The Role of Tax Incentives in Encouraging Innovation and Technology Adoption in Industrial Management

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Abstract

In the context of globalization and increasingly fierce industrial competition, technological innovation is the key to increasing the efficiency and competitiveness of an industry. This research will explore the relationship between tax incentives provided by the government and the level of innovation and adoption that occurs in industry, as well as its impact on industrial management. This research uses a qualitative approach with descriptive methods. The research results show that tax incentives play a crucial role in encouraging innovation and technology adoption in the industrial sector. Clear and flexible incentive designs have a positive impact, while factors such as complex provisions, policy uncertainty, and the availability of skilled labor can limit their effectiveness. Involvement in industrial collaboration, level of education, and positive perceptions of tax incentives also contribute to increasing the use of these incentives. In conclusion, the importance of designing tax policies that take into account the dynamics of the industry and business environment can create effective tax incentives in supporting innovative growth at the industry level.

Keywords: Tax Incentives; Innovation; Technology Adoption; Policy Design; Availability of Skilled Labor.

Introduction

In the current era of increasingly widespread globalization, business competition has reached intense levels, both in domestic and international markets (Pasigai, 2010). To achieve competitive advantage, companies are not only faced with demands to produce quality products or services, but also must be able to provide customer satisfaction (Suprihatmi, 2008). The strategy to win the competition is no longer limited to product quality alone but includes several critical aspects. Companies that succeed in winning the competition are those that can provide products with superior quality, competitive prices, and guarantee product delivery efficiently and on time (Sulistiani, 2013). Apart from that, the customer service aspect is also an important key in building consumer loyalty. In this context, companies are required to not only provide products or services that meet standards, but also provide a superior customer experience (Ibrahim, 2022).
Improving product quality, offering competitive prices, efficiency in the supply chain, and responsive customer service are crucial elements. This overall combination not only creates customer satisfaction, but also builds a positive image of the company in the eyes of consumers (Normasari et al, 2013). Therefore, in facing intense global competition, companies must continuously innovate and adapt their strategies to meet and even exceed customer expectations, so that they are able to survive and develop in this dynamic market (Lestari, 2019).

To ensure quality products and services in a competitive business environment, innovation and technology adoption in industrial management are crucial (Prihartini & Sanusi, 2019). Innovation enables companies to continuously develop superior products, create new solutions, and improve operational efficiency. In this context, technology adoption is also a determining factor that supports the smooth running of industrial management processes (Sabrina, 2021). Through innovation, companies can respond to market changes and customer needs more quickly (Prabawa & Rizan, 2015). The use of technology in industrial management, such as automation systems, big data analysis, and artificial intelligence, allows companies to optimize their operations, increase production efficiency, and reduce costs (Syakarna, 2023). Apart from that, innovation can also involve developing new business models or integrating digital solutions that can increase customer engagement (Radiansyah, 2022).

Technology adoption not only simplifies the production process, but also allows companies to understand market trends and consumer behavior in more depth (Ardiansyah, 2023). By analyzing data generated by technology, companies can make more informed decisions, understand customer needs, and design products or services that meet market expectations (Sugiana & Musty, 2023). Innovation and technology adoption are not only key supporters in improving the quality of products and services, but also make companies more adaptive and responsive to market dynamics (Mubarok, 2018). Companies that are able to combine innovation and technology in industrial management can not only win the competition, but also position themselves as leaders in an industry that continues to change and develop (Budiarti, 2023).

Tax incentives have proven themselves to be an effective catalyst in encouraging increased innovation and technology adoption in industrial management (Utomo & Harjono, 2021). Providing these incentives by the government can provide a strong incentive for companies to invest in research and development (R&D) activities and adopt the latest technology, forming a strong foundation for economic growth and industrial competitiveness (Al Aidhi et al., 2023). Tax incentives, such as the R&D tax deduction, provide significant financial incentives to companies committed to innovation (Wibowo, 2023). By reducing the tax burden related to research activities, companies are encouraged to increase their innovation efforts. This creates an environment where companies feel more comfortable taking risks and exploring new solutions that can produce superior products or services (Rahayu et al, 2022).

Tax incentives for investment in technology provide financial support to companies that wish to adopt the latest technology in their industrial management. (Yolanda et al, 2023) Tax deductions or tax credits for technology investments help reduce the capital costs associated with the introduction and implementation of new technology. This is very relevant, especially
for companies that may face financial challenges in adopting advanced technology (Pohan, 2022). Additionally, tax incentives can help create a positive cycle in which companies active in innovation and technology adoption can gain additional tax benefits, providing ongoing incentives to innovate further and continue to develop their technological capabilities (Sitepu, 2014). Tax incentives play a role in stimulating innovative activities and technology adoption in industrial management. By providing the right incentives, the government can motivate companies to become agents of progressive change, leading to improvements in product quality, operational efficiency and overall industrial competitiveness (Anwar & Mulyadi, 2012).

In response to the complexity of competition in the era of globalization, this research is directed at explaining the role of tax incentives in shaping the innovation landscape and technology adoption in the context of industrial management. The main problem formulation includes an in-depth understanding of the impact of tax incentives on companies, especially in terms of increasing the level of innovation and encouraging technology adoption. How companies respond to these incentives, to what extent these incentives can motivate innovation and the use of new technologies in industrial management practices, as well as what obstacles they may face, are the central questions that will be answered through this research. To achieve this understanding, the aim of this research is to holistically analyze the role of tax incentives in encouraging innovation and technology adoption in various industrial sectors. This study will also identify factors that mediate or limit the impact of tax incentives on innovation and technology adoption at the industry level. Thus, this research serves as an important step to dig deeper into how tax incentives can provide a positive impetus in directing innovative activity and technology adoption at the industry level. The benefits of this research include contributions to the theoretical understanding of the relationship between tax incentives, innovation, and technology adoption. In addition, the research results are expected to provide valuable guidance for policymakers in designing more effective tax incentives, while also providing practical insights for companies in responding to these incentives with innovative strategies that can strengthen their position in increasingly fierce industry competition.

The definition of tax incentives according to Barry Spitz (1990) is as a facility provided by the government in the field of taxation to certain taxpayers in the form of reducing tax rates with the aim of reducing the amount of tax burden that still must be paid. In this regard, Easson & Zolt (2002) call tax incentives the term Incentive Taxation, namely taxation that has the aim of stimulating income. This means that the implementation of taxes is not only aimed at filling the state treasury, but also at encouraging economic growth. Then Gaggl & Wright (2017) also stated that incentives are a means of stimulating employee or individual performance which is used to increase productivity and enthusiasm for work motivation. According to Munongo et al (2017), developing countries implement tax incentives with varying objectives and reflect the unique economic challenges they face. One of the main objectives of tax incentives is to increase the attractiveness of investment in the country. By providing tax incentives, the government seeks to create an environment that supports economic growth through increasing private investment. This could include tax cuts or tax credits that could stimulate companies to invest capital, increase production and create jobs.
Apart from that, tax incentives can also be used to repair losses resulting from inefficient market mechanisms. In some cases, governments provide incentives to stimulate certain economic activities that may lack support from the free market. By providing tax incentives, the government seeks to direct fiscal policy to increase economic efficiency and overcome imbalances that may occur (Klemmm, 2010). More equal distribution of income is also the goal of tax incentives in some developing countries. The government uses tax instruments to create social justice and reduce economic inequality by providing incentives to certain groups or sectors that need further support. Apart from that, macroeconomic considerations such as reducing unemployment rates, increasing market demand, and encouraging investment are also the objectives of tax incentives as part of the country's economic management strategy (Klem, 2010).

According to Devore (2009), the nature and character of technology is greatly influenced by individual perceptions of the concept of technology itself. The definition of technology can be multi-dimensional, where technology can be considered as a concrete object (as an object), a dynamic process (as a process), applied science (as a knowledge), and as control involving decisions and will (as a volition) as stated by Mitcham & Mackey (1983). The existence of these diverse views illustrates the complexity of technology as a phenomenon that includes various aspects. In addition, Devore highlighted three main domains in technology, namely design technology which is related to the design process, production technology which focuses on making goods or services, and marketing technology which focuses on marketing efforts for the products or services produced. Therefore, understanding of technology is not only limited to physical or technical aspects, but also includes psychological and social dimensions that influence how technology is viewed, designed, produced and marketed in society.

Technological innovation has been the subject of extensive theoretical and empirical study and is now widely recognized as an important determinant of sustained superior performance (Giget, 1997). An innovation is an idea, practice, or object that is considered new by an individual or other unit of adaptation. Innovation in ICT not only refers to technological updates, but also refers to updates in terms of thinking and action. Technological innovation consists of two related but different factors: (1) Finding innovation in existing ICT, (2) If unsuccessful, deciding to adopt a more advanced innovation (ICT). Adoption rate is the relative speed at which an innovation is adopted by members of a social system. Generally measured as the number of individuals who adopt a new idea in a certain period, such as annually. So adoption rate is a numerical indicator of the steepness of the adoption curve for an innovation. (Oliver & Martins, 2011).

The definition of industrial management itself is an action or method carried out by an industry effectively and efficiently in achieving its business goals. Industrial management is a branch of management that is related to creating and managing systems and integrating with various resources such as natural resources, humans and technology (Taty & Yulianto, 2016). Humans and technology in the form of information systems are two important factors in the application of this management. The hope is that it will become a productive system and can increase profits for the business (Setiawan, 2020).

Industrial management involves four main functions, namely planning, organizing, leadership, and controlling. Each of these functions has an important role and responsibility in
carrying out industrial production operations efficiently and effectively (Syukron, 2013). The planning function is the initial stage in management, where we determine the goals and objectives to be achieved in an industry. In this stage, we also determine strategies to achieve these goals in an efficient and effective way. The regulatory function is the stage where we determine the duties and responsibilities of each team member in the industry. In this stage, we also determine how best to organize resources and coordinate activities to achieve the set goals (Harahap, 2017).

Research Design and Method

This research uses qualitative methods as an investigative tool. The aim of this research is to provide an overview of a particular community or group of people, a symptom, or the relationship between two or more symptoms. This research style describes real events by providing in-depth descriptions of the subject being investigated using interview data and conveying facts through narrative or other materials. By using interview data, this research explains the actual phenomenon by providing an in-depth description of the problem under study (Moleong, 2014). This research aims to obtain accurate and precise information regarding the context and situation of the research problem; therefore, descriptive research and a qualitative approach were used. Relevant literature on the topic under study was collected for data collection.

Results and Discussion

Result

The Role of Tax Incentives in Encouraging Innovation and Technology Adoption in Industrial Management

Tax incentives have a crucial role in encouraging innovation and technology adoption in industrial management. Some of the main roles of tax incentives include:

R&D stimulation

Tax incentives aimed at stimulating research and development (R&D) play a central role in stimulating innovation in the industrial sector. By providing special fiscal benefits for R&D activities, governments provide significant incentives to companies to invest in research and development of new technologies. These tax cuts not only provide a financial boost, but also create an environment that supports the exploration of creative ideas and the search for innovative solutions. Companies, responding to these incentives, tend to increase their research efforts, encouraging the birth of new ideas and the development of technologies that can deliver more advanced products or services. Furthermore, the role of tax incentives for R&D is not only limited to financial aspects. It also acts as a policy instrument that drives cultural change within companies, creates a higher innovative spirit and enhances collaboration between the industrial sector and research institutions. By moving companies to focus more on research and development, tax incentives create the foundation for sustainable economic growth through the creation of superior and revolutionary products or services. Thus, tax incentives for R&D are not only a financial instrument, but also the key to forming a dynamic innovation ecosystem in industrial management.
Technology Investment Drivers

Tax incentives aimed at encouraging technology investment play a very strategic role in encouraging technological progress in the industrial sector. By providing financial incentives, such as tax cuts or tax credits, to companies that invest in the latest technologies, governments encourage the adoption of technologies that can improve operational efficiency and overall industry competitiveness. The main role of this tax incentive is to stimulate companies to carry out updates and upgrades in equipment or systems used in production or management processes. Tax incentives for technology investments help companies reduce the capital costs associated with the introduction of new technology. In this context, companies can more easily immerse themselves in technological innovations that often require substantial initial investments. These tax cuts not only accelerate technology adoption, but also create an environment that supports the risk of investing in technology that can increase a company's competitiveness. In addition, the role of this tax incentive helps create encouragement for companies to face the era of digital transformation more proactively. By encouraging companies to adopt the latest technologies, governments not only increase industrial efficiency and productivity, but also create the foundation for a more connected and competitive society in an increasingly complex global marketplace. In other words, tax incentives for technology investment are not just about providing financial relief, but also sending a strong signal that the government is committed to advancing innovation and technology in the face of the demands of the modern industrial era.

Simplification of Business Processes

Tax incentives play a key role in simplifying business processes through technology adoption in the industrial sector. In this context, the focus is on how tax incentives can motivate companies to implement the latest information technology and management systems to improve operational and administrative efficiency. Simplification of business processes is a strategic goal that can be achieved through the adoption of technology, and tax incentives provide an economic incentive for companies to engage in this transformation. Tax incentives, such as tax deductions for the development and implementation of certain management systems or software, create an environment that supports companies in facing the digital era. Its main role is to reduce the financial burden associated with the introduction of new technologies, making them more affordable for companies, especially small and medium sized ones. By adopting the latest technology, companies can increase efficiency, reduce errors and speed response times to market changes.

Furthermore, tax incentives for simplifying business processes through technology not only bring direct economic benefits, but also support cultural change within companies. Innovation in business processes requires adaptations in the way companies operate, and tax incentives serve as a tool to stimulate companies to be more open to change and encourage the adoption of technologies that can strengthen their competitiveness. The role of tax incentives in simplifying business processes through technology adoption does not only focus on financial aspects, but also creates a climate that supports digital transformation, enabling companies to utilize technological innovation as a strategic resource in industrial management.
Support on Technology Startups

Tax incentives have a significant role in supporting technology startups and innovation-focused companies. The government uses tax instruments to create an ecosystem that supports the growth of new businesses in the technology sector. By providing incentives, such as tax cuts or other fiscal relief, to technology startups, the government encourages the establishment and development of companies engaged in innovation. This support creates conditions conducive to technological development that can make a positive contribution to overall industrial management. The role of tax incentives in supporting technology startups also involves creating healthy competition and stimulating investment in innovative sectors. By reducing the tax burden or providing special incentives, governments motivate investors and businesses to engage in the risks associated with startups. In other words, tax incentives not only provide a direct financial boost to new companies, but also create an investment climate that supports the growth of the startup ecosystem and innovation. Additionally, tax incentives could be designed to support research and development conducted by startups, facilitating intellectual and creative growth in the technology sector. This creates continuity in innovative efforts, helping startup companies to remain competitive in advancing technologies that can change the industrial management landscape. By supporting technology startups through tax incentives, the government creates the basis for new breakthroughs and increases the industry's competitiveness at the global level.

Technology-Based HR Development

Tax incentives play a strategic role in supporting the development of human resources (HR) who have technological skills, becoming a driver for the growth of innovation in various industrial sectors. Through incentive programs such as income tax reductions for workers involved in certain technology projects, governments create strong financial incentives for individuals to improve their technological skills. This encouragement creates a supportive atmosphere in efforts to increase individual technological competence, which, in turn, contributes to increased expertise in innovative fields. This kind of tax incentive program sends a strong signal that the government recognizes the importance of human resources skilled in technology to drive economic growth and innovation. Through income tax cuts, individuals involved in technology projects experience direct benefits, creating a personal incentive to develop and improve their capabilities in the technology field. By motivating workers to take part in training and further education that focuses on technological skills, tax incentives function as a policy instrument that supports increasing workforce competency in facing the era of digital transformation.

Thus, tax incentives for the development of human resources with technological skills not only provide individual financial benefits, but also stimulate the growth of technological capabilities in the industry. This initiative creates positive effects that spread from the personal level to the organizational level, contributing to industrial competitiveness driven by skilled and technologically knowledgeable human resources.

By providing this incentive, the government becomes the main driver in creating a business environment that pioneers innovation and technology adoption in the industrial sector. These proactive steps not only create financial incentives for companies to invest in research, development and adoption of the latest technologies, but also form a strong
foundation for economic growth in the industrial sector. Tax incentives act as a trigger that spurs companies to become agents of progressive change, spurring improvements in product quality, operational efficiency and creativity in industrial management. Thus, through this incentive, the government not only provides financial support, but also creates conditions that support achieving global competitiveness, leading to the realization of a dynamic and innovative business ecosystem. As a result, companies are expected to be able to compete effectively on a global scale, advance the industrial sector, and achieve customer achievements that lead to sustainable economic growth.

Factors that Mediate or Limit the Impact of Tax Incentives on Innovation and Technology Adoption at the Industrial Level.

Factors that mediate or limit the impact of tax incentives on innovation and technology adoption at the industry level involve a number of variables that can influence the effectiveness and implementation of such incentives. Some of these factors include:

**Technical Capacity and Financial Resources of the Company**

The design and provisions of tax incentives play a crucial role in mediating their impact on innovation and technology adoption at the industry level. Clear and transparent provisions will make it easier for companies to understand and plan the use of tax incentives for innovative investments. Conversely, ambiguous or complex provisions can be a barrier, reducing the attractiveness of such incentives for companies. Flexibility in provisions is also an important factor, ensuring that incentives can be adapted to rapid technological developments and changing industry needs. Therefore, designing tax incentive provisions that are clear, transparent and flexible is a critical step to ensure that these incentives can truly stimulate innovation and technology adoption in the industrial sector.

**Industrial Cooperation and Networking**

Engagement in industrial collaboration and business networks has a significant role in mediating the impact of tax incentives on innovation and technology adoption at the firm level. By engaging in industry collaboration, companies not only expand their access to the latest information and technological resources, but also open the door to collaboration opportunities that can increase the effectiveness of tax incentives. Through collaboration with industry partners, companies can exchange knowledge and experience, enrich their innovative perspectives and maximize the use of tax incentives. Additionally, strong business networks enable companies to take advantage of investment opportunities and joint projects that they might not be able to achieve independently. Thus, engagement in industry collaborations and business networks not only broadens the scope of companies, but also enhances their collaborative capabilities, ensuring that tax incentives can be optimized holistically to support continued innovation and technology adoption.

**Incentive Terms and Criteria**

The design and terms of tax incentives play a crucial role in shaping firms' responses to innovative opportunities and technology adoption. The eligibility criteria and administrative requirements contained in these incentives can be a major determinant of the extent to which
companies are interested and able to take advantage of them. When the provisions are designed with high complexity or criteria that are difficult to meet, companies can feel discouraged from engaging, facing challenges in meeting complex requirements. On the other hand, clear, transparent, and sustainable provisions can be a catalyst for technology adoption, creating a supportive environment where companies can easily identify the benefits of tax incentives and plan innovative investments effectively. Therefore, in designing tax incentives, clarity, and ease in understanding the provisions are the keys to growing company interest and participation in innovation efforts and technology adoption.

**Availability of Skilled Labor**

Adoption of technology as an integral part of business strategy often depends on the availability of a workforce with specific skills. In this context, the successful implementation of technological innovation at the company level is closely related to the availability of skilled labor in the market. If there is a shortage of human resources with appropriate skills, companies may face challenges in optimizing the tax incentives offered for innovation and technology adoption. Limited skilled labor can harm the effectiveness of new technology implementation, even if tax incentives exist. Therefore, to maximize the impact of tax incentives, there needs to be synergy between tax support and workforce development strategies. Efforts to address the shortage of skilled labor through training, education, or industrial cooperation can strengthen companies' competitiveness and ensure that tax incentives for innovation and technology adoption can be maximally optimized.

**Industry Education and Awareness**

The level of education and industry awareness has a central role in determining the extent to which companies are willing and able to utilize tax incentives for innovative purposes. Good education and a high level of industry awareness can create a deeper understanding of the benefits of innovation and technology, thereby increasing appreciation of the value of the tax incentives on offer. A greater understanding of the potential benefits of innovation can stimulate firms' interest in adopting new technologies and participating in incentive programs. In addition, a higher level of education can also help companies manage administrative requirements and tax incentive eligibility criteria more effectively. Therefore, investing in education and increasing industry awareness is a long-term investment that can create an environment where tax incentives are not only seen as fiscal relief, but also as a strategic impetus to encourage innovation and technology adoption at the industry level.

**Policy Stability**

Uncertainty in tax policy and the frequency of changes can be a significant risk factor for companies, influencing long-term investment decisions and moderating the effectiveness of tax incentives. Lack of tax policy stability can create uncertainty among business people, because they have to operate in a frequently changing environment. Unexpected policy changes can have a negative impact on a company's strategic planning, especially in the context of utilizing tax incentives for innovation and technology adoption. Concerns about policy changes could hurt companies' interest in committing to long-term investments, hindering the growth of innovation-driven industrial sectors. Therefore, a lack of tax policy
stability can be a real obstacle in creating a supportive and stimulating environment for companies to effectively utilize tax incentives as a means of encouraging innovation and technology adoption. Efforts to increase predictability and consistency in tax policy can help create a stronger basis for long-term decision making among businesses.

**Industry Trust Levels and Attitudes**

Industry trust and attitudes towards tax incentives play a key role in shaping the innovative climate among companies. If the industry has a positive perception of the positive impact of tax incentives, this can be a significant incentive for companies to take innovative steps and adopt new technologies. This trust creates confidence that the use of tax incentives will provide real benefits, both from a financial and strategic perspective, which in turn can stimulate interest and active participation by companies in innovation efforts. A positive industry attitude also creates a domino effect where companies are more inclined to share knowledge and best practices, creating an environment that supports the exchange of ideas and collaboration. Therefore, building industry trust and positive attitudes towards tax incentives not only increases the effectiveness of their use but also forms a strong foundation for sustainable growth and technological progress in an industrial sector. Thus, the role of industry attitudes towards tax incentives is not only as a supporting factor but also as the main driver in spurring innovation and technology adoption.

Understanding the factors that mediate or limit the impact of tax incentives on innovation and technology adoption at the industry level is a crucial foundation for designing and implementing effective tax policies. Tax incentive design that considers clarity of provisions, policy stability, and industry involvement, as well as other factors, can create an environment that supports innovative growth. The influence of policy uncertainty, the availability of skilled labor, and industry perceptions of tax incentives must be primary considerations in developing policies that can stimulate technology adoption in the industrial sector. Thus, the entire tax policy framework must take into account the complexity of industrial dynamics and the business environment to provide maximum encouragement for companies in responding to the era of technological transformation. Only with a thorough understanding of these factors can tax incentive policies achieve their goals of encouraging innovation and technology adoption, as well as making a positive contribution to sustainable development at the industry level.

**Conclusions**

Tax incentives have a very important role in encouraging innovation and technology adoption at the industrial level. Clear, transparent, and flexible tax incentive design can create an environment that supports innovative growth. Factors such as complex provisions, policy uncertainty, availability of skilled labor, and industry perception of tax incentives play a crucial role in determining their effectiveness. Additionally, involvement in industry collaboration, level of education, and industry awareness also influence the extent to which companies can utilize tax incentives for innovative purposes. The industry's trust and positive attitude towards tax incentives is key in stimulating companies' innovative steps. The importance of designing tax policies that take into account the dynamics of the industry and
business environment emphasizes the need for a holistic approach in creating effective tax incentives. By understanding and accommodating these factors, governments can create tax policies that not only provide a financial boost, but also stimulate innovative growth and technology adoption at the industry level, resulting in a positive impact on the economy.

Reference


