Corporate Governance and Operations Performance: Inventory Study on Malaysian Listed Firms

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***Abstract* – This paper reveal the relationship by developing a conceptual model that entails the relationship between corporate governance and operations performance from the angle of inventory management that's include inventory value, inventory turnover and days of supply as the performance measure. This study makes a difference from the other studies which are focused on using accounting measures to see if corporate governance affect the firm's performance but this study will discuss on using inventory measures that will dictates the earlier study. The finding of this study reveals that corporate governance mechanisms have an impact on inventory decision directly affect the operations performance.**

Keywords: *Corporate Governance, operations performance, inventory*

1. Introduction

[1] reported that the impact from the 1997 Asian financial crisis partly driven by the initiation of Japan economic crisis back in 1990s further dampened many East Asian economic performances and Malaysia is not left. As a result companies need to improve their organizational efficiency due to high competition recently. One of the area highly concerned is the operations performance which dealt with large corporate assets directly impact customer service negatively if it has not been monitored and oversee.

As a matter of fact for the administration excellence as the determining factor through engaging corporate governance that actually leads to organizational efficiency.

In placing the important of having efficient production, effective managing stock and on time delivery and accomplishment of order fulfillment in a timing manner in order to manage high labor costs and, meeting the increasing customer order. Basically, the performance of the company depends on the board of management' choices in operations strategies. Recently corporate governance become a main concern to academic and policy circles for many reasons, the most important reasons are: the recent financial crisis, firms increasing in size, complexity of allocation in capital due to liberalization, increase competition, and market risks [2].

1.1 Gap

There are lot of evidences on study concerning the relationship between corporate governance and firm performance. According to [3] reported that the impact from corporate governance basically improve in preventing fraud. This issue mainly focuses on company's performance which actually relies to good corporate governance. Good corporate governance has better firm performance than those firms with poor corporate governance many studies on corporate governance focus on accounting and economics measures for firms' performance but nothing on operations performance. Therefore the studies concerning corporate governance impact on operations performances especially on inventory are negligible. Many dimensions of corporate governance and monitoring mechanisms are presented in previous literature; this study will focus on specific corporate governance mechanisms to study their effect on the operations performance especially on inventory. To raise up questions as the gap been clearly identified from the inventory perspective, do actually the corporate governance mechanisms affect the inventory values, inventory turnover ratio and days' sales in inventory of the manufacturing companies. According [4] reported that firms performance could easily divided into

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firm's operation and financial. Therefore this paper develops a conceptual framework that links to corporate governance from the angle of operations performance which focuses on inventory management.

2. Literature Review

2.1 Operations Performance (Inventory)

Operations performance unlike supply chain the inventory value accounted for almost 70 percent of total manufacturing costs. In view of this important of the stock at organization level treated the most difficult assets to be controlled. Firms put focus the important on the controlling this value of assets that may detrimental the profit of the firms. However according to [5] that managing stocks or inventory have created value creation as means of as means of flexibility and means of control. According to [6] and [7], one of the basic objectives of operations management is to control towards reduction in inventory means to minimize it in order to reduce the total operational costs. Executives increasingly recognize the process of inventory reduction through the effort of lean approach to control and having sufficient stock with better value. [6] Lengthened further on the management capability to reduce inventory by decreasing the ordering costs and also implementing discount schemes based on total annual volume rather than individual purchase quantities. The principal challenges faced by the store house managers are to monitor on excess stock without affecting the delivery of goods to customers promptly.

2.2 Corporate Governance

Corporate governance knowns for best practices within the system means how a company been directed and controlled [8]. The role of board of directors and shareholders becomes the main focal area of corporate governance whereby executing the practices to the company. Back to the old days, governance is to look at the relation between principal (shareholders) and agent (management). In order to enhance confidence and trust in companies therefore best practices should be kick off such as good governance practices. According to [9] for a good achievement in the company through the effort of board and management must be accompanied by incentives. At the same time the interest of the shareholder must be taken care through these best practices via good corporate governance through effective monitoring. According to [10], After the Asian Financial Crisis, corporate governance practices became the main focus. In order to improve the Malaysia Stock Exchange (currently known as Bursa Malaysia), the In 2000, Malaysian Code on Corporate Governance (MCCG) is introduced in 2000. More emphasis in the responsibilities for board and audit committees required therefore MCCG is revised in 2007.

Board Independence

According to [11], in order to have effective and quality decision by the board member, the composition in the board basically move by insider directors (management) who have vast knowledge and information on firm's activities. What could have happen only inside (management) directly involved in the making of decision for the firm? It may turn the board as management with instrumental instead. [12]. According to [13] a balance board member require to have effective and quality decision making where by consists of members within the directors and members who are totally independent. [14] reported that under the listing requirement (Bursa Malaysia), public listed companies should have balance of inside and independent members (non-executive directors) in order to protect the interest of investors. Base on MCCG require at least having one-third of the board members to be independent and non-executive directors.

CEO Duality

The firm has chairman and CEO the same person been called as CEO duality. MCCG wants listed firms to have distinguish role or separation of role between In avoiding the conflict of interest, is good to have balance of power between the Chairman and CEO [14]. MCCG never enforced the segregation of CEO duality but MCCG do encourage that the positions for CEO and chairman to be separated. In order to promote strong governance especially on despite taking care the interest of shareholder, monitoring mechanisms required to oversee the operations performance especially inventory. As with this in mind MCCG seek transparency when comes to information for public concerning to the elements of independent for the two positions as a measure for strong governance. [14].

Multiple Directorships

[15] conducted a study to investigate the relationship between multiple directorships and earnings quality in 554 Malaysian listed firms from year 2003 to 2004. Their study found that multiple directorships on a board are diligent monitors which can increase firm's quality financial reporting. This is because, by holding directorship for more than one board, directors attain skill, knowledge and expertise to actively monitor on the manager's activities. According to [16] the multiple directorships define as directors holding position in the board with more than one board. The multiple directorships are also found in Malaysian listed firms [17]. Being in the diversity role from various firms basically will have more exposure and proactive in the decision making and at the same time they have the added advantage to overrule to any discrepancy in the internal process especially concerning inventory value.

2.3 Corporate Governance and Operations performance

According [4] reported that firms performance could easily divided into firm's operation and financial. As for this study concerning the operations performance of the manufacturing therefore there are studies do link the corporate governance and firm's performance. On the contrary that good corporate governance improves company performance, and there are some researchers claim negative relationship between corporate governance and company performance [18]. But the performance measures were sorely used accounting measurement such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE), earnings per share (EPS. This paper adds to the body of knowledge by employing operations based performance measure that include the inventory value, inventory turnover and days of supply and test the relationship between them and selected governance variables.

3. Conceptual Model

Based on literature reviews, conceptual model with its related proposition are formed in figure 1.

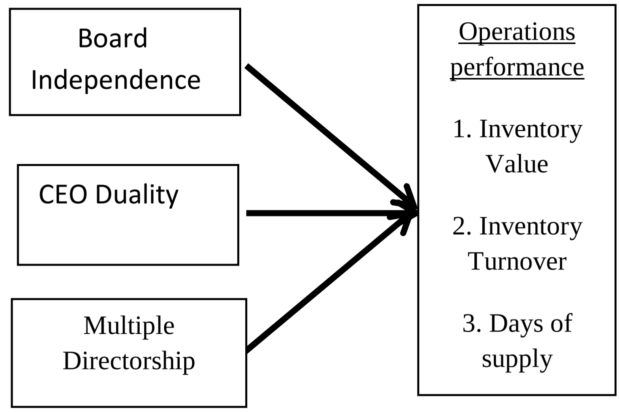

Figure 1: Conceptual Framework

The figure 1 represents the conceptual framework where corporate governance variables (independent variables) are represented by CEO duality, board independence, and multiple directorships. The operations performance which is the dependent variable is represented by inventory value, inventory turnover and days of supply are used to measure the performance.

4 Discussion and Implication

Several studies have been conducted on the examination of the relationship between firm performance measures and corporate governance mechanisms but the outcomes of these studies more focus on accounting measures. This study has in a way introduced the inventory measures to dictate the initial measurement. This study focuses on some mechanisms of corporate governance that affect the operations performance and the inventory measures account for the operations performance. Efforts should be made to make the corporate governance principles to be explored in a wide range in the manufacturing industry. Which type of corporate governance do actually influence directly in the operations performance

5 Conclusions

This study is merely conceptual idea that actually will have an impact on the operations performance from the angle of inventory perspective which actually influence greatly by corporate governance mechanisms and principle in Malaysia listed firms. The finding of this study reveals that corporate governance mechanisms do have an impact on inventory decision directly affect the operations performance. How this corporate governance does really works in making decision towards apprehending the issues on inventory management effectiveness and directly affects manufacturing operations?

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