

## **The Readiness of Small and Medium Enterprises (SME) in Malaysia for implementing Goods and Services Tax (GST)**

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### **ABSTRACT**

A new taxation system – Goods and Services Tax (GST) has been introduced by the Malaysian government in order to diversify its revenue base. The Royal Malaysian Custom Department (RMCD) which is appointed to collect this revenue is strengthening its capacity. This paper studies the relationship between competency and governance towards GST readiness among 45 owners of a single brand petrol stations in Malaysia. The Theory of Organisational Readiness for Change along with a regression analysis suggested competency and governance of the petrol station owners had a positive significant relationship towards GST readiness.

*Keywords:* Awareness, competency, Goods and Services Tax, governance practice, readiness

### **INTRODUCTION**

Malaysia has collected RM51 billion since the implementation of the Goods and Services Tax (GST) in April 2015. The reduction in oil prices to AS\$30 per

barrel, in late 2015 had severely weakened government revenue.

GST is a multi-stage tax, where a tax is added to the price of products or services at each stage of production and distribution (Brederode, 2008; Gupta, 2014; Mansor & Ilias, 2013; Palil & Ibrahim, 2012). A standard rate of 6 percent was applied to all goods and services in the hope that Malaysia would remain competitive in the international market (Gupta, 2014).

The readiness of GST is expected from business people because they act as an entity on behalf of the government to

#### **ARTICLE INFO**

*Article history:*

Received: 15 September 2016

Accepted: 30 December 2016

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collect taxes from consumers (Ahmad, 2015). The GST usually relates to the Self-Assessment System (SAS) whereby taxpayers have to calculate taxes due to the RMCD. The purpose of this paper is to identify the effect of governance and competence towards GST readiness among small and medium enterprises (SME) in the petrol retailing industry. According to the definition of the Central Bank of Malaysia (2005) SME in Malaysia are those with less than 150 full time employees or having an annual turnover less than RM25 million. The readiness of GST in terms of competency and governance is important to ensure business owners comply with all the rules and regulation for its implementation. Competency in handling the system and governance in the company itself will help owners to be better equipped and compliant with the GST rules and regulations.

In examining SMEs this study selected a special group of business entrepreneurs, petrol station owners as they are affected by the GST implementation in terms of accounting system and pricing process. Two dimensions will be used to measure readiness for GST implementation: 1) people; and 2) technology, readiness (Abdinnour-Helm et al., 2003).

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **Employee's Skills and System Readiness for GST**

Individual and organizational readiness is important when an organization introduces

a new system in its business. There are many issues that would arise following the implementation of a new system. Staff attitude is therefore important in adopting a new system, requiring understanding and knowledge of its importance.

Petrol station owners with more than RM5 million yearly turnover are required to submit their return to the RMC every month while those turnover less than RM5 million will have to submit quarterly. Small medium enterprises were found to be less likely to participate during the earlier stages of GST implementation in Australia due to financial constraints (Ehrich & Billett, 2006). Extra cost and time is required when complying with GST needs.

The company should have a clear structure of the role of each staff and ensure no overlapping occurs (Davenport, 2000). They may appoint a project leader, process owner and a team for the system which is to be implemented. Engagement of top management is important to steer the new system.

The process owner would ensure that the new process fits in with the organization's overall system. They should test the new system before its actual implementation as the implementation team prepares details of the process design, system configuration and training plans. Having employees from diverse backgrounds can provide ideas in the execution stage (Abdinnour-Helm et al., 2003). Davenport (2000) described that the configurations, interface development, data standardization, testing and performance management should be done in sequence.

Harold (1995) noted that when employees have direct experience and first-hand learning their attitude towards new technology is likely to be positive. Their interest in a new system is likely waned throughout the implementation process. As employees gain more experience, they would end up getting bored of executing the same process. Therefore, it is important to have positive pre-implementation attitudes towards technology. This will become the starting point to shape the employees' behaviours in the later implementation stages. Greater level of involvement during the pre-implementation stage will lead to more positive attitude with regards to expected capabilities, outcome, acceptance level and timing of the new system implementation (Abdinnour-Helm et al., 2003).

The study employed the Theory of Organisational Readiness for Change. Staff in a company need to change and share their belief in order to create changes (Weiner, 2009). The effectiveness of a new system is high if staff cooperate to initiate needed change, provide great effort and show persistent cooperative behaviour. Changes can be defined as the way people talk about an event where an expected occurrence appears to become something else. Something else is seen as a result or outcome of the changes (Choi & Ruona, 2011).

Change is required due to economic variations, globalization of markets, market,

technological, political and social factors. Organization should strive to initiate in developing and implementing change initiative as it improves business activities.

### **GST Competency**

Individual competency is required to understand and run the implementation of GST smoothly. It can be defined as knowledge, attribute, attitude and ability to perform a specific role given. The competency on GST can be discussed from many angles such as staff related matters, knowledge, practices and training aspects. These factors are very important to ensure the success of GST implementation. Issues of GST calculation and accuracy of reports submitted to RMC by the businesses would reflect its self-assessment system (SAS). Insufficient knowledge will cause inaccurate tax return, leading to non-compliance for the businesses concerned.

A study by DiGabriele (2008) on the competency of forensic accountants found that knowledge and staff ability have positive relationship with competency. Staff would transform their theoretical knowledge into effective practical action to improve their performance. Various trainings related schemes can enhance competency among staff.

Competencies can help to provide a good structured model; for example, organizational values are created when competencies align with recruiting, performance management, training and

development, and a good rewards system. Therefore, it can be hypothesised that: -

H1– The higher the competency level, the better will be the readiness of petrol station owners towards GST.

### **GST Governance**

Governance in international area always focuses on the regulatory side of implementation and seldom focused on the economy player themselves (Jensen & Wöhlbier, 2012; Morrell & Tuck, 2014; Von Haldenwang & Ivanyina, 2012).

Governance can be defined as a process of interaction and decision making taken by a company that will bring them towards becoming better structured in the future (Bevir, 2013). Governance in taxation aims at ensuring tax evasion and avoidance is reduced (Morrell & Tuck, 2014).

Governance among GST taxpayers can be explained as the process of handling their GST management in terms of their assurance by regularly testing the accuracy of accounting system to ensure that the GST reporting needs are met. The benchmark of the industry can be used as an indicator whether a company actual performance is in the right position. Petrol station owners should ensure that GST documentation and staff are updated on the latest issues concerning GST documentation and payment.

Vendors, on the other hand, should provide accurate, timely and valid tax invoices to petrol station owners for recording and filing purposes. Accurate

disclosure is one of the most important elements of governance best practice (Al-Janadi, Rahman, & Haji Omar, 2013).

Based on the above the following hypothesis is constructed:

H2 – Better governance in the company will lead to better GST readiness among petrol station owners in Malaysia.

## **METHODS**

### **Research Design**

This study was conducted on operators of a single brand of petrol in Malaysia that is 750 stations. The operators were required to replace, enhance or buy a new accounting software in order to prepare for GST implementation, using the RM1,000 grants provided by the government for the purpose. The research used primary data which was collected through a structured questionnaire. The questionnaire was adopted and modified to suit the Malaysian context.

### **Survey Administration**

A survey questionnaire was used to collect data from petrol station operators. A cover letter was attached to inform the importance of the survey. The letter also informed on the confidential nature of the study by ensuring anonymity.

### **Sample Selection and Data Collection**

The study decided to focus on businessman operating petrol stations. 186 sets of

questionnaire were distributed, 50 were returned with 24% or 45 of them were complete. A sample size which is larger than 30 and smaller than 500 is considered to be appropriate (Sekaran & Bougie, 2011).

### Questionnaire Design

Respondents were asked about their knowledge of GST system and the system's execution. The survey was divided into three parts: 1) GST competency; 2) GST governance; and 3) company readiness to implement GST. Two additional sections described the demographic information of respondents and regarding products related to GST. Twenty-six (26) items measured three major parts using a seven-point Likert scale. In addition, a pre-test was carried out with a few doctorate students to ensure the clarity and reliability of the survey items.

## RESULTS AND DISCUSSION

### Descriptive Statistics

Table 1 presents the respondents' profile of the research. A majority of the respondents are based in central Malaysia (35.6 percent) consists of Selangor, Kuala Lumpur, and Negeri Sembilan. 33.3 percent of them are based in the Southern Malaysia which covers Johor and Melaka. The rest are based on the East coast, North and North East Malaysia covering the balance 31.1 percent of the respondents. The results reflect the representatives of the sample, as most petrol stations are located in the central and southern part of the Peninsular Malaysia.

About 53% of the respondents were female, and majority aged between 41 to 50 years old (48.9%). 62.2% of them have a college diploma or degree and 17.8 percent had master's degree or professional qualifications. Majority of the petrol stations (82.2 percent) are located in urban areas while only 17.8% is located in the rural areas. 97.8 percent or 44 petrol station operators had installed the accounting software for GST collection.

Table 1  
*Descriptive statistics*

		Frequency	Percentage
A.1. Area	North	3	6.7
	Central	16	35.6
	South	15	33.3
	North East	5	11.1
	East	6	13.3
2. Location	Urban	37	82.2
	Rural	8	17.8
B. Demographic Characteristics			
1. Gender	Male	21	46.7
	Female	24	53.3
2. Age	Below 30	5	11.1
	31 to 40	6	13.3
	41 to 50	22	48.9
	Above 50	12	26.7
3. Education level	SPM/STPM	9	20
	Diploma	13	28.9
	Degree	15	33.3
	Others (Master, ACCA)	8	17.8
C. GST Software ready			
	Yes	44	97.8
	No	1	2.2
Total respondents		45	100

## Statistical Analysis

**Reliability test.** Table 2 shows the value of Cronbach's alpha coefficient for competency was 0.886, indicating an excellent internal consistency and reliability for all 11 items being measured. In addition, the construct of governance yielded a Cronbach's alpha coefficient value of 0.953, also indicating an excellent internal consistency for reliability among the nine scale items. As the values of Cronbach's alpha were satisfactory, the study preceded its data analysis with exploratory factor analysis.

Table 2  
*Reliability test*

Reliability Coefficients	Cronbach's Alpha	Number of Item
Competency	0.886	11
Governance	0.953	9

**Factor Analysis.** An exploratory factor analysis using the Varimax rotations was performed to understand the structure of correlation per variable. The Kaiser-Meyer-Olkin coefficients for these datasets were valued at 0.619 for readiness, 0.759 for competency and 0.897 for governance. These values indicate that the data was suitable to be tested with exploratory factor analysis (Hair et al., 2010). In addition, the Bartlett test of sphericity for readiness (chi-square=68.4210, df=10,  $p<0.01$ ), competency (chi-square=305.62, df=55,  $p<0.01$ ) and governance (chi-square=480.50, df=36  $p<0.01$ ) shows

that the data for these three constructs were statistically significant.

The results from the exploratory factor analysis indicate that the six items used to measure GST readiness were grouped into one factor (all coefficients were above 0.3). Hence, this variable has one construct with six measurements. The result for competency showed that the variable has one factor construct with 11 measurement items. Furthermore, the factor analysis for governance showed this variable to have one factor construct with nine measurement items. No single item was dropped from the analysis.

**Correlation Analysis.** A Pearson correlation test was used to check for multicollinearity problems that might occur between the variables. If the correlation among variables is higher than 0.7, one of the variables should be omitted due to the occurrence of singularity (Pallant, 2010). Singularity arises when an independent variable is found to be a combination of other variables; hence this condition will cause multicollinearity issues to the analysis.

Table 3 shows a summary of bivariate analysis performed to test the correlation between variables. The result shows a correlation value of 0.687. Given the result was less than 0.7; no multicollinearity problem exists in the datasets. Competency is highly and significantly related to governance. In terms of the correlation between the GST readiness. The results indicate a significant relationship with all the tested variables.



Table 3  
Pearson Correlation matrix among variables

	Encouragement	Competency	Governance
Readiness	.186	.707	.710
Competency		1.000	.687*
Governance			1.000

\*Correlation is significant at the 0.01 level (one- tailed)

**Regression Analysis on the GST Readiness.** Table 4 shows results from multiple regression analysis which tested whether the independent variable is significantly associated with the level of GST readiness among petrol station owners in Malaysia. Based on these results, the regression model was statistically significant at five percent confidence level ( $F = 20.28$ ,  $p=0.00$ ). The adjusted  $R^2$  was valued at 0.568, which means that the regression model was able to explain 56.8% of the

variability in the degree of GST readiness for Malaysian petrol stations ( $R^2$  is 59.7%).

Competency and governance were found to have significant positive relationships with the GST readiness among the petrol station owners. Overall, the results supported all the hypotheses developed for the study, explaining the presence of a positive relationship between competency and governance towards the GST readiness among petrol station owners in Malaysia.

Table 4  
Regression analysis

Variables	Standardized Coefficients	Standard Error	t-stat	p-value
Constant		0.551	1.975	0.055
Competency	0.435	0.141	3.013	0.004*
Governance	0.419	0.122	3.057	0.004*

F-statistic (p-value) =20.28 (0.00) \*

\*Significant at the 0.01 level

R =0.773

$R^2$  (Adjusted  $R^2$ ) = 0.597 (0.568)

## CONCLUSION

In conclusion, the study found that petrol station owners were ready for GST implementation in Malaysia. The study also showed that competency and

governance had a significant effect on GST preparedness. Further studies could seek to examine psychological and economic factors that may influence the readiness of taxpayers towards GST implementation.

## ACKNOWLEDGEMENT

We would like to express our appreciation to the Faculty of Accountancy, Accounting Research Institute (ARI), Universiti Teknologi MARA and Ministry of Education, Malaysia for facilitating and funding this research project.

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