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IJAZAH: MASTER OF BUSINESS ADMINISTRATION

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THE EMPLOYEES' COMMITMENT TOWARDS ORGANIZATIONAL CHANGE: A STUDY ON THE MALAYSIAN GOODS AND SERVICES TAX (GST)

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DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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DECLARATION

I hereby declare that the material in this dissertation is my own expect for quotation, excepts, equations, summaries and references, which have been duly acknowledged.

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ABSTRACT

During the past decade, a number of developing countries have introduced radical reforms in their collection of tax. Malaysia as one of the developing countries has as well introduced the Goods and Services Tax (GST) on the 1st of April 2015. One of the objectives is to improvise its tax system. Within this context, it is argued that, the employees' organizational commitment is an imperative and vital element in boosting the productivity and quality of the organization. This research is about the study on the issues pertaining to the influential effect of the RMCD's employees organizational commitment towards the success implementation of the GST in Malaysia. In doing so, this research involved the collection of data primarily gathered from the survey questionnaires administered to the RMCD's employees from all level of positions throughout Malaysia. The data was then analysed using the multiple regression analysis. It is found that the factors such as the fitness of change initiatives with the vision of the department and the nature of the relationship between the subordinates and their head of departments are significantly affect the success of the GST implementation in Malaysia. At the same time, the employees organizational commitment is also found to have a mediating effect on this relationship. Future research should take into considerations other influential elements such as the employees' motivation, performance measurement systems and leadership style in the study to further enrich the related body of knowledge.

Dalam dekad yang lepas, beberapa negara membangun telah memperkenalkan pembaharuan radikal dalam kutipan cukai mereka. Malaysia sebagai salah satu negara sedang membangun juga telah memperkenalkan Cukai Barangan dan Perkhidmatan (CBP) pada 1 haribulan April 2015. Salah satu objektifnya adalah untuk menambahbaik sistem percukaian di Malaysia. Dalam konteks ini, adalah boleh dikatakan bahawa komitmen organisasi pekerja adalah penting dan utama dalam meningkatkan produktiviti dan kualiti organisasi. Penyelidikan ini adalah berkaitan dengan kajian mengenai isu-isu berkaitan dengan kesan komitmen staf atau pekerja Jabatan Kastam DiRaja Malaysia (JKDM) ke atas kejayaan perlaksanaan GST di Malaysia. Dalam pada itu, penyelidikan ini melibatkan pengumpulan data terutamanya melalui tinjauan soalselidik yang dihantar kepada staf JKDM dari semua peringkat dan perjawatan di seluruh Malaysia. Semua data kemudiannya telah dianalisa menggunakan kaedah analisa 'multiple regression'. Kajian ini mendapati bahawa faktor-faktor seperti kesesuaian inisiatif perubahan dengan visi jabatan, dan juga perhubungan antara pekerja sokongan dengan ketua jabatan masing-masing mempunyai kesan yang signifikan ke atas kejayaan perlaksaan GST di Malaysia. Pada masa yang sama, komitmen organisasi pekerja juga didapati mempunyai kesan perantara dalam perhubungan ini. Penyelidikan pada masa akan datang adalah dicadangkan agar mengambil kira faktor-faktor seperti motivasi pekerja, sistem ukuran pencapaian dan gaya kepimpinan agar dapat memperkayakan pengetahuan dalam bidang ini.

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ACOC	Affective Commitment to Change
FWV	Fitness with the Vision
GST	Goods And Services Tax
JV	Job Motivation
NCOC	Normative Commitment to Change
RA	Role Of Autonomy
RHOD	Relationship with the Head of Department
RMCD	Royal Malaysian Customs Department
SPSS	Statistical Packages For Social Science

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Taxation in its various forms has existed since humankind began organising itself into civilised communities. Many of these payments were involuntary and had to be forced out of the taxpayer. The whole feudal system of paying the landowner in kind is not really different from today's payments rather than payment in kind.

Generally speaking, taxes are not welcomed by the taxpayers in the sense that the returned benefits provided by government to taxpayers are not normally in matched or perceived balance by the taxpayers. Malaysia, like other nations to be effectively and efficiently governed, the central government needs to raise revenue, and that one of the most effective means of doing so is by the imposition and consumption transaction or on some other basis. As for income tax, no specific right is transferred on payment of such a tax. It is collection to be used by the government to meet the administration and development expenditure of the country.

1.2 Background of the Study

Organizations continually embark and involve on programmes of organizational change. For example, Vakola and Nikolaou (2005) highlight that according to American Management of Association, 84% of the total organizations in the United States involve in the organizational change initiatives. In relation to this, they also highlight that more than a third of those organizations place organizational change initiatives as their major concern for survival purpose.

There are many obstacles and challenges that need to be overcome by any organizations which in pursuit of the change initiatives. Ahmad and Gelaidan (2011) and Choi (2011) highlight that the literature shows that one of the factors that can lead to organizational change failure is the failure of the organization to address and recognize the significant and influential effect of the employees commitment during the change process.

Although the organizational change studies have been become one of the major research activities especially in the field of management since the past 30 years or more, but to this date it is still considered a field of lot more gaps to be filled(Fernandez and Rainey, 2006; Van de Ven and Poole,1995). Darwish (2000) and Cordery, Sevastos, Mueller and Parker (1993) demonstrated that the organizational commitment play central and significant role in the process of organizational change initiatives success. These studies findings' are also supported by the work of Iverson (1996) who argues that in the process of the organizational change, the organizational commitment is the second most important factor after the role of the union membership. Iverson (1996) also argues that the employees' organizational commitment is one of the most important ingredients in securing the success of organizational change initiatives.

The organization needs to adapt change for many reasons including the need to survive, to be competitive, effective and efficient. The change can be from externally and internally driven. As argued by scholars, organizational employees commitment is the driving factors towards the success of organizational change initiatives. The author believes, based on the earlier work of Parish, Cadwallader and Busch (2008) that fitness of change initiative with the strategic vision of organization, relationship of the employees and manager, the job motivation and autonomy are all determining factors of the organizational employee commitment to change.

The relationship between the organizational commitment, the affective commitment in particular, with the organizational change which includes employees' success, turnover, efficiency and productivity, has been highlighted by vast majority of academia and researchers in the related field (i.e. Chang, Leach and Anderman, 2015; Perreira and Berta, 2015; Al Kahtani, 2013; Ahmad and Gelaidan, 2011;Meyer and Allen, 2004; Parish *et al.*, 2008).

Vakola and Nikolaou (2005) argue that employees' sense of stress, fear and work relationship (Ahmad and Gelaidan, 2011) are all significant to determine the affective commitment of the employees towards the organization change initiatives. Their study demonstrates that good relationship, supportive and conducive work environment and effective communication which are all related to the affective commitment significantly related to the success of change implementation in the organization.

The Goods and Services Tax (GST) in Malaysia

The idea of introducing the GST in Malaysia was first announced in the tabling of budget during the parliamentary session in 2005. The idea is to replace the existing sales and services tax structure in Malaysia during that time. Initially, this tax reform idea was intended to be fully implemented in the year 2007. However as highlighted by Mansor and Illias (2013), the government has announced on 22 February 2006 that the full implementation of the GST will be postponed to a later date.

The Malaysian government utilized that time to study the likely impact of the GST towards the citizen at large especially on the social element of the society. It is believed that the implementation of GST (Mansor and Illias, 2013) will witness that, not only on manufacturing and services sector would be affected, but also include other sectors such as education, health, transport, financial services, agriculture and mining, petroleum, land property and construction, telecommunication, electricity and water industry. Besides, they also argue that GST also would affect the export services/ international services, government, charities, club association and union.

According to Mansor and Illias (2013), in the pursuit of implementing GST in Malaysia, the Government has established a Tax Review Panel comprising representatives from the public and private sectors. The scope of work of the Tax Review Panel includes formulating concepts, legislation, process and procedure for the GST. As the benchmark, the Panel reviewed tax legislations of several countries which include the Goods and Services Tax Act 1985 of New Zealand, Value Added Tax Act 1994 of United Kingdom, Value Added Tax Act 1991 of Republic of South Africa, Good and Services Tax 1991 of Canada, Goods and Services Tax Act 1993 of Singapore, A New System (Goods and Services Tax) Act 1999 of Australia, Value Added Tax Act 1992 of Thailand, Value Added Tax on Goods and Services and Sales Tax on Luxury Goods 2000 of Indonesia and The Sales Tax Act 1990 of Pakistan.

In Malaysia, the introduction of GST is aimed at reducing the nation's growing budget deficit whereby it is intended to improve revenue collection (Mansor and Illias, 2013). Veerinderjet (2006) argued that, the objective is to have a GST that is comprehensive scope and is effectively implemented so that there is a stable source of national revenue. Overall the introduction of GST in Malaysia is intended to achieve the following:

- ✓ To avoid tax cascading, multiple taxation and transfer pricing bias;
- ✓ To enhance tax compliance as well as to reduce tax avoidance and tax evasion;
- ✓ To implement self-policing, lessen the bureaucratic red tape and to lower the administrative cost;
- ✓ To further reduce the cost of doing business by providing tax credit on business inputs and
- ✓ To enhance Malaysia's competitiveness and to improve efficiency.

Despite the fact that GST had been postponed since it was first announced, and eventually made effectively implemented on 1 April 2015, which is about eleven years after it was first announced, Mansor and Illias (2013) highlighted some issues that worth to consider if one wants to see the success of GST implementation in Malaysia, which include the readiness of the following:

1. Communication of knowledge and expertise which refers to the proper flow of communication from the top management to all staff in the department involved in the implementation.

2. Accounting and finance graduates which refer to the sufficient and enough number of human resource especially in accounting and finance in the market to help the relevant parties such as company and government to successfully implement the GST.

3. Roles of tax authorities (i.e. RMCD) which refer to the critical and significant part that the tax authorities to deliver their best in implementing the GST.

4. Cash flow management which concerns on the effect of the extra cash needed by the company due to increase in the pay as a result of the mark up has to be paid by the supplier.

5. Pricing set up refers to management must know how to set their goods or services prices due to the fact that every level of goods or services movement will be taxable, and therefore affecting the final price to the customers.

6. Developing information technology which refers to the need of the company and other relevant parties to have up to date and capable computerized system in handling the data and for reporting the accurate, timely and reliable financial reporting.

7. Management of human resources which refers to need to have capable human capital in handling and implementing the GST both at the company side and on the tax authority's side.

Mansor and Illias (2013) clearly list down the importance of having the right and readiness of management of human resources in ensuring the smooth and successful implementation of the GST. Worth to highlight as what they concluded:

"Today, GST is an important issue in Malaysia and it is believed that it will boost tax consumption revenue. Thus, in ensuring the smooth implementation of GST, all parties must be well prepared and give ***full commitment*** *(*emphasized by the author as it is signifying the relevance of it to the topic of the research*) towards it".*

1.3 Problem Statement

The GST is made effective on 1st of April 2015. However, the compulsory implementation itself does not mean that the intended new (if not a revised) tax system GST is a complete success. Until the full success picture of the GST is known, no one should ever claim the success of GST. As argued by many, the success of any introduced new system in any organization will require full commitment from the stakeholders including the employees' commitment toward the change initiative. Therefore, with respect of the GST, to this extent, the author believes that very little number studies have been carried out to investigate the Royal Malaysian Customs Department employees' commitment towards the GST implementation. There are issues and questions which are related to GST that worth to be investigated. This will include the questions like, (1) what are the factors that need to consider in elevating the morale and commitment of the Royal Malaysian Custom Department (RMCD) in implementing the Goods and Service Tax (GST), ; (2) Do the employees' motivation, work autonomy, employees and head of departments relationship, and fitness with vision initiative influence the RMCD's employees organizational commitment?; and (3), how do the RMCD's employees perceive the success or failure of the newly introduced GST in Malaysia (Parish *et.al*, 2008)?

1.4 The Aim of Study

The aim of this study is to investigate the employees' commitment towards change initiative introduced in the Royal Malaysian Customs Department, which is in this case, the introduction of Goods and Services Tax (GST).

1.5 Research Questions

To achieve the stated aim of the study as highlighted in the previous subtopic, this research will attempt to answer the following interrelated research questions:

a) Does the change initiatives perceived fitness with the organization's vision and mission have significant effect on the employees' commitment to change?

b) Does the quality relationship between employees and management have significant effect on the employees' commitment to change?

c) Does the work or job motivation of the employees have significant effect to the employees' commitment to change?

d) Does the employees' autonomy of job have significant effect on the employees' commitment to change?

e) Does the organizational employee commitment to change have significant effect on the success of the change initiatives?

1.6 Research Objectives

To answer the research questions as highlighted previously, this research will attempt to achieve the following objectives:

a) To examine the relationship between perceived change initiatives fitness with the organization's vision and mission on the employees' commitment to change.

b) To examine the relationship between the quality relationships between employees and management, and the employees' commitment to change.

c) To examine the relationship between the employees' job motivation and the employee commitment to change.

d) To examine the relationship between the employees' job autonomy and the employee commitment to change.

e) To examine the relationship between the organizational employee commitment and the implementation success of the change initiative.

Table 1.1: Summary of research questions and research objectives

Research Objectives	Research Questions	Data Analysis	Hypotheses
To examine the relationship between perceived change initiatives fitness with the organization's vision and mission on the employees' commitment to change	Does the change initiatives perceived fitness with the organization's vision and mission have significant effect on the employees' commitment to change?	Correlation and Regression Analysis	H1a: Fit of the change with strategic vision is positively related to affective commitment to change. H1b: Fit of the change with strategic vision is positively related to normative commitment to change
To examine the relationship between the quality relationships between employees and management, and the employees' commitment to	Does the quality relationship between employees and management have significant effect on the employees' commitment	Regression Analysis	H2a: Subordinates-Head of department relationship is positively related to Affective commitment to change. H2b: Subordinates-Head of

change	to change?		department relationship is positively related to Normative commitment to change
To examine the relationship between the employees' job motivation and the employee commitment to change.	Does the work or job motivation of the employees have significant effect to the employees' commitment to change?	Regression Analysis	H3a: Job motivation is positively related to Affective commitment to change. H3b: Job motivation is positively related to Normative commitment to change.
To examine the relationship between the employees' job autonomy and the employee commitment to change	Does the employees' autonomy of job have significant effect on the employees' commitment to change?	Regression Analysis	H4a: Role autonomy is positively related to Affective commitment to change. H4b: Role autonomy is positively related to Normative commitment to change.
To examine the relationship between the organizational employee commitment and the implementation success of the change initiative.	Does the organizational employee commitment to change have significant effect on the success of the change initiatives?	Regression Analysis	H5a: Affective commitment to change is positively related to perceived implementation success of GST. H5b: Normative commitment to change is positively related to perceived implementation success of GST.