Examining and Evaluating Days of Supply through the Influence of Corporate Governance

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Abstract - The association between the corporate governance and the inventory performance been discussed in this paper. Corporate governance mechanisms include board size and managerial ownership with the inventory performance that include days of supply. Best practices in corporate world are being the utmost distinct and important for stakeholders and shareholders to safeguard the interest of the firm. In such case the value of the company refer to how well and effective to manage inventory involving agent and principal means manager and the shareholder. Therefore, this paper tries to address the relevancy and appropriateness to manage inventory value to certain extend.

Keywords: *Corporate Governance and Days of supply*

1.Introduction

Malaysian corporations basically been entrusted to managers to fully functional as agents for the owners (shareholders) to run the operations activity. Agency theory recall the problem may arise between the shareholder as the principal and the managers as an agent. The area need for further scrutiny and challenges is the operations activity that if it not in control will directly affect the operations performance of the company. In order to stay competitive and to enhance organizational efficiency is to relook on the management activity that plays a crucial role and critical success factor towards administrative excellence by deploying best practices through engaging corporate governance. This problem can be solved if the agents who act as managers being transparent to the principal as the owners of the corporation and the fairness bestowed to the stakeholders [1]. Managing stocks effectively has been a great focus by all manufacturing industry.

Firms will drive for continuous improvement and innovative way to control inventory efficiently without jeopardizing the production. The performance of the firms largely depends to the agents who run the operations base on the financial resources and non-financial are available to a business. As for the non-financial resources such as inventory perspective if it is not been monitored or control will affect the operations performance directly. For corporation listed in Malaysia especially the manufacturing companies when been entrusted to the agent (managers) to run the operation most likely ending up having high operational cost if it is not been monitored and controlled. Therefore operations performance dictate from the inventory management specifically involve in the optimizing the resources such as stocks is important whereby it postulate the way and how many stock to keep meaning to say to high inventory will affect the profitability of the company triggered by high operational cost. [2] reported back in 1990s during Japanese economic crisis further driven the 1997 Asian and Malaysia is not left. Concerning Malaysia, the investors' confidence becomes dampen towards Malaysia capital markets and it was suggested that such perception cause by the country's poor corporate governance

2. Literature Review

2.1 Days of Supply

Company having shouldering high operational costs that associate to high inventory value that estimate to almost 60 to 70 percent of the total manufacturing costs. Therefore, major focus to minimize the cost that been contributed due to high inventory that definitely affecting the profit margin of the companies. [3] claim that the function of managing operations is to act in a way to control towards reducing inventory by minimizing it directly will reduce the total operational costs. On top of that the involvement of executives that do recognize the effort towards inventory reduction by means through the effort dealing with effective inventory control and sufficient stock available for better value.

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2.2 Corporate Governance Variables

2.2.1 Board Size

Company will have an impact when members in the board depends sizeable numbers will basically come from effective decision making, monitoring and to extend on the controlling [4]. But, MCCG (Malaysian Code of Corporate Governance) never make as policy on the numbers of board members means the board size limit to the listed companies. Therefore, companies allowed to have their numbers of members in board whereby they are perfectly able to run the company. Agency problem may occur if larger board size. [5] and [6]. This issue basically tells that larger board size may leads to agency problem whereby the difficulty to come up with common decision making, communication eventually leads to more agency problems.

2.2.2 Managerial Ownership

The directors such as executive directors directly involved in the operations of the company and there a some cases whereby the agents (managers) may hold certain number of outstanding share and become part of the ownership. This drives the quality of decision making and better flow of communication may take place. As refer to agency theory when the weightage of ownership is most likely the non-participative will become lesser and proactive to deal for improvement for the sake of the company will become better eventually operations performance will become enhance. Meaning to say behavioral aspect from compromising on non-value becomes lesser [7]. [8] reported that the ownership structure will leads in solving the separation of ownership and issues in who should be in control.

2.3 Corporate Governance and Days of supply

[9] claim the performance of the firms could be seen from the angle of firm's operation and financial. Gathering the claim by these authors this paper disclose the possibility connection of corporate governance seen from the angle of operations performance which mainly deal with performance of inventory that include days of supply.

3. Conceptual Framework

This rational behind the conduct of this study is to make confirmation of the proposition. As this paper emphasize on the causal relationship through the chosen variables of corporate governance and inventory performance through quantitative approach refer to figure 3.1

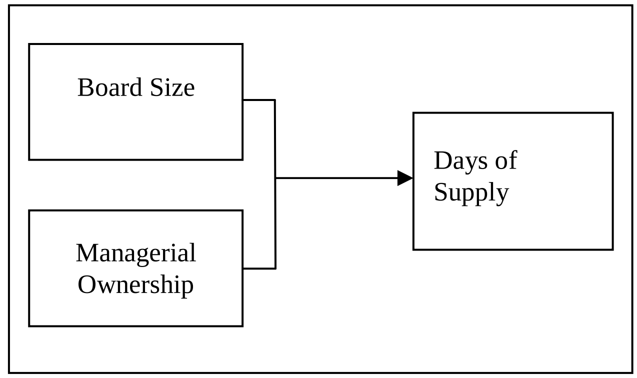

Figure 3.1. Conceptual Framework

4. Discussion and Implication

There have numerous studies between the corporate governance and operations performance which emphasize on financial matters and this study basically manage to explore beyond the non-financial aspects. How such best practices in a way able to influence the days of supply that directly affect the overall operations performance. How board size and managerial ownership have in a way influence in the inventory numbers that accounts for the operations performance? The executives have somehow involve in making decision towards improvement of the profit margin through the effort of controlling towards reducing stock and ensuring sufficient stocks can meet the production requirement. Base on this is the larger board size does influence the inventory decision or the other way round or the managerial ownership make differences in influencing inventory performance.

5. Conclusion

Holding on to stock of goods to cater the future order on time or consume is very common in operational context but however the manufacturing to engage the best strategies to reduce the operational cost which affected by high inventory. Therefore best practices through effective corporate governance mechanism somehow tight up in deciding to minimize operational cost through the effort of reducing the asset called inventory that is accounted for almost 70 percent of total manufacturing cost. Therefore, this paper address the idea behind the scene of best practices reflects on corporate governance mechanisms will therefore have an impact on inventory performance.

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