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Subsidy and Organizational Performance Post COVID-19

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ABSTRACT

In order to help firms to achieve competitive advantage, the government in Malaysia has introduced many commercial subsidies. The purpose of this research is to explore existing government subsidies to find out the impact of Malaysian government subsidies on firm performance. This research focuses on whether the five commercial subsidies (tax incentives, government loans, training incentives, innovation support and digitalization grants) will have an impact on the performance of Malaysian firms. Serving as the pioneer study that looks into the impact of subsidies on organizational performance post COVID-19 lockdown, the results of this research can provide a good direction for Malaysian firms on which type of subsidies might help them improve their performance. The findings of this study found that Malaysian government subsidies have significant positive impact on firm performance. However, not all five government subsidies will affect firm performance. Out of the five government subsidies proposed in this study, only tax incentives and government loans have significant positive impacts on Malaysian firm performance.

Keywords— subsidy, post COV9D-19, performance, firm.

I. INTRODUCTION

The profit and growth of a firm are the main keys to the survival of a commercial firm post COVID-19 (Bao et al., 2020). Firm performance or organizational effectiveness post COVID-19 covers firm operations and financial results. Using financial performance to measure a firm's performance post COVID-19 is the most common choice all over the world. On top of that, customer satisfaction is also regarded as an important indicator of the firm's performance (He & Chen, 2021). In order to actively encourage and stimulate firms to improve their organizational performance post COVID-19, the government has launched a large amount of subsidies for them to alleviate the financial burden of firms' recovery (Huang et al., 2019). Subsidies are regarded as an important economic intervention tool to solve a series of business recovery problems post COVID-19 such as market failure or technology spillover (Li et al., 2020). Subsidies have positive effect on the firm's R&D activities (Qiao & Su, 2021), productivity and technical efficiency post COVID-19 pandemic (Tsao et al., 2021). Government subsidies are presented in the form of tax incentives (Yuan & Yu, 2020), government loans (Zhang et al., 2021), training incentives (Chen et al., 2019), innovation support (Li et al., 2020) and digitalization grant (He & Chen, 2021) in Asian countries. In view of the absence of comprehensive study to assess the impact of these five subsidies on the performance of Malaysian firms post COVID-19, this study is conducted. Many of the previous research on government subsidies and their impact on firm performance were conducted in foreign countries before the outbreak of COVID-19 pandemic (He & Chen, 2021; Huang et al., 2019; Tsao et al., 2021), there is no relevant study on the impact of Malaysian government subsidies on firm performance post COVID-19. Therefore, this study serves as the pioneer study in the country to assess the impact of Malaysian government subsidies on firm performance. This study contributes significantly to the existing literature as well as providing a clear direction for academic research post COVID-19 pandemic.

II. LITERATURE REVIEW

Firm Performance

Firm performance is the most prominent indicator of firm recovery post COVID-19 (He & Chen, 2021). Asian countries have pressing needs of developing high-performance work system as unique resources that support the effective implementation of firm strategies and the realization of operational goals post COVID-19 (Huang et al., 2019). Compared with firms with less organizational knowledge, firms with intensive R&D activities are likely to generate higher performance by combining human and technological resources with the firm's existing knowledge (Chen et al., 2019). In order to achieve superb firm performance, the organization's resources must be adapted to the recovery requirements of the market (Zhang et al., 2021).

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Tax Incentives and firm Performance

Tax compliance costs will increase the tax burden of a firm post COV0D-19 (Li et al., 2020). Tax incentives include tax reductions, tax exemptions and reductions in the tax obligations of specific departments can be used to attract specific types of investment and reward the generation of positive externalities (Bao et al., 2020). Firms that receive tax incentives show faster growth and better performance than other firms (Qiao & Su, 2021).
Firms that make effective use of tax incentives can reduce their operating costs through tax relief (Hamid, 2015). Using tax incentives, firms can enter the market (Zhang et al., 2021). As previous study has shown that even if it is a temporary tax incentive, it will be particularly helpful to boost firm's operating income and performance (Yuan & Yu, 2020). Therefore, the first hypothesis proposed is:

H1: There is a positive relationship between tax incentives and firm performance.

Government Loans and Firm Performance

Bank loans have always been regarded as the main source of external financing for the firm's development (Zhang et al., 2021). However, the high difficulty of accessing loans has always been one of the difficulties faced by the firms (Chen et al., 2019). Financial policies to support firms prevail, and one of the most widely used policies is the guaranteed loan program. The number of loans that are provided to new firms has a significant and positive impact on income growth and employment opportunities. The main purpose of government loan is to support small firms that have difficulty obtaining loans. These loans can support the creation of high-quality new firms (Tsao et al., 2021). The government-provided loan program provides initial input to new firms, thereby giving them a competitive advantage and improving performance. Obtaining loans through government will have a positive impact on competitive advantage. In turn, competitive advantage will increase profits for the firm (Yuan & Yu, 2020). Previous study has shown that the government's commercial loans remove key obstacles to the firms' recovery after a disaster (Huang et al., 2019). Therefore, the second hypothesis proposed is:

H2: There is a positive relationship between government loans and firm performance.

Training Incentives and Firm Performance

In the ever-changing global market, in order to adapt to and maintain its competitiveness, organizations need a more flexible and competent workforce. Therefore, the demand for training qualified labor has become a strategic goal of the firm (Tsao et al., 2021). Training incentives improve productivity in the labor market, providing workers with the necessary knowledge and skills, which in turn leads to high firm performance (He & Chen, 2021). The main purpose of training incentives is to protect the employment of the firm's existing employees and improve their productivity through the higher level training (Li et al., 2020). It is discovered that training subsidies have greatly increased the amount of training for employees (Bao et al., 2020). Policymakers believe a strong correlation between training incentives for employees and an improvement in the performance of the firm (Yuan & Yu, 2020). Therefore, the third hypothesis proposed is:

H3: There is a positive relationship between training incentives and firm performance.

Innovation Support and Firm Performance

Innovation makes use of existing organizational resources to improve firm efficiency. The creation of improved products, processes or practices in organizational activities is considered high-quality innovation (Huang et al., 2019). In a constantly changing environment, innovation is considered to be one of the most important sources of competitive advantage (Chen et al., 2019). This is because it can not only improve products, but also improve processes, and indirectly help firms survive post COVID-19. Existing products are susceptible to the impact of new technologies, changing demands, and increased international competition (Tsao et al., 2021). Therefore, it is believed that all firms should innovate to compete and survive in the market. When a firm decides to allocate its existing resources to product innovation, they expect to gain influence in terms of competitiveness or performance (Zhang et al., 2021). Continuous product innovation can improve the firm's ability to meet consumer needs, thereby maintaining consumer loyalty. Innovation support seems to be effective in promoting firm innovation (Qiao & Su, 2021). Therefore, the fourth hypothesis proposed is:

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H4: There is a positive relationship between innovation support and firm performance

Digitalization Grant and Firm Performance

Digitalization grant can be used to enhance and expand the cross-border interaction of all firms. Digitalization has a positive and significant impact on firm performance, especially performance related to business development, customer acquisition, service and competitiveness (Bao et al., 2020). In addition, digitalization enables firms to respond more quickly to the reactions of customers and competitors (Chen et al., 2019). Digitalization grant has improved the financial performance (Yuan & Yu, 2020). Firms may benefit from economies of scale after obtaining digitalization grant (Tsao et al., 2021). Digitalization grant offers opportunity for firms to create new wealth through a more efficient business model (Zhang et al., 2021). Therefore, the fifth hypothesis proposed is:

H5: There is a positive relationship between digitalization grant and firm performance.

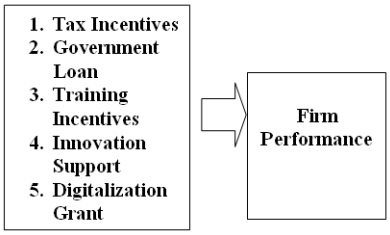

Figure 1. Research Framework

III. METHODOLOGY

This research will use questionnaires to collect data from 200 respondents, who are executive staff from 20 firms in central regions of Malaysia. Purposive sampling was used to select 200 executive staff from 20 firms with at least 5 years of working experience to understand their views on the impact of Malaysian subsidies on firm performance post COVID-19 pandemic. The questionnaire for this study will be divided into two parts, which is Part A and Part B. Part A include questions that inquiring the respondent's age, gender and education level. Part B include 25 questions soliciting the respondent's response on tax incentives, government loans, training incentives, innovation support, digitalization grant and firm performance.

IV. RESULT

Among the 200 respondents, 178 respondents aged 18-25, which accounted for 89%. There are 18 respondents aged 26-35, which accounted for 9%. 4 respondents aged 36-45, which accounted for 2%. Among the 200 respondents, 159 respondents' educational background was bachelor's degree graduates, which accounted for 79.5%. 13 respondents' educational background was high school, which accounted for 6.5%. Respondents with diploma and master's degree educational backgrounds had the same number of 14 respondents, which accounted for 7% respectively.

Table 1. Hypotheses Testing Result

Hypothesis	Beta	t	p-value	Result
H1: Tax Incentives-> Financial Performance	0.442	6.623	0.000	Supported
H2: Government Loan-> Financial Performance	0.144	2.046	0.042	Supported
H3: Training Incentives -> Financial Performance	-0.074	-0.798	0.426	Not Supported
H4: Innovation Support-> Financial Performance	0.121	1.144	0.254	Not Supported
H5: Digitalization Grant-> Financial Performance	0.064	1.849	0.066	Not Supported

**Significance at 0.05 level.

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The result of multiple linear regression is shown in Table 1. R Square is the percentage of the variance of the dependent variable explained by the independent variables. It is used to measure the strength of the relationship between the dependent variable and independent variables in the model. According to the table, the R Square value is 0.427, which means that there are 42.7% of the variance on firm performance is impacted by tax incentives, government loans, training incentives, innovation support and digitalization grant.

Based on the Table 1, tax incentives are the most significant independent variables affecting firm performance with Beta coefficient of 0.442 and p-value of 0.000. This indicates a significant positive relationship between tax incentives and firm performance, where the hypothesis is supported. This finding is in line with Li et al. (2020), which discovered that tax incentives are the most crucial factor for firm to regain profitability after an International pandemic because tax incentives have the strongest impact on above average returns of the firms.

The second most significant factor affecting firm performance post COVID-19 is the government loan with Beta coefficient of 0.144 and p-value of 0.042. This finding indicates a significant relationship between government loans and firm performance. This result concurs Yuan and Yu (2020)'s finding that government-sponsored loan programs have a positive effect on firm performance post disaster as most firms needs government assistance to accelerate business recovery.

On the other hand, training incentives, innovation support and digitalization grant are found to have no significant effect on firm performance post COVID-19, with insignificant p-value of 0.426, 0.254 and 0.066 respectively. The respondents of this study do not agree that training incentives has significant impact on firm performance post COVID-19. This is because they do not think that training is important for survival of a firm as it does not contribute directly to the increased productivity in the labor market and improve firm profit. On top of that, respondents of this study also think that innovation support from the government post COVID-19 is too small and ineffective for improving firm performance as the current innovation support does not lead to significant competitive advantage or business growth. Similarly, digitalization grant provided by the government are also unfamiliar to the respondents of this study. Most of the respondents are unclear about the concept of digital transformation and they do not think it is the right time for them to embrace digital transformation while their businesses are still suffered from losses post COVID-19 pandemic. Hence, H1 and H2 are supported while H3, H4 and H5 are not supported.

V. CONCLUSION

The main purpose of this study is to study the impact of Malaysian government subsidies on firm performance. Tax incentives and government loans are the two most important government subsidies post COVID-19 that will significantly enhances firm performance. Firms in Malaysia are looking forward to receive more tax incentives and government loans, which can improve their firm capabilities and enhance productivity, which are crucial for the firm's survival and competitiveness post COVID-19 pandemic. this study serves as the pioneer study in the country to assess the impact of Malaysian government subsidies on firm performance. This study contributes significantly to the existing literature as well as providing a clear direction for academic research post COVID-19 pandemic.

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