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The effect of government regulations through competitiveness on the the performance of textile companies

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A B S T R A C T

This study examines the role of government regulation on competitiveness and its impact on the performance of companies that have been designated as bonded zones. Bonded zone regulations provide several conveniences such as: delaying the payment of taxes on imported goods, accelerating customs duties, and exempting import permits are expected to improve company performance. Until 2019, 493 textile companies had been designated as bonded zones in Indonesia. But in reality, there are still companies designated as bonded zones that have low financial performance. This research uses 204 textile companies designated as bonded zones in Indonesia. The data were obtained from questionnaires filled out by company representatives. Data were analysed using a statistical test tool. This study finds that government regulations have a greater influence on the performance of textile companies mediated by power competition. The government must make regulations that can support increased competitiveness to improve company performance.

1. Introduction

The government needs to support exports because international trade, both exports and imports, affects both output and economic growth. Increasing exports contribute to a country's economic growth (Das, and Johnson, 2020). Thus one of the main factors for developing countries to be able to increase economic growth is exports (Tetsu, 2007; Mamba & Ali, 2022; Murshed, 2022). Export Processing Zones (EPs) are used by several developing countries as one of the policies to encourage exports and change human resource skills from farming to industrial employees (Engman *et al.*, 2007; Quaicoe *et al*., 2017; Mamba & Ali, 2022; Murshed, 2022). China has established many Export Processing Zones (EPZs) to support exports in several industries with the support of local governments (Wu *et al*., 2020).

Export processing zones (EPZs) have been a popular tool of trade policy since the modern renaissance of the late 1950s. The export processing zone is an export-oriented manufacturing industry with the main objectives: increasing foreign exchange by promoting non-traditional exports, providing jobs to reduce response or half-response problems in countries and assisting in revenue generation, as well as attracting foreign direct investment (FDI) and encouraging technology transfer (Warr, 1989; Farid *et al.*, 2023). The impact of FDI inflow is positive and significant on EPS in terms of exports and employment in EPZs using secondary data from 1997 to 2018 in Bangladesh (Majumder *et al.*, 2022).

The form of EPZs can be in the form of Free Trade Areas, Bonded Zones, Exemption of Import Levies, Refunds of Import Duty, Trade Manufacturing Services, Free Port Special Economic Zone, Industrial free zone/Export Processing Zone, Enterprise Zone, Information Processing, Financial Zone, Services Zone, Commercial Free Zone (Engman *et al.*, 2007; Wu, 2020).

To support the competitiveness and performance of export-oriented companies, the Indonesian government issued regulations called bonded zones. This regulation offers various fiscal facilities in the form of suspension of import duties,

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exemption from excise duty and no import tax is collected. The purpose of suspending import duties, not collecting import taxes is to attract investors from abroad (Engman *et al.*, 2007; Fang *et al.*, 2024).

Apart from fiscal facilities, there are several other conveniences, namely acceleration of customs services and exceptions to import licensing. Acceleration of customs services and exemption from permits will increase logistics efficiency which increases competitiveness (Vira Shpileva & Serhii, 2019). With fiscal facilities and acceleration of import and export services, the company's competitiveness can increase (Cleeve *et al.*, 2015; Rokhmawati, 2021).

This regulation is widely used by manufacturing companies in Indonesia, especially textile companies because of the existence of fiscal incentives called suspension of import duties and taxes in the context of imports which makes it possible to replace local products that previously received protection so that the price is cheaper with imported products that are more competitive (Hassler, 2004). In 2019, 1.388 companies in Indonesia had been designated as bonded zones. These companies are generally labour-intensive companies such as textile, electronics, footwear, plastic goods and Crude Palm Oil and its derivatives. Almost 36% or 493 companies designated as bonded zones are textile companies.

Fiscal facilities make products in bonded zones competitive in the export market due to lower prices (Buckley, 1988). In addition to low prices, several things serve as the basis for competitive advantages, such as product uniqueness (Bharadwaj *et al.*, 1993), superior product quality and high level of service to customers (Castro *et al.*, 2004), company-specific advantages and country-specific advantages (Rugman *et al*., 2011). With these advantages, it is expected that the product can enter and survive in the market (Porter, 1990). Bonded zone regulations are expected to create products that are competitive in price, quality, and consumer service.

Company performance will increase if competitiveness increases. Company performance is assessed on financial and marketing performance (Best, 2000, Hubbard & Beamish, 2011). Company performance can also be assessed from a consumer perspective, internal business process perspective, and learning perspective (Kaplan & Norton, 1992). Thus, the success of regulation of bonded zones is not only seen from the side of increasing the company's financial performance but also seen from the export performance, skill over, technology transfer, and increased workforce (Engman *et al.*, 2007). However, the financial performance of bonded zone companies is still very low, making it difficult to compete with companies that import directly (Ardiansyah, 2020). The provision of fiscal incentives through the bonded zone facility scheme also does not affect national exports both in the short and long term. Indonesia's national exports are more influenced by the real exchange rate of the rupiah against the US dollar and also the real Gross Domestic Product from export destination countries (Waskito, 2021). Likewise, the productivity gains obtained by companies in the Bonded Zone are mainly due to industrial agglomeration within the area, with or without the provision of tax incentives (Suharyani and Mahi, 2018). Furthermore in other countries, Special Economic Zones (SEZs) have positive and significant effects on productivity and revenue growth in Russia (Dubinina, 2023). The implementation of customs and trade regulations have a detrimental effect on trade and trade facilitation (Drinkwater & Robinson, 2023).

Based on this phenomenon, this study examines in detail the role of government regulation on competitiveness and its impact on the performance of companies that have been designated as bonded zones.

2. Literature Review

The government has a very important role in harmonizing all aspects of business by issuing government regulations. This follows the opinion of (Moss *et al.*, 2009) which states that government regulations naturally limit individuals or companies from doing something or not doing something to overcome the potential consequences of parties directly involved in the business so that personal gain does not interfere with the welfare of society. Furthermore, regulation of markets makes financial transactions more effective and transparent, lower corrupt practices, and ensure the sustainable management of natural resource revenues (Feng & Li, 2024). The first is a tool to regulate market structure. The second is an instrument to regulate the behaviour of participants in the market. In line with this definition, (Braithwaite & Drahos, 2000; Kornyshova, Boutal & Benramdane, 2023) define regulation as a guide for individuals and business organizations when conducting business activities so as not to harm other stakeholders and the environment. Mankiw, (2015) more sharply explains regulatory terminology. He stated that regulation is a tool that functions to regulate competition in the economy through 4 instruments, namely i) licensing, ii) patents, iii) restrictions on price competition, and iv) restrictions on the free flow of international trade. With an important role in increasing economic growth, the government must make the right policies to encourage economic growth. Indonesia as a developing country uses EPZs as a tool to start industrializing its economy. With EPZs, it is hoped that new forms of business will create jobs and ultimately increase per capita income and consumption. Traditional EPZs offer companies with export destinations the form of exemption from import duties on imports of capital goods and raw materials, provision of labour with effective wages, and other fiscal facilities (Engman, Onodera & Pinali, 2007). Schrank (2001) states that EPZs can unite the needs of a developing country to create jobs and exchange rate stability with foreign industries that require imported goods and local goods to be produced to meet the global market. The more advanced EPZs manage the area by making it part of the State's policy which ultimately uses EPZs as a tool for economic reform. EPZs no longer only focus on fiscal facilities but focus on providing an area for an international-scale business environment (Engman *et al.*, 2007). There are several forms of EPZs in the form of a Free Trade, Free Trade Zones, Bonded Manufacturing Warehouses, Automatic Import Licenses and Duty Exemptions. Duty Drawback), Trade

Manufacturing Services, stating that the form of EPZ can be in the form of a Free Port Special Economic Zone, Industrial free zone / Export Processing Zone, Enterprise Zone, Information Processing, Financial Zone, Services Zone, and Commercial Free Zone (Engman *et al.*, 2007). Bonded Zones are a form of Export Processing Zones developed by the Indonesian government to attract foreigner's investors. The basis for Bonded Zones is stated in Article 44 of Law Number 10 of 1995 as amended by Law Number 17 of 2006 concerning Customs. The main idea is fiscal incentive in the form of exemption from import duties on imported goods imported by companies designated as bonded zones with the condition that their products are exported. Companies can sell these products to the domestic market by paying the deferred import duty. More technical regulations related to Bonded Zones are regulated in Government Regulation No. 32 of 2009, concerning Bonded Storage. In particular, Bonded Zones are regulated in Article 12 to Article 20 of the Government Regulation. The main points of the provisions of these articles are:

1) In the Bonded Zone, the main activities carried out are the processing or processing of raw materials, raw materials, semi-finished goods, or finished goods that have a higher value for their use.
2) Imported goods are subject to suspension of import duties and are not subject to tax in the context of imports (Import VAT and PPH Article 22).
3) Imported goods are not subject to physical inspection at the port of unloading.
4) Goods imported from within the country to the Bonded Zone are not subject to value-added tax or value-added tax and sales tax on luxury goods.
5) Imported goods that enter a bonded zone do not have to fulfil their import permit except those related to health, environment, defence and security.
6) if the company's products are sold domestically, the Bonded Zone entrepreneur pays import duties and taxes.
7) The total production that can be sold to the domestic market is 50% of total exports. Sales of products to the domestic market are required to pay import duties and import taxes and need to fulfil import permits.

Fiscal policy is expected to reduce production costs and increase the competitiveness of the company's production. This follows the findings of Buckley, (1987) which states that a firm is competitive if it can produce products and services of superior quality and lower costs than its domestic and international competitors. Porter (1990) also added that Competitive advantage grows from the values or benefits created by the company as its buyers. Customers generally prefer to buy products with more value than what they want or expect. However, this value is compared with the price offered. Bonded zones are widely used by foreign investors. As a holding company, they generally have overseas markets. By utilizing bonded zones in Indonesia, they will increase the efficiency of the production process to increase the competitiveness of their products abroad. This has been confirmed by Porter (1990) who states competitiveness is the ability or advantage of a company to compete in a particular market. This competitiveness is created through continuous development in all lines of the organization, especially in the production sector. If an organization develop continually, it will be able to improve performance. In this definition, the market approach is the main focus so the company is expected to choose a particular market to compete. The bonded zone allows the combination of resources from the advantages of the parent company with the efficiency of the bonded zone company. Holding companies can provide opportunities for bonded zones to enter competitive global markets. Parent companies provide access to global markets to compete with other companies. The existence of high tariffs, complicated customs administration, and complicated permits in several developing countries often undermines the expansion capacity of companies that want to compete in international markets. For this reason, bonded zones provide convenience for direct investment to developing countries. Bonded zones provide financial incentives, simplify customs procedures, and simplify licensing. This will increase export competitiveness (Engman, Onodera and Pinali, 2007). Increased competitiveness is expected to improve company performance.

To be able to understand the meaning of company performance, it is necessary to pay attention to the limits given by experts related to company performance. Best, (2005) provides general limits on company performance, namely as a result of activities related to business programs of business institutions. As a derivative, the company's performance indicators are sales growth and profitability. This opinion emphasizes the growth of a process of activities carried out by the company.

Kaplan and Norton, (1992) define company performance as including certain criteria which describe what the company's long-term mission and strategy are. The criteria are classified into four perspectives: i) financial perspective, ii) consumer perspective, iii) internal business process perspective, and iv) learning and growth perspective.

Kennerley and Neely, (2002) also provide a broader meaning of corporate work called the structured performance prism to highlight the complexity of an organization's relationships with multiple stakeholders in the context of a particular operating environment. It provides an innovative and holistic framework that directs management's attention to what is critical to long-term success and survival and helps organizations design, build, operate and refresh their performance measurement systems in a manner relevant to the specific conditions of their operating environment. The government regulation provides different treatment for exports and imports by companies designated as bonded zones. With this facility, it is hoped that bonded zone companies can increase their competitiveness which, in turn, improves the company's performance.

3. Research Method

This research involves 204 textile companies designated as bonded zones. Data and information were obtained through a questionnaire on a Likert scale with a value of “1” to “6”, and were analysed using a statistical test. The variables in this study are government regulations, competitiveness, and company performance. The dimensions used to measure government regulations are permits, speed of import and export services and received fiscal facilities. There are 3 indicators to assess licensing dimensions, i.e., licensing fees, licensing time and licensing processes. Two indicators to assess the speed of import and export services are import-export procedures in bonded zones and a comparison of export-import procedures in bonded zones. Three indicators are used to assess the benefits of the fiscal facility received, namely reducing production costs, increasing competitiveness and supporting exports.

Competitiveness becomes a mediating variable between the independent variable and the dependent variable. The dimension used to measure this variable is the ability of a commodity to enter the market with indicators of the ability to export production goods and supply of products by consumers. The ability to survive in the market with indicators in the form of the period for exporting goods to the market and maintaining export markets abroad. Not easy to imitate with unique production indicators. and dimensions of high-level service to customers with production indicators according to the time requested by consumers, exporting production results and handling customer complaints very quickly

The company's performance has dimensions of learning perspective, internal business process perspective, growth perspective, consumer perspective, and financial perspective. The indicators for each dimension are the number of increased consumers, and consumers giving appreciation to the consumer perspective dimension. Dimensions of the Financial Perspective with indicators Increasing company profits, Taxes paid increase. Internal Business Process Perspective dimension with internal business process adjustment indicators, business process effectiveness. The Learning Perspective dimension uses hard competency and soft competency indicators. Growth Perspective Dimension with indicators of increased company assets and increased employees.

The model developed in this study is shown in Fig. 1. Government regulation as the independent variable, competitiveness as the moderating variable and company performance as the dependent variable. This study uses Smart Pls to examine the relationship between each variable.

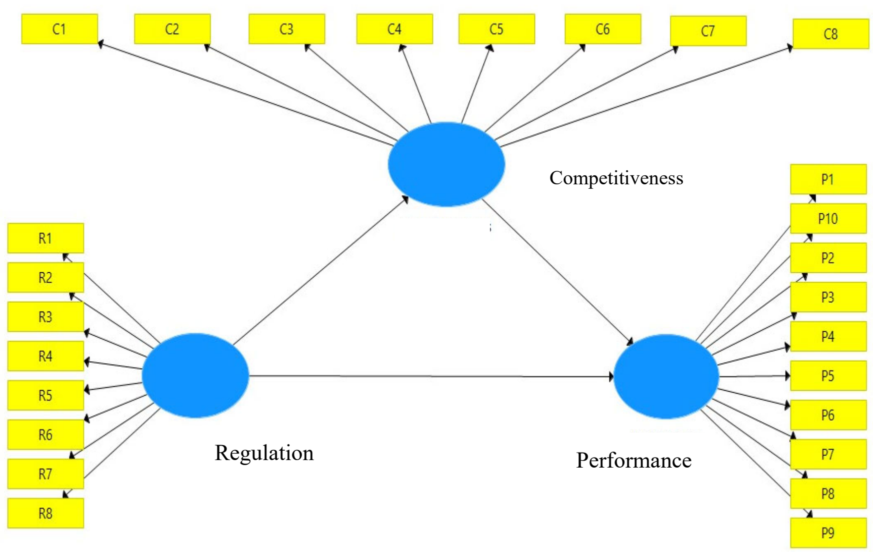

Fig. 1. Research Model

4. Research Result And Discussion

4.1 Research Result

Based on the questionnaire, we found that there were still textile companies that required fees for the determination of bonded zones, even though the regulation stated that there was no fee for such permits. This problem occurs because the company uses the services of a customs broker to apply for a bonded zone. Bonded zone entrepreneurs are also still unsatisfied with the process of determining bonded zones. This happens because applying to a bonded zone is still convoluted. Regarding the efficiency of production costs, textile companies designated as bonded zones benefit from the provision of tax deferrals and exemptions to reduce production costs. However, regarding the export-import process, they still hope to improve the export and import service times. Competitiveness in textile companies designated as bonded zones is at the company's high level of service both from handling complaints and improving production on input from consumers. The results of the product are not the competitiveness of the company considering the products produced are not distinctive or unique. Textile company performance indicators describe poor performance in increasing company assets, the number of employees, company profits, and tax payments. This happens because textile companies in Indonesia are generally subsidiary companies of companies abroad. The production model of textile companies in Indonesia is also in the form of fulfilling orders from parent companies abroad. Likewise, profits from the company will be brought to the parent company abroad. Reflective research model measurements were carried out on 4 (four) indicator tests (See Table 1). They were internal consistency, indicator reliability, AVE and discriminant analysis. Based on Table below, the composite reliability (CR) values of the variables Competitiveness, Regulation, and Performance were respectively 0.933, 0.945 and 0.948 so that all variables declared reliable because the CR value is above 0.7 and valid because the Average Variance Extracted (AVE) value ranges between 0.638 – 0.684 which met the required AVE score of at least 0.5. The results of further analysis showed that each dimension has an outer loading value ranging from 0.706 – 0.964 which met the outer loading requirement of more than 0.7 (Hair et al., 2014, 2018).

Table 1
Variable Construct Validity and Reliability /Higher Order Construct

Construct	Indicator	Outer Loading	Composite Reliability	Average Variance Extracted (AVE)
Competitiveness	C1	0.826	0.933	0.638
	C2	0.710		
	C3	0.778		
	C4	0.771		
	C5	0.706		
	C6	0.854		
	C7	0.855		
	C8	0.868		
Regulation	R1	0.735	0.945	0.684
	R2	0.840		
	R3	0.817		
	R4	0.778		
	R5	0.842		
	R6	0.854		
	R7	0.871		
	R8	0.869		
Performance	P1	0.820	0.948	0.647
	P10	0.806		
	P2	0.816		
	P3	0.839		
	P4	0.866		
	P5	0.794		
	P6	0.791		
	P7	0.743		
	P8	0.717		
	P9	0.842		

Structural testing in PLS was evaluated using the standardized model Cronbach alpha value to ascertain the validity and reliability of the measurement indicators. Additionally, the analysis was continued to determine the magnitude of influence between variables, a process shown in the following figure, with further insights provided by the R^2 value:

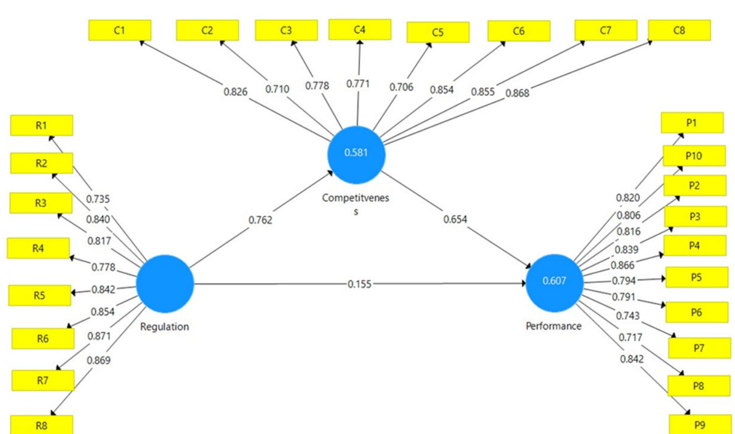

Fig. 2. Research Finding

From Fig. 2, the equation obtained is as follows:

C = 0,762 R, R2 = 0,581

P = 0,654 C + 0,155 R, R2 = 0,607

Based on the results of data analysis, the results obtained that Government Regulation can explain the 58.1 percent variability of the Competitiveness construct, with constructs not covered in this study accounting for the remaining 41.8%. From the results of data processing, It is discovered that, with a value of 0.762, government regulations significantly impacted competitiveness. In the meantime, government regulations have a 0.155 impact on business performance. Moreover, at 0.654 there is a significant relationship between firm performance and competitiveness. Furthermore, competitiveness can explain the 60.7 percent variability of the Performance construct, with constructs not covered in this study accounting for the remaining 39.3%. From the results of data processing, It is discovered that, with a value of 0.654, competitiveness significantly impacted performance. In the meantime, government regulations have a 0.155 impact on business performance.

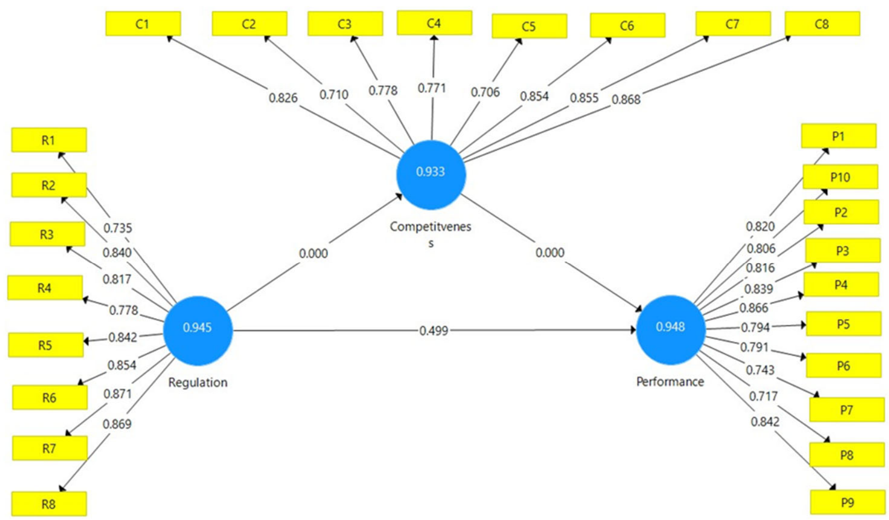

Fig. 3. Indirect Effect

Government regulations have a greater indirect impact on competitiveness than they do on company performance, which is moderated by competitiveness. Government regulation has a 0.499 influence on competitiveness.

5. Discussion and analysis.

This study found a significant relationship between government regulation and competitiveness. This means that Indonesian government regulations in the form of bonded zones can increase the competitiveness of companies. The results of this study support the research of (Chen, He & Qiao, 2022) Environmental regulation mainly enhances firms' export competitiveness. Bonded zone regulations provide fiscal facilities in the form of import duty exemption, import tax exemption, and excise. With the exemption from import duties and import taxes on the import of raw materials, auxiliary materials and production equipment, production costs will be lower. In the end, it will increase the competitiveness of the company. This supports the research by Habibie et al. (2013) which states that the government must carry out special policies including fiscal policies and incentives to increase competitiveness. The Bonded Zone Regulation also provides for differences in import treatment both in customs procedures and licensing with general imports. Companies designated as bonded zones complete their customs obligations at companies that are not loading or unloading ports. Import permits are not treated on import to the company. This convenience will increase the company's logistics efficiency which reduces logistics costs and ultimately increase competitiveness. this is in line with the findings of Vira Shpileva and Serhii, (2019) which state that increasing the efficiency of a company's logistics activities in a dynamic market environment can create a competitive advantage. Government regulations have a significant influence on company performance. Government regulations provide fiscal facilities. With fiscal facilities, the cost of production of finished goods will be low so company profits will increase. Increased company profits will improve financial performance which, in turn, will increase corporate tax payments. This supports the research of (Salgado *et al.*, 2019; Fang, Su & Lu, 2022) which states that giving Fiscal facilities in the form of tax incentives significantly affects the company’s performance.

The supply chain is also a matter of priority in bonded zone regulations. To ensure the smooth flow of goods, bonded zones provide different treatment to bonded zones related to customs administration and licensing. By providing different customs and licensing treatments in bonded zones, companies can streamline supply chains. Supply chain efficiency will reduce logistics costs incurred, reduce capital costs to minimize investment levels and improve service to consumers continuously. In the end, this logistics efficiency will improve the company's financial performance. This study supports the findings of (Qorri *et al.*, 2018; Kuwornu *et al.*, 2023; Li & Zhao, 2023) which state that supply chain management has a positive effect on company performance.

Competitiveness has a significant effect on company performance This study uses the variable dimension of the ability of a commodity to enter the market, the ability to survive in the market, not easy to imitate, and high level of service to customers for competitiveness variables, while the performance variables use the dimensions of the Financial Perspective, Consumer Perspective, Internal Business Process Perspective, and Learning Perspective, Competitiveness and Company Performance, then each dimension of competitiveness will affect the dimensions of company performance. In addition to production goods, support from high customer service is also a factor in the company's competitiveness. By combining the uniqueness of production goods and a high level of service to consumers, the company's financial performance will increase. However, to be able to create new product innovations that are unique and acceptable to the market, companies must also improve the performance of internal business processes and improve the quality of human resources. This research supports the research of (Rajapathirana and Hui, 2018) who found that when companies decide to allocate resources for product innovation, they hope to gain influence in terms of competitiveness and performance. This reveals that continuous product innovation increases the company's capacity to serve various consumer needs thereby upholding their loyalty. Government regulations will have a greater effect on performance if these variables are moderated by competitiveness. This means that government regulations are more focused on increasing competitiveness. With an increase in competitiveness, it is expected that the company's performance will increase. Company performance in this study is not only based on a financial perspective but also based on a consumer perspective, an internal business process perspective and a learning and development perspective. Likewise, in the competitiveness variable, the indicators are not only based on products but also on organizational efficiency. Furthermore, the regulation of bonded zones focuses heavily on the provision of fiscal facilities, logistical efficiency and ease of licensing. Bonded zone regulations can attract textile companies to Indonesia because the production costs of textile companies in Indonesia are more efficient with the existence of fiscal facilities and efficiency in licensing and logistics. This makes textile products from bonded zone companies in Indonesia competitive so that they can enter the market and survive in the foreign market. Although the product output of textile companies in Indonesia is not unique, the high level of service to customers improves the competitiveness of textile companies in Indonesia. Likewise, the financial performance of textile companies in Indonesia in the form of increasing profits and increasing tax payments has not been optimal from an internal process perspective which is quite good.

Thus the purpose of government regulations in the form of bonded zones in Indonesia is more focused on increasing company competitiveness, especially increasing the skills of its employees and increasing organizational performance in the form of organizational performance. Thus the objectives of establishing EPZs in the form of export growth, foreign direct investment, foreign exchange earnings, employment, technology transfer, exchange of information with companies, and government revenue (Engman, Onodera and Pinali, 2007) can be achieved. Meanwhile, the company's goal of investing directly in Indonesia in the form of finding cheaper resources and opening new markets can also be achieved by the company. Based on the researchers' observations, no research has been found that uses the competitiveness variable as a moderating variable between government regulations and company performance. Thus the research model used by researchers using government regulations as the independent variable and company performance as the dependent variable moderated by the competitiveness variable becomes the novelty of this study.

6. Research Findings

This research found that government regulations in the form of bonded zones that provide fiscal facilities, acceleration of import and export processes, and licensing exemptions have a significant influence on the competitiveness of companies designated as bonded zones. Government regulations also have a significant influence on company performance, but the effect is not big enough. The effect of government regulations on company performance is greater through competitiveness, considering that the effect of competitiveness on company performance is very large.

The main factor for the competitiveness of textile companies designated as bonded zones in Indonesia is the company's high level of service and production cost efficiency. This happens because bonded zone regulations provide fiscal convenience and various efficiencies. However, there are still some obstacles to implementation.

The company's financial performance is also not optimal considering that textile companies in Indonesia are generally subsidiaries that only carry out orders from the parent company. But the internal business process and learning perspectives are pretty good.

7. Conclusions, Implication/Limitation and Suggestions

7.1 Conclusion

The fiscal facilities provided in the bonded zone regulation are very beneficial for the company. With this regulation, companies generally meet the demand for raw materials, auxiliary materials, and production equipment which is quite high from imported goods. Likewise, the differences in customs and licensing services in bonded zones are also very beneficial. This is evident from the influence of government regulations regarding bonded zones which have a significant influence with a fairly high influence.

Bonded zone regulations have a significant influence on the company's performance but the value is quite small. Meanwhile, the effect of government regulations on company performance through competitiveness is quite large. Therefore, the government must be able to carry out regulatory reformulation, especially related to the speed of export-import services and export-import licensing. Meanwhile, companies must be able to anticipate the time for export-import services and the time for fulfilling export-import permits to reduce production costs.

7.2 Implication/Limitations and Suggestions

This study uses a textile company designated as a bonded area. However, the number of these companies is less than 40% of the companies designated as bonded companies. To be able to assess more deeply the role of government regulations governing bonded areas on company performance and competitiveness, it is recommended to take the population of all companies designated as bonded areas.

The results of this study illustrate that the influence of government regulations on company performance is significant but still quite small. The influence of the regulation is quite large if it is mediated by the competitiveness of the company. Competitiveness has a considerable influence on the company's performance. Therefore, the authors suggest further research to use other determinants of competitiveness to examine the role of the government in supporting companies in bonded zones.

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