Operating Performance Analysis and Goods Service Tax Implementation in Malaysia

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Abstract: The implementation of Goods Service Tax (GST) in business processes requires firm to revise their business policies and practices particularly on price setting and cash flow operation that may possibly influence the operating performance. Thus, the purpose of this study is to investigate the impact of GST on operating performance. This study investigated 265 Malaysian listed firms operating performance (profitability: sales growth –SG, profit after tax-PAT, return on asset (ROA), liquidity: operating cash flows (OCF) and current ratio –CR) from year 2014 (before), 2015 (during) and 2016 (after) GST implementation period using the paired t-test. The SG have shown decreased during the GST implementation period, subsequently improved after the GST implementation period. The CR has exhibited a remarkable improvement during and after GST implementation period. The SG and CR results validate the firms are able to maintain the operating performance even with minimal reduction is witnessed for PAT, ROA and OCF during and after GST implementation. This study contributes to all stakeholders that GST do not necessarily influence the firms negatively, but allows the management of the firm in making effective decision for the operating business processes and supply chain for sustaining the firm value. In sum, this study finds that GST is a business friendly tax system for firms with effective operating performance to support the country economic development.

***Keywords**: Current ratio, Goods Service Tax, operating performance, operating cash flows, profit after tax, return on asset, sales growth, Malaysia*

1. Introduction

The Goods Service Tax (GST) is a value added tax (VAT) known as consumption tax. GST is the tax percentage on value added (the difference between sales and the cost of purchased material inputs) at each production stage [1]. GST is an essential indirect taxation tool adopted by 130 countries that contributes to one-fifth of the world's tax revenue [2].

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[3] encourage Malaysia to proceed with GST implementation as an alternative way to increase the revenue for the government. Accordingly, GST was implemented in Malaysia on 1 April 2015. The GST registered businesses begin to charge 6% goods service tax on consumers effective from 1st April 2015 in Malaysia. It is a norm business practice on the existence of timing differences between sales and receivable collections, however, presently with GST charges and payment based on taxable supplies within the regulated datelines, possibly affects or improves the profitability and working capital management of the firm operating performance. According to one of the professional audit firm mention that firms should evaluate the impact of GST to firms' operation and pricing strategy as incorrect decision influence the firm performance. GST implementation possible to give impact to firm cash flow position and pricing policy [4]. This reflects that the necessity of appropriate operating decision and functions in GST implementation which governs the firm operating performance. However, there is no supporting scholars theoretically to report on the impact of GST to firm operating performance. Thus, is essential to analyze the firm operating performance before, during and after the GST implementation. The outcome of this study shall contribute to government and the stakeholders on the profitability and liquidity position of firm operating performance during and after the GST implementation.

2. Literature Review

Operating Performance

Generally, business analysis is an evaluating process on firms' economic prospects and risks for business decision making [5]. The financial statement analysis is a part of business analysis determines the firm performance and position [5]. Based on previous studies, the three common criteria for firm performance namely market based performance (TobinQ), accounting based (ROA & ROE) and productivity analysis [6]. The operating performance is part of financial statement analysis which analyses the efficiency and effectiveness of firms operations particularly the firms' profitability and liquidity. The profitability analysis indicates on the firm financial performance for example, whether the growth in revenue is greater to cover the expenses or otherwise. Liquidity analysis reflects on the ability of the firm to cover the short-term liabilities or commitments. [7] study on operating performance analyzed for example operating cash flows ratio, sales growth and operating expenses during pre-acquisition and post-acquisition period of firms compared to industry median. Sales growth is a profitability analysis indicates on trends in sales [5]. Another profitability analysis is return on asset (ROA) indicates the firm's ability to generate profit by utilizing its assets [8] whereas the profit after tax is the overall performance of firm. Operating cash flow ratio describes the liquidity status on firm's abilities to meet the maturing obligation [5]. Current ratio is the ratio to measure short-term debt-paying ability [8]. Thus, this study analyzed the operating performance (profitability - sales growth and ROA; liquidity – operating cash flow ratio and current ratio) before, during and after the GST implementation including the firm operating performance (profitability: sales growth & liquidity: current ratio) relationship with corporate governance for Malaysian listed firms during and after GST implementation.

3. Research Methodology

For operating performance analysis, used the data of 265 Malaysian listed firms from year 2014 to 2016. The operating performance measurement are sales growth (SG), profit after tax (PAT), return on asset (ROA) operating cash flow (OCF) and current ratio (CR). The measurement for sales growth is dividing year-end sales by beginning of the year sales [7]. PAT is obtained directly from the statement of comprehensive income. The return on asset measurement is income before interest, tax, depreciation, and amortization (EBITDA) divided by the book value of total assets [9]. The OCF is measured by the operating cash flow over current liabilities [5]. The measurement for the current ratio is current assets/current liabilities [8]. This study collected data for the operating performance variables from the audited annual report available at Bursa Malaysia website. Further, the firms from finance, unit trust and REIT are excluded due to differences in compliance and regulatory requirements [10](Amran, 2012). The paired t-test is used to analyze the mean comparison for profitability (sales growth, profit after tax and ROA) and liquidity (operating cash flow ratio and current ratio) position of firms before (2014), during (2015) and after (2016) the GST implementation.

4. Results and Discussion

The operating performance of sales growth (SG), profit after tax (PAT), return on asset (ROA), operating cash flow (OCF) and current ratio (CR) are analyzed on the mean differences before, during and after GST implementation period. The mean difference results from paired t-test is used to determine the nature of operating performance before during and after GST implementation is shown in Table 4.1. Overall the results in Table 4.1 shows decrease in mean difference for all the operating performance measurement during GST implementation in year 2015 compared to prior year except for CR. This reflect that GST implementation has consequential effect to operating performance particularly to profitability and cash flow position of firms possibly due to price setting for goods or services and the GST implementation cost.

Table 4.1

The Operating Performance Mean Difference Results

Performance	2014	2015	2016
N=265			
Profitability			
Sales growth (SG)	1.322	1.248	1.257
Pr(|T| > |t|)		0.6279	0.9499
Profit after tax (PAT)	18.118	17.959	17.689
		0.5978	0.4572
Return on Asset (ROA)	1.546	1.450	1.406
Pr(|T| > |t|)		0.8783	0.9517
Liquidity			
Operating Cash Flow (OCF)	0.535	0.496	0.449
Pr(|T| > |t|)		0.7135	0.4337
Current Ratio (CR)	2.650	2.679	3.761
Pr(|T| > |t|)		0.8938	0.2775

The sales growth mean year 2014 is 1.322 greater than mean of 1.248 in year 2015 at statistical difference of more than 62.79%. However, the mean of 1.257 at a level greater than 94.99% statistical difference improved in year 2016 compared to 2015. The finding of this study reveals that despite of some downturn to sales growth during GST implementation, the firm managed to improve the sales growth with good pricing setting policy after the GST implementation period. The profit after tax (PAT) mean result is 18.118 in 2014 better than 17.959 mean in 2015 with difference at 59.78%. Further moderate decrease is observed in mean of 17.689 for 2016 at statistical difference of 45.72%. This could be due to increase in expenditure during and after the implementation period. Nevertheless the moderate decrease in PAT, the firm is able to sustain the overall profitability during and after GST implementation. ROA recorded 1.546 higher mean in 2014 relative to mean of 1.450 at 87.83% statistical difference, continued insubstantial decrease mean of 1.406 at statistical difference at 95.17% in year 2016. The GST implementation increases the prices of goods or services as every path of sales is taxable, balancing requirement is needed between taxable amount and margin for each level of sales, to ensure for enough profit, thus, is important for the firms to have ability to set the right pricing [4]. The reduction in the profitability (SG, PAT and ROA) shows that for example due to incorporation of taxable invoice, there is an impact on the price setting during GST implementation that requires close attention for the development to adequate pricing policy. Consistently, there is positive development in SG is observed after GST implementation period despite the minimal decrease in PAT and ROA. This indicates that the firms have adopted a good pricing policy after GST implementation period. In spite of, GST implementation has impact to profitable position of firm, the impact is controllable that reveals the firm viability for a foreseeable future.

For liquidity position, the OCF finding is consistent with profitability where the mean in 2015 is 0.496 slightly lower than the mean of 0.535 at difference of 71.35%. Possibly this is due to adjustment in firm cash flow management during GST implementation. Consistently, [4] demonstrate that during GST implementation there will be some effect to firm cash flow which requires sufficient level fund in daily cash flow operation. The cash flow (OCF) is affected possibly of more cash outflows to pay suppliers due to taxable charges and price mark-up [4]. However, minimal decrease of mean 0.449 at statistical difference of 43.37% is witnessed in year 2016. This reflect that firms are able to move forward by managing their cash flow operation during and after GST implementation. Further, the reduction in OCF performance is compensated to a steady growth level of current ratio (CR). The CR mean result in 2015 is 2.679 slightly more than mean 2.650 in year 2014 at a difference of 89.38%. Further improvement is observed for the mean result of 3.761 in year 2016 at statistical difference of 27.75%. This shows that even the payment to suppliers and expenditure increased during and after GST implementation, the firms do have an effective working capital management system. This is a remarkable liquidity position where the short-term assets are able to cover the short-term obligations during and after GST implementation. Overall, the firms are able to cope with short-term financial commitments shown from positive liquidity position (CR) even there was a reversal of change in firm profitability and cash flow situation during GST implementation period.

5. Conclusion

Malaysia introduced GST in year 2015 to businesses and communities to increase the revenue collection for the country economic development. When GST is implemented in firms business process, it is believed to give an impact to price setting and cash flows. This implementation possible to reduce the firm operating performance. In order to observe for GST impact on firm business performance, this study analyzed sales growth (SG), profit after tax (PAT), return on asset (ROA), operating cash flow (OCF) and current ratio (CR) before (2014), during (2015) and after (2016) GST implementation. No doubt, SG, PAT, ROA and OCF have shown decreased during GST implementation and further minimal decreased are observed for PAT, ROA and OCF after GST implementation. However, SG has revived after (one year) the GST implementation period. Despite of the minimal decrease is further observed from year 2015 to 2016 for profitability (PAT & ROA) with reliance for enhancement, firms managed to improve their SG after the GST implementation. Based on the results of this study, no massive loss is witnessed to firms during and after GST implementation. The CR position enhanced during GST implementation and further strengthened after the GST implementation. This definitely indicate that the firms have developed an effective working capital management system to cope with the GST despite of having slight reduction in OCF position. Overall, the firms are able to sustain their operating performance during and after GST implementation. According to [11] corporate governance do influence firm operating performance. Further, the best practices through effective corporate governance enhances organizational efficiency [12]. Thus, for future research is it recommended to add more sample sizes and to include the corporate governance variables to investigate corporate governance relationship with operating performance during and after GST implementation .

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