the better the quality of these facilities and infrastructure, the investor appeal to invest in South Sulawesi Province will be higher. Of these two variables, physical infrastructure quality variables are the more important variables in the physical infrastructure factor with weight of 66.3 percent, much greater when compared with the physical infrastructure availability variable weight of 33.7 percent.

The above factors are differentiated into economic factors and non-economic factors. So according to the perception of business actors in South Sulawesi Province which became the investment attraction as a determinant of investment decision in South Sulawesi Province is relatively more influenced by noneconomic factors, especially Institutional and Social Politics, compared with economic factors that is Regional Economy and Labor, economic factors tend to be more "controllable" compared to non-economic factors. According to the expert respondents this is seen in the management of investment permits are still complained about for too long and convoluted, slow and complex export procedures that make the cost of logistics and transport to be uncompetitive, plus the continued corruption in customs and ports.

This is in accordance with previous research from the team of the Regional Autonomy Implementation Monitoring Committee (KPPOD) in the ranking of investment attractiveness of

214 districts / cities in Indonesia in 2004 where institutional factors with a percentage of 31 percent and socio- political factors of 26 percent became the most dominant factor in investment attractiveness in some regions in Indonesia. Then followed by 17 percent local economic factors, labor factors, and physical infrastructure factors in the last one each with a percentage of 13 percent (KPPOD, 2004).

The result of this research is also in line with the research of Nuryadin and Sodik (2007), in his research indicate that the factor of local investment attractiveness in Kulon Progo Regency which has the biggest weight is the institutional factor which is 31 percent, followed by 26 percent social and politic factor.

The findings of Kuncoro and Anggi (2005) are also similar to the results of this study indicating that institutional factors are also superior with the greatest weight of 25 percent only socio-political factors are in third with the weight of 23 percent.

In the end the factors and variables in this study will be combined to obtain the final weight. Here is the final weight table of determinants of investment attractiveness. (see table 2).

**Table 3.2.2 : Final Weight of Determinant Variables of Investment Attraction**

<b>Variable Determinants of Investment</b>	<b>Final Weight</b>	<b>Ranking</b>
Legal certainty	0,154	1
Regional Policy	0,096	2
Social politics	0,080	3
Security	0,065	4
Market Access	0,064	5
Labor Productivity	0,064	6
Regional Economy	0,047	7
Profit Debtor	0,041	8
Leading Commodities	0,040	9
Regional Finance	0,039	10
Economic Structure	0,037	11
Government Support	0,036	12
Compensation	0,030	13

Culture	0,026	14
Global Economy	0,024	15
Availability of Labor	0,022	16
Government policy	0,021	17
Financing Guarantee	0,020	18
Quality of Physical Infrastructure	0,019	19
Labor costs	0,017	20
Geography Condition	0,016	21
Financing Scheme	0,016	22
Availability of Physical Infrastructure	0,010	23
Business competition	0,009	24
Cost	0,008	25

Source: Primary Data, processed

Based on Table 3.2.2 Variables of legal certainty ranks first in determinants of investment attractiveness in South Sulawesi Province with a weight of 15.4 percent. The second and third ranks are occupied by local / regional policy variables and social polity variables weighing 9.6 percent and 8.0 percent respectively. Then followed by security variables with weight of 6.5 percent. Variables Market access and labor productivity variables in the fifth and sixth have the same weight of 6.4 percent.

Economic variables of the next diurutkan with weight of 4.7 percent, then there are variables of profit borrowers and superior commodity variables ranked eighth and ninth with a weight of 4.1 percent and 4.0 percent respectively.

In the next sequence is the regional finance variables are ranked tenth with weight of 3.9 percent, the economic structure variable is elevated by 3.7 percent, government support variables are next followed by 3.6 percent, then followed by some other variables such as the compensation variable with a weight of 3.0 percent, Cultural variables with a weight of 2.6 percent, global economic variables with a weight of 2.4 percent, variable labor availability with a weight of 2.2 percent, government policy variables with a weight of 2.1 percent.

The eighteenth and nineteenth ranks are occupied by financing guarantees and the quality of physical infrastructure weighing 2.0 percent and 1.9 percent respectively, followed by a twenty-

number labor cost variable with a weight of 1.7 percent. Then the geographical condition variable and financing scheme variable also has the same weight value that is equal to 1.6 percent. While the bottom three as an investment attractiveness in South Sulawesi province is physical infrastructure availability variable with weight of 1.0 percent, and business competition variables and cost variables with weight of 0.9 percent and 0.8 percent respectively.

The final weighting results are consistent with the findings of Hofman and Gunther (2003), Smeru (2001) and Ray (2003) who found that with low levels of public services, lack of legal certainty, and various "non-business" "Identified as evidence of an unfavorable business climate. Public service complained of is mainly related to cost uncertainty and length of time dealing with licensing and bureaucracy.

## **4.0 CONCLUSIONS AND RECOMENDATIONS**

### **4.1 Conclusions**

1. Institutional factor becomes the most important factor as determinant of investment attractiveness in South Sulawesi Province with weight 32percent, kemudian followed by socio-political factor equal to 16,5percent, labor factor and productivity 13,3percent and next factor potential area with a weight of 13.2 percent, in fifth place occupied by access to finance factor with weight of 8.5 percent, then in the sixth determinant of investment attractiveness is the internal condition factor with the weight value of 7.5 percent, followed by the external condition factor with the weight of 4.9 percent which is ranked seventh and last is occupied by physical infrastructure factor with weight of 4.0 percent . The determinants of local investment attractiveness in South Sulawesi Province are influenced by 3 factors that have the biggest weight that is the institutional factor, socio- political factor, and labor and productivity factor.
2. The final weighting result of investment determinant variable shows that the variable of cost (0.008), business competition variable (0.009), physical infrastructure availability variable (0.010), and financing scheme variable (0.016) are the lowest gain variable by the Regional Government of South Sulawesi Province.

### **4.2 Recommendations**

1. Based on the survey conducted by the researcher, the strategy to be considered by the government in the development of investment in South Sulawesi Province is to improve the noneconomic aspects until as positive as possible, the need for clear and firm commitment from the South Sulawesi Provincial Government regarding the consistency

of regulation, institution and law enforcement. The government and its policies must take sides with the development of local investment, while still responding positively to the business world, conducting programs that proactively promote regional excellence, smooth and uncomplicated service, making it easy for potential investors to access and invest their capital so as to increase investment attractiveness.

2. The need for clear law enforcement and regulation from the Provincial Government of South Sulawesi against various illegal levying practices by persons / groups of people outside the bureaucracy that disrupts business activities, improves the financial services capability of financial institutions in the regional economy. And do cooperation between regions to establish healthy business competition in accordance with competition policy and law. repair and build physical infrastructure to support business activities by improving the quality of facilities and infrastructure that support business activities.

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