

## The Impact of Sanctions' Reduction and the Financial Strength of Companies on the Development of Garment Exports, Considering the Mediation Role of Direct and Indirect Exports.

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### Abstract

The purpose of this research is to investigate the effect of Sanctions' Reduction and the financial strength of companies on the development of garment exports, considering the mediating role of direct exports and indirect exports. The research method is practical in terms of purpose and descriptive-survey-correlation in terms of method. The statistical population of this research includes the managers of garment manufacturing and exporting companies, and the sample size was determined to be 344 people using random sampling method. To analyze the data, the method of structural equations modeling has been used using Smart PLS software. The tool used for data collection is standardized questionnaire. The findings of this research show that the Sanctions' Reduction has a direct and significant effect on the development of garment exports. Also, the financial Strength of companies has a direct and significant impact on the development of garment exports. Direct exports play a mediation role on the relationship between the Sanctions' Reduction and the development of garment exports, the mediation role of indirect exports on the relationship between the Sanctions' Reduction and the development of garment exports was also confirmed.

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## Extended Abstract

### Introduction

A review of the latest statistical report on world trade, which was recently published by the World Trade Organization, shows that the dollar value of the world's textile and clothing exports was 315 billion and 505 billion dollars respectively in 2018, the ratio of the previous year increased 6.4 and 1.11 respectively, the increase was the fastest growth in the world's textile and apparel trade since 2012. It is also predicted that the annual growth rate of about 5% from 2019 to 2025 will bring the world's textile and clothing exports to about 1207 billion dollars in 2025. In Iran, many companies are active in the country's textile and clothing industries with operating licenses from the Ministry of Mining Industry and Trade, which constitute a significant percentage of all active industrial enterprises in the country. Also, these industrial units account for a significant percentage of the country's industrial employment. It is worth mentioning that this amount is related to industrial units, and due to the large number of small and trade units, the number of employees in the country's textile, clothing and leather industry is a significant amount of the entire industry (Ebadi et al, 2021). While the industries upstream of the apparel industry are also very important, the fashion industry is \$1.3 trillion global business that employs more than 300 million people worldwide and represents a significant economic force and a significant driver of worldwide GDP (Gazzola et al, 2020). Considering that the export of clothing has high value added and foreign exchange earnings, it is also considered as one of the industries that have a very high employment generation capacity, and its capital-intensiveness considering its created sustainable employment is much lower compared to other industries (oil and petrochemical). Also, the growth of this industry affects other industries, and exports in this field can be driving force of upstream and downstream industries. Neglecting attention to Iran's garment exports has resulted that Iranian companies are not identifying the procedures and influencing factors for entering and stabilizing in these markets for consecutive years, and the managers of these industries have no effective strategy to develop their exports and overcome sanctions and improve their financial strength. Therefore, with the existing assumptions, this research seeks to answer the question of whether sanctions and the financial strength of companies can affect the development of garment exports, and whether direct export and indirect export can play a mediation role on the relationship between the Sanctions' Reduction and the development of garment exports.

### Theoretical Literature

Financial strength is a scientific process that helps an organization measure the effective use of company resources to maximize financial resources (Bei & Wijewardana, 2012). In other words, financial strength is an indicator to measure the probability of a company needing the support of third parties such as shareholders, banks, government, or official institutions to finance and pay the company's debt (Salimi et al, 2017).

Export is a set of actions and activities that are carried out to transfer the goods and services of commercial or governmental companies from one country to another for receiving currency or exchanging it for other goods and services (Moshabaki & Khademi, 2012). The most important export methods are direct export and indirect export. Direct export is an export in which goods and services move directly to foreign markets (Grozdanovska et al, 2017). Indirect export means the export of goods through intermediaries. They can be agents or companies that carry out the export. Agents act as brokers or establish a relationship between the exporter and foreign buyers (Grozdanovska et al., 2017).

Export development programs include all commercial, informational, and educational actions. In addition to sourcing, these programs also evaluate the export performance of the current period compared to the previous period. Despite planning for export development, these export programs are always accompanied by obstacles (Malca et al, 2020).

Sanctions are sets of restrictive measures applied by a country or a group of countries against a country that violates international laws or has violated accepted moral standards (Khaledi & Ardestani, 2022).

### Research Methodology

The current research is applicable in terms of the purpose, and descriptive-survey-correlation in terms of the method. The tool used for data collection is a standard questionnaire (5-point Likert scale) as a result of the Alidaie et al, (2023) qualitative research work. The statistical population of this research includes the managers of garment manufacturing and exporting companies (N = 987); random sampling method was used to select the sample and finally, by Cochran's formula, at least 276 garment industry managers were selected to conduct the research, and 344 questionnaires were collected.

### Research Findings

To analyze the hypotheses or the conceptual model of the research, Smart PLS 3 software was used, and the results showed that the effect of sanctions' reduction on the development of garment exports was calculated as (0.415), which indicates a favorable effect. The t-test statistic was also obtained (7.586), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of financial strength on the development of Iran's garment export has been calculated as (0.468), which indicates a desirable effect. The t-test statistic was also obtained (4.557), which is greater than the critical value at the 5% error level, i.e. (1.96), and it shows that the effect is significant. The effect of indirect export on the development of garment export has been calculated equal to (0.457), which indicates a favorable effect. The t-statistic was also obtained (4.497), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of direct garment export on the development of garment export has been calculated equal to (0.581), which indicates a relatively strong effect. The t-test statistic was also obtained (9.211), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of sanctions' reduction on direct export of clothing has been calculated as (0.927), which indicates a very strong effect. The t-test statistic was also obtained (81.106), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of sanctions' reduction on indirect export of clothing has been calculated as (0.574), which indicates a favorable effect. The t- test statistic was also obtained (43.805), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of sanctions' reduction on financial strength has been calculated as equal to (0.451), which indicates a favorable effect. The t-test statistic was also obtained (3.144), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of direct export on financial strength has been calculated equal to (0.414), which indicates a favorable effect. The t-test statistic was also obtained (4.711), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of indirect export on financial strength has been calculated equal to (0.515), which indicates a desirable effect. The t-test statistic was also obtained (4.379), which is greater than the critical value at the 5% error level, i.e. (1.96) and shows that the effect is significant. The effect of direct exports on the relationship between the sanctions' reduction and the development of

garment exports shows that the partial mediation of direct exports is confirmed with an intensity of 0.56. The effect of indirect export on the relationship between the sanctions' reduction and the development of garment exports also indicates that the partial mediation of indirect export is confirmed with the intensity of the effect of 0.33.

### **Conclusion**

The results of the hypothesis "the sanctions' reduction impacts on the development of garment exports" are confirmed. The results of this hypothesis are in line with the research of Pourebadollahan et al, (2019) and Jafari et al, (2023). The results of the hypothesis "financial strength on the development of Iran's garment export" are confirmed. The results of this hypothesis are in line with the research of Rasoulinezhad & Kazemnia (2019) and Khorshidi et al. (2015). The results of the hypothesis "direct exports play a mediation role on the relationship between the sanctions' reduction and the development of garment exports" are confirmed. Therefore, the direct export plays a mediating role. Also, the results of the hypothesis "indirect exports have a mediation role on the relationship between the sanctions' reduction and the development of garment exports" are confirmed, which indicates the mediation role of indirect exports. Considering that the current research is exploratory and has innovation, it does not have a similar research history in the field of garment export.

The policy makers of the country should try to reduce the sanctions as much as they can, and in the situation of sanctions, it is recommended to the garment manufacturers and exporters to switch to indirect exports if there is a problem with direct exports. Increasing communication with brokers in this field is the key to the success of these companies in indirect export. These companies can increase their financial strength through appropriate and optimal financing methods and select target markets that have high export value added. These companies can transform their distribution network into internet sales and distribution networks in the export target markets and do brand development in the export target markets and avoid exporting products with fake brands.