



## The Influence of Business Competitiveness on Relocation Decisions

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### Abstract

*This study aims to examine the causal relationship between wage policy, business competitiveness, and employee productivity on the decision to relocate the company's operating base as a research problem. The research method used is a survey method with a correlational quantitative approach, and the sampling technique used is non-probability sampling with a purposive sampling method. This research uses structural-based variance equations, SmartPLS variance, and SEM-based. The population in this study are managers who work in the footwear industry in Banten Province. The test results show that (1) wage policies have a significant effect on employee productivity; (2) wage policies have a significant effect on business competitiveness; (3) wage policies have a significant effect on business relocation decisions; (4) employee productivity has no effect on business relocation decisions; and (5) business competitiveness has a significant effect on business relocation decisions. The theoretical implication is that the findings of this study contribute to the theory of human resource economics and business competitiveness. The managerial implication of the results of this study is the importance of formulating appropriate wage policies and increasing employee productivity so that there is no relocation of companies outside Banten Province.*

**Key words:** Wage Policy, Employee Productivity, Competitiveness, Relocation.

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## INTRODUCTION

Human resources are a determining object in achieving company goals. Because human resources are an element of the competitive strength of a company, therefore human resources are required to be productive and professional in order to achieve company goals. In maintaining the survival of a company, all business actors must have a good and regular management system and must consider everything and the risks. In Indonesia alone, many companies survive and many have to give up their business, gradually reducing employees and not increasing production because they cannot survive competing with world market share, but there are also companies that choose to relocate their business.

The decision to relocate the business, of course, has been thought out very carefully and with full consideration in determining the place of business relocation that is able to facilitate all the activities of the production process that will take place without many obstacles both from internal and external and has gone through a very long process in managing correspondence for a moving permit. business and manage and then report new licenses again and of course must also be supported by human resources who will be employed later are personnel who are experts in the field so that they do not hinder the productivity of a business. This business relocation has been very much discussed by the media in 2017.

In Indonesia every May 1, labor demonstrations are always held where this causes factories to stop operating, the threat of swiping, but consumer orders must be completed immediately. In Indonesia, many companies relocate their business to areas with lower UMP/ UMK. One of the cases is the footwear business in Banten Province,

which relocates many of its businesses to the Java area (Kompas TV, 2018).

The companies listed in the table above relocated their businesses in 2019. The impact on closing production lines, relocating and moving production from Banten to date is approximately 100,000 people. One of the consequences of the high minimum wage in the district and city in Banten Province. If the minimum wage continues to be applied in 2020 in the industry, it is feared that in the future there will continue to be closures of relocation production lines and production closures which will result in a reduction in the workforce in Banten Province and at the same time increasing the unemployment rate in Banten Province (Banten Province Industrial Office (*Dinas Perindustrian Provinsi Banten*), 2020).

The impact of the UMP/ UMR increasing every year greatly affects the income of the footwear industry because they employ a large number of workers so that it greatly affects the survival of a company. Below is a comparison table for labor wages in 2020 which experienced an 8.51% increase in wages in Banten Province and Provinces in the Java area (Indozone, 2020).

In 2019 before the covid-19 pandemic, the utility of industrial companies in Banten Province in producing products was only 70% but since the existence of covid-19 the company's utilities were only able to produce products as much as 30% - 40% every month (Rudiansyah, 2020; Suseno, 2019). The Indonesian Shoe Association on the condition of the footwear industry during the Covid-19 pandemic, starting in mid-May 2020, the market in the export-oriented industry began to shrink. Among them are marked by the occurrence of a number of layoffs by manufacturers in the Tangerang area. The lack of domestic retail market resulted in delays in payments to the national industry for the orientation of the domestic market. At present and in the next few months the industry has and will still experience difficulties in paying bills, both for bank loan installments and bills to

suppliers (third parties). And the opening of the offline market in the new normal phase after large-scale social restrictions (PSBB) will not move the industry, because in the market there is still over stock due to the non-absorption of products for the Eid market during Covid-19 (Suseno & Dwiatmadja, 2016; Firman, 2020; Heredia, 2020; Hameed, 2020).

With the existence of Covid-19, it adds to many problems that must be experienced and business actors must continue to try to maintain their business so that they can survive. Of course, the company must have employees who are competitive and also have good employee productivity so that a company is able to remain standing and compete with other companies and market shares.

From the various problems above, therefore the purpose of this study is to determine whether there is an effect of wage policy, employee productivity, business competitiveness on the decision to relocate a business in Banten Province. This research is important and urgent to do considering the impact of micro business relocation. The company will allocate investment for: land purchase permit, machinery, operating system set-up, production trial, recruiting and training new employees. While the macro impact is that employees will lose their jobs and reduce purchasing power, the government will lose sources of fiscal income and micro and small companies around the factory will decrease their sales value, so that the ecosystem has a double effect.

## METHOD

The measurement model consisting of 4 constructs was designed using SmartPLS version 3.2.8. The first is Wage Policy ( $X_1$ ) and The indicators are; (1) remuneration system, (2) pay system according to need, (3) wage

system by production (Khoerunisa, 2020, Kolkova, 2020). Furthermore, Employee Productivity ( $X_2$ ) and the indicators are; (1) results, (2) ability, (3) effectiveness (Siswadi, 2016). Then Business Competitiveness ( $X_3$ ) and the indicators are; (1) low cost, (2) differentiation (Sylvana & Awaluddin, 2017, Rossato, 2020). The last variable is Business Relocation ( $Y$ ) and the indicators are; (1) accessibility, (2) expansion (Setiaji & Fatuniah, 2018; Nyanga, 2020).

The population in this study are managers who work in six footwear companies in Banten Province, namely PT Adis Dimension, PT KMK Global Sport Fotwer, PT Nikomas Gemilang, PT Panarup, PT Parkland Word Indonesia, and PT Pratama Abadi. The planned sample is 120 respondents, or each company is proportionally allocated 20 each, so that this sample represents the population.

In this study, non-probability sampling with purposive sampling technique in this technique selected subjectively purposive samples with the aim of the sample can provide information in accordance with the research objectives. The type of purposive sampling used is judgment sampling. In this study, the number of samples used is the manager of a footwear company in the province of Banten (Arianto & Muhammad, 2018; Sarfraz, 2021).

## RESULTS AND DISCUSSION

The results of the collected and eligible samples are as much as 103 samples were analyzed and a questionnaire was used to collect data. There is 57.3 % or 59 respondents were female and the remaining 42.7 % or 44 respondents were male. Regarding education level, respondents with strata 1 ( $S_1$ ) education are respondents who participate the most in filling out questionnaires in this study, namely 46 respondents or 44.6% of 103 respondents. Regarding the length of work, respondents who work in the footwear industry in the range of 2

until 5 years are the majority of 48 respondents or 46.6 % of the 103 respondents who participated in filling out the questionnaire in this study.

From the calculation index it can be concluded that the respondent's wage policy shows a high degree of perception because the total index value is 81.06. In other words, managers in the footwear industry consider that 81.06% of the wage policy is the cause of the company's decision to relocate the company to an area with a wage level that can support business competitiveness.

From the results of the composite index calculation for each variable, it is concluded that the respondent's wage policy shows a high degree of perception because the total index value is 81.06. In other words, managers in the footwear industry consider that 81.06% of the wage policy is the cause of the company's decision to relocate the company to an area with a wage level that

can support business competitiveness. Although the support for employee productivity in this industry is considered high by managers, namely 83.8%, it does not support business competitiveness. Business competitiveness in Banten Province, perceived by managers as 70.5% or in the moderate category, is a strong cause, or 81.6% of the owner's encouragement to relocate to other areas with reasonable wages to encourage business competitiveness in a sustainable manner.

Based on the model fit index, it is concluded that the measurement model is considered feasible. Internal consistency in each construct shows a high correlation between each measurement item. The results of the assessment of the validity and reliability of the instrument were made based on the analysis of the outer model. Convergent validity was assessed using outer loading > 0.7, and average variance extract (AVE) > 0.5.

**Table 1.** Results of Validity and Reliability Tests

Variable	Indicator	Cross-Loading Factor				Composite Reliability
		WP	EP	BC	BR	
Wage Policy (WP)	WP1	0.804				0,824
	WP2	0.775				
	WP3	0.761				
Employee Productivity (EP)	EP3		1.000			1.000
Business Competitiveness (BC)	BC2			1.000		1.000
Business Relocation (BR)	BR2				1.000	1.000

Source: Primary data processed, 2020

The Based on the data in table 1, it can be interpreted that the business competitiveness variable can be explained by the employee productivity variable and business relocation. Meanwhile, the productivity variable can be explained by the

competitiveness variable and business relocation. Meanwhile, the business relocation variable can be explained by the business competitiveness and business relocation variables.

The value of the indicator cross loading of each variable is higher than the correlation value with other variables in the model. Thus, there is no indicator that shows a higher value on other variables than the value on the variable it self. Therefore, it can be concluded that each variable in this study has good discriminant validity. Furthermore, all variables have a composite reliability value of more than 0.7; namely the variables of Wage Policy (0.824), Employee Productivity (1.000), Business Competitiveness (1.000) and Business Relocation (1.000), therefore all variables are reliable. The test results of convergent validity, discriminant validity, and composite reliability are presented in Table 1. Path coefficients and their significance values are used as a reference for hypothesis testing. Based on the path coefficient values in Figure 2 below, there is a positive influence of Wage Policy on Employee Productivity (H1), Wage Policy on Business Competitiveness (H2) and Wage Policy on Business Relocation (H3). Meanwhile, the test results also found a positive influence of Employee Productivity on Business Relocation (H4) and Business Competitiveness on Business Relocation (H5).

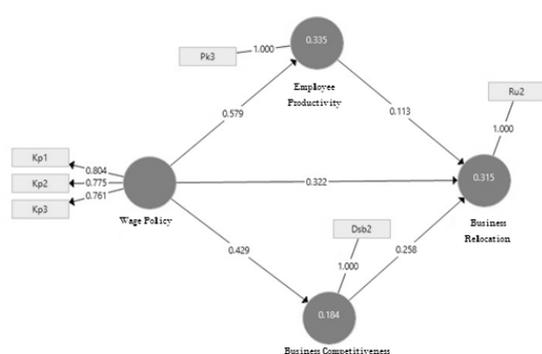


Figure 1. Structural Model Test

Thus, in Figure 1, the path coefficient value of the effect of wage policy on employee productivity is 0.579, which means that wage policy has a positive and significant effect on employee productivity. The coefficient value

of the influence of wage policies on business competitiveness is 0.429, which means that wage policies have a positive influence on business competitiveness. The coefficient value of the effect of wage policy on business relocation is 0.322, which means that wage policy has a positive influence on business relocation. Furthermore, the coefficient of the influence of employee productivity on business relocation is 0.113, which means that employee productivity has a positive influence on business relocation. The coefficient value of the influence of business competitiveness on business relocation is 0.258, which means that business competitiveness has a positive influence on business relocation.

In the table 2 above the coefficient value shows significance in hypothesis testing with a T-Statistic value of more than 1.96 for the hypothesis at 5 percent alpha. It is known that the coefficient value of the influence of wage policy on employee productivity is 0.579, which means that the wage policy has a positive influence, while the T statistic value is 8.709 where this value is greater than T table 1.96 so that this relationship has an effect as for the P Value of 0.000 which means that this relationship is significant because this hypothesis is accepted where the wage policy has a significant positive effect on employee productivity.

The results of the research above have similar results with research conducted by Dores (2020) and Nyanga (2020) which states that wages partially have a significant effect on employee productivity. This shows that the higher the influence of wages, the more it affects employee productivity. The same results are also obtained from research by (Amelia et al., 2019; Suseno et al., 2020; Horvathova, 2020) which states that wages on productivity have a positive and significant influence where when a worker feels satisfied with the wages received, his productivity at work is expected to increase.

**Table 2.** Coefficient (Original Sample), Standar Error dan T-Statistics

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values	Result
Wage Policy -> Business Competitiveness	0.429	0.440	0.060	7.155	0.000	Accepted
Wage Policy -> Employee Productivity	0.579	0.581	0.066	8.709	0.000	Accepted
Wage Policy -> Business Relocation	0.322	0.324	0.124	2.594	0.010	Accepted
Employee Productivity -> Business Relocation	0.113	0.110	0.106	1.066	0.287	Not Accepted
Business Competitiveness -> Business Relocation	0.258	0.255	0.099	2.594	0.010	Accepted

Source: SEM – PLS data processing results

The coefficient value of the influence of wage policies on business competitiveness of 0.429, which means that wage policies have a positive influence, while the T statistic value is 7.155 where this value is greater than T table 1.96 so that this relationship has an effect as for the P Value of 0.000 which means This relationship is significant because this hypothesis is accepted where wage policy has a significant positive effect on business competitiveness.

The results of the research above have similar results with research conducted by Avram et al., (2019) and Moreno-Gomez (2020), stating that wages have a positive effect on competitiveness where a fair minimum wage can be an integrated approach in stimulating SMEs to increase sustainable competitiveness. The same results are also obtained from Sabil et al., (2020) and Dvorsky (2020), which states that wages have a very positive effect on competitiveness, but

if wages increase excessively beyond what is stipulated in the agreement, it will erode the competitiveness of a business.

Wage policy on business relocation with a coefficient value of 0.322 which means that the wage policy has a positive influence, while the T statistic value is 2.594 where this value is greater than T table 1.96 so that this relationship has an effect as for the P Value of 0.010 which means this relationship significant because this hypothesis is accepted where the wage policy has a significant positive effect on business relocation. This result has almost the same result as the study conducted by Goeddeke et al., (2017), which states that wages have a positive effect on relocation because they relocate businesses to countries with low labor costs and centralized wage flexibility. If the wages of relocation workers increase, Thus, the six companies relocating have carefully calculated the investment that must be made, but their

businesses remain competitive both in Indonesia and in the export market.

The effect of employee productivity on business relocation has a coefficient value of 0.113 which means that employee productivity has a positive influence, while the T statistic value is 1.066 where this value is greater than T table 1.96 so that this relationship has an effect as for the P Value of 0.287 which means the relationship This is not significant because this hypothesis is not accepted where employee productivity is not significant and does not have a positive effect on business relocation. The results of the research have different results from research results with research conducted (Shinpei et al., 2019; Garcia-Alvarez-Coque, 2021).

The results of the study differ from the results of research conducted by Shinpei et al., (2019), Productivity has an effect on industrial relocation because it can optimize total productivity (Suseno et al., 2020). However, if the additional wages are still higher than the total productivity growth enjoyed by the footwear companies, then relocation becomes a rational decision.

The coefficient value of the influence of business competitiveness on business relocation is 0.258, which means business competitiveness has a positive influence, while the T statistic value is 2.594 where this value is greater than T table 1.96 so this relationship has an effect as for the P Value value of 0.010 which means This relationship is significant because the hypothesis is accepted, which means that business competitiveness has a significant positive effect on business relocation. The results of the study are consistent with the results of Feyerlein & Heideck (2015) and Kalita (2020), which states that business competitiveness affects business relocation by maintaining a long-established place of business, while relocation can be a valuable way to gain

competitiveness and can accommodate future market conditions in order to sustainably absorb footwear products.

## CONCLUSION

This research is based on the number of companies relocating their business outside the Banten area. This research is structured to be the basis for policy making as an effort to reduce business relocation that occurs in the province of Banten. From the results of this study, answers to research problems related to the relocation of companies in the province of Banten have been obtained. Therefore, a conclusion is drawn from the research problem that increasing competitiveness, wage policies affect companies to relocate their businesses while employee productivity results do not affect relocating businesses. The higher the level of wage policy, it will burden the company because most employees are in the footwear industry. Meanwhile, the variable productivity of employees who have various skills and educational backgrounds does not have an influence on the decision to relocate the business. Therefore, they must have skills from their educational background so that they are linear or with training from the company for the workforce so that they become competent resources and are able to compete with others because with the increasing competitiveness of employees and companies must also be able to compete with other companies by how to load products that are not easy to imitate so that business relocation does not occur.

The theoretical implications in this study expand the concepts contained in wage policy, employee productivity, business competitiveness and business relocation, while the practical implications can be used as a reference when a company decides to relocate its business, it is necessary to increase competitiveness, employee productivity and wage policies.

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