Supply Chain Governance, Corporate Governance and Supply Chain Capabilities: An Unexplored Nexus

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Abstract— Supply Chain governance is an emerging phenomenon, the interorganizational theories are placing an increasing emphasis on the internal governance, which helps a firm in integrating the process and networks by keeping or sustaining theory dynamic nature. The prime objective of the current study is to explore the impact of supply chain governance on supply chain capabilities. Meanwhile the study has examined the mediating role of corporate governance in the relation between the supply chain governance and supply chain capabilities. We have used the SEM-PLS as a statistical tool to achieve the objectives of the current study. The data is collected with the aid of an adapted questionnaire. The operation managers and finance managers of Indonesian manufacturing firms are chosen as final sample of the current study. The results of the study are providing support to the proposition of agency theory and resource-based theory. Overall the findings of the current study are in line with the proposed findings.

Keywords: *Agency Theory, Supply chain management, Indonesia*

1.0 Introduction

Supply chain management (SCM) field is expanding the importance decision over the last few decades and it seems that it will continue growing in terms of research and application. There are certain pre-perquisite such as focus on customer satisfaction, process management, and information sharing , which are necessary to achieve the full benefits of supply chain management, however, the SCM is not free from challenges such as specialization of work low flexibility, and fragmented process across the supply chain [1]; increasing reliance on suppliers performance [2]; and dynamic changes of suppliers [3]. To compete successfully in the global market economy, firms gradually find themselves dependent on having effective supply chains [4]. As a result, performance can no longer be determined exclusively by the decisions and actions that occur within a firm. That is due to in competitive global environment, the execution of members in the supply chain contributes to the overall results from the chain [4],[5], [37-41].

A supply chain is an integrated network consists of upstream and downstream parties formerly as customers, suppliers, or ultimate consumers [4]. Actually a final product delivered to end consumer passes through many stages and at each step different parties are involved in the value addition [3], [4],[6]. Hence it can be argued that a supply chain is an integrated set of many suppliers and buyers. Since the present business environment is becoming uncertain, complex and unpredictable, thus, more competition rising. Increased competition means that companies face the challenges of being more responsive to customers while cutting costs of operations. As complexity and competition rising, supply chain management (SCM) has emerged as significant issue for businesses. The challenge of SCM is too identify and execute strategies that maximizing flexibility while minimizing cost in an increasingly complex and competitive market [4].

Furthermore, many prior scholars such as [6], [4], that there are certain concepts such dynamic nature of supply chain, well integrated supply chain, and performing supply chain considered to be the hallmarks of supply chain management still lack literature to eradicate their ambiguous nature. Though many scholars [4],[6],[7] by using different theoretical models have tried to explain and explore the whys and whereas of these issue. However, at the end it seems that still the puzzle needs to be fixed. The dynamic supply chain is an emerging issue which needs to be discussed and many scholars [8], [9] are placing an increasing emphasis on the issues related to the dynamic supply chain. According to them the dynamic supply chain is an emerging phenomenon the firms are striving to gain dynamism in there supply chain network.

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While discussing the costs and benefits of dynamic supply chain the authors have presented conflicted views such as the increased dynamism has benefits such as increase responsiveness, agility and flexibility, where it reduces the integration. However, because of increasing pressure from the globalization and information technology, the benefits of dynamic supply chain exceed it cost. Research by [10] has found that those with well synchronized and dynamic supply chains can use such volatility to their advantage.

[11], [37-41] identifies the dynamic supply chain as the concepts of supply chain agility and flexibility. The two concepts define people is the most important in delivering the value. One need mindset transformation, from functional specialism, to the belief that the supply chain principles and practices embedded and thinking of value networks. It should become a philosophy that saturates the company owned and contributed by all functions. Supply chain collaboration translates the partnership from narrower perspective of intra-organizational level too wider perspective of inter-organizational level.

Supply Chain governance is an emerging phenomenon, the interorganizational theories are placing an increasing emphasis on the internal governance, which helps a firm in integrating the process and networks by keeping or sustaining theory dynamic nature. The area of supply management is the one which is highly influenced by this increased competition. The supply management accounts for the large share of the corporate assets having a potential to assert negative impact on customer service. Besides, corporate governance is another important area for organizational efficiency, which is considered to be a determining factor to achieve administrative success [12], [13]. Successful governance of the supply chain ensures the availability of all the necessary resources, readiness of individuals as well as teams to work under agreed terms, proceed for agreed time, and bringing the required and desirable benefits for the firm. In addition, it ensures well communication and reporting of the supply chain governance program and its progress across the organization. Therefore, the current study is carried out to explore this issue that how the supply chain governance in the presence of corporate governance helps in enhancing the supply chain dynamic capabilities

2.0. Literature Review

2.1 Dynamic Supply Chain Capabilities

The dynamic supply chain capabilities are the abilities or competencies to changing or fresh the current static or least dynamic capabilities [14]. In the view of [15], the dynamic capabilities of any supply chain are opposite to the static capabilities, since the earlier push the firm for continuous revisit and improvement in the existing capabilities, while later forces a firm to resist the change as it is costly and risky. However, the dynamic supply chain capability view claims that the sustainable competitive advantages can only be achieved by mean of developing and governing a dynamic supply chain, which help the firms in staying a step ahead from industry and market [14]. The dynamic supply chain or dynamic resource management has significant impact on firm strategic decisions. Th resource-based view of organizations consider dynamism as a tool of c competitive advantage., as it helps a firm in developing the capability to compete effectively [16]. Therefore the cost and benefits of dynamic supply chain must be accessed in terms of overall completeness of the firm as well as the supply chain [17]. The investment for the creation of dynamic capability and its match with the need to attain capability must be considered carefully [18].

Since knowledge gained is explicit and can be easily shared, this knowledge accessing dynamic supply chain capabilities can be learned by all members of the firms. [20] referred tacit knowledge to knowledge that is difficult to articulate and longer times needed to learn as contrasting to explicit knowledge, which is knowledge that can be easily transferred and quickly codified. [21] stated that the tastiness is related with the capabilities that stay inside the limits of the originating organization. However, the applicable areas can be understood over knowledge-accessing dynamic supply chain capabilities.

Implementation of SCM at companies must first have a supply chain orientation. [22] and [4] identified that "the idea of viewing the coordination of a supply chain from an overall system perspective, with each of the tactical activities of distribution flows seen within a broader strategic context (what has been called SCM as a management philosophy) is more accurately called a Supply Chain Orientation. The actual implementation of this orientation, across various companies in the supply chain, is more appropriately called supply chain management." [23] stated that since dynamic supply chain capabilities occur as sub-routines in inter-firm, multiple supply chain-oriented organizations can establish their development. [24] highlighted that supply chain orientation "firms make the strategic choice to compete on the basis of superior supply chain 29 capabilities." In addition, according to [22], "supply chain orientation can be defined as

the recognition of the systemic, strategic implications of the activities involved in managing the multiple flows in a supply chain of organizations."

Because of increased practical relevance, [11] suggested that, analytical research has significantly improved the capability of inventory models in case financial flows are considered. Contrarily, empirical SC research lags behind due to its limited attention over Financial supply chain management phenomenon. Similarly, scholars are more interested to investigate trade finance from corporate risk perspective than the SC perspective, thus omitting the interaction among operational and financial flows in SCs [12] So, we aim to address this existing research gap through empirical analysis in order to get better understanding of the Financial supply chain management phenomenon. Since by definition, FSCM has a broader scope, aim of this paper is an early step to investigate financial supply chain management. Thus, mainly the focus will be on short-term credit management of liquidity of buyer-supplier relation, as cash management and cash holdings are gaining importance along buyers and suppliers. Focal firms from supply chain and suppliers are interviewed to get answers for the research questions.

Mentzer, et al. [22] also recognized that a supply chain orientation firm builds and preserves numerous behavioral elements that enhance relations with strategic supply chain partners, including, commitment, trust, dependence, cooperative norms, top management support, and organizational compatibility. Each supply chain member possesses a supply chain orientation places the foundation for the progress of dynamic supply chains capabilities. Supply chain partners with supply chain orientation are more likely together in the development of dynamic supply chain capabilities because they emphasis a systemic view [24].

According to [25], "without this perspective, the partners may exhibit low trust, not be committed to the improvement of new cross-organizational capabilities, and/or not receive sufficient top management support." Supply chain-oriented firms' "display cooperative norms that previous research has shown to produce new, innovative concepts. Thus, supply chain orientation partners will foster the relational climate and behaviors needed to develop co-evolving routines and successfully collaborate on the creation of new innovative capabilities."

Many authors [26],[27] suggested that "firms invest in the creation of dynamic capabilities in order to solve some problem with which they are faced. Thus, the capabilities themselves arise out of a perceived need and an intentional investment. [28] stated that "dynamic capabilities arise from learning and comprise the firm's methods for modifying existing operating routines. Learning orientation is needed to develop dynamic supply chain capabilities that continuously re-tooling the obsolete cross-organizational capabilities and develop novel capabilities."

2.2. Supply Chain Governance

The use of governance as synonyms of management is a common debate though there are various definition exists however this empirical paper defines the governance as the structures, institutes and the rules which control, regulate and guide social life characteristics that emerges from power. The core difference between governance an management is that the like the management governance is not merely a decision making rather it is a framework, which apart of ensuring effectiveness and efficiency, focus on the development of managerial system which helps the management and leadership in installing an effective controlling mechanism with added features of continuous evaluations [30] Governance is defined as a relationship between the stakeholders, which helps to control and determine the performance and strategic direction of organizations. Serving the interest of the multiple groups of stakeholders is important [12],[13]. Companies are required to exhibit governance to establish appropriate structure for the supply chain operations. Governance comprises of approaches and structures required for initiating a project, or a major strategy that is needed to implement efficiently and effectively. Lack of good governance can result in unaccomplished organizational goals and benefits or complete project failure [31]. Therefore, a right structure is essential for the proper functioning of the organization and require careful consideration including the evaluation of its needs, company structure, size of operation, and markets where business will be operationalized [32].Various keywords within the literature have used for governance in groups of organizations, like inter-organizational governance [30] network governance , trans-organization [33], and governance along the inter-firms . Supply chain is a term that is considered by the group of organizations and is imposed for the multiple firms to create supply for their customers at international level. Current study which is among few pioneering studies has considered this unique area of discussion namely supply chain governance and impact of this governance on the supply chain capabilities. In the last decade, governance was

considered as a contemporary scientific field that was controlled and influenced by the corporate governance. [33] defined it as organizations comprising of single entities having a basic element of relationship between managers and shareholders, while named it as perspective of shareholder or principal-agent problem [30].

While discussing the governance, it is impossible to ignore the corporate governance and its role in enhancing the governance of corporates in the modern times. As a tool of management, the Supply chain governance is increasingly gaining importance to not solely act as a corporate responsibility and sustainability measure but also actively achieve opportunities for cost savings and avoidance breaking all the norms [32]. Furthermore, it helps to withdraw centralized implementation while centrally maintaining control in organization. Resultantly, the structure of SC governance exhibits oversight and manages logistical operation capabilities by explaining roles, responsibilities, and accountability The [30] broached an interesting and placed an advance view of the corporate governance as the relation among stakeholders and organizations, with the name of stakeholders' perspective. Within the study, we consider a hypothesis that in case of single entities even the recent view is thought to be useful. It provides a framework for enterprises having its manufacturing capabilities and headquarters in one country. As the recent era is governed by the globalized companies, having multiple supply chain partners from around the world, this framework is somehow outdated as compared to the real world. Nowadays, economic organizations function as inter-organizational bodies. While a chain of companies which combine in an attempt to supply services to the customers according to desirable demand, makes a supply chain. Therefore, the supply chain and corporate governance are interlinked, and their increasing interface is gaining an increasing attention as the supply chain acts a stable as well as an unstable structure with a multi-layer value chain such as captive, hierarchy, market, modular and relational which ranges from the highest levels of power symmetry to its lowest level [31], [30]. A hierarchical relation is found among the companies, having a total control over each other, while an opposite situation prevails in the market relation. Both market and hierarchical relations can be raised among the two partners. [33] view for supply chain can be extended if it is observed as a multiple bilateral set of relations. According to this view, an asymmetric SC usually refers as an extended relationship, involving the producer, coordinator and buyer who is responsible for running a hierarchical system. The term hierarchical SC governance seems to be best suited. A long-term structure of corporate governance can be implemented by the coordinator without considering the interests of the partners. According to classification done by [33], this type of governance is suitable for captive and hierarchical governance. However, captive governance is the situation when smaller suppliers possess only one customer.

Developing a process of continuous improvement, based on monitoring of closed-loop and managing compliance and spending patterns.

H1: Supply chain governance has significant impact on the knowledge accessing of capability of supply chain.

H2: Supply chain governance has significant impact on the supply chain orientation capability of supply chain.

H3: Supply chain governance has significant impact on the learning orientation capability of supply chain.

H4: Corporate governance has significant impact on the knowledge accessing of capability of supply chain.

H5: Corporate governance has significant impact on the supply chain orientation capability of supply chain.

H6: Corporate governance has significant impact on the learning orientation capability of supply chain.

H7: Corporate governance mediates the relationship between the supply chain governance and knowledge accessing of capability of supply chain.

H8: Corporate governance mediates the relationship between the supply chain governance and supply chain orientation capability of supply chain.

H8: Corporate governance mediates the relationship between the supply chain governance and supply chain orientation capability of supply chain.

H9: Corporate governance has significant impact on the learning orientation capability of supply chain.

Figure 1 depicts the theoretical framework of this study. The resource-based theory and agency theory are used to conceptualize the framework shown in figure 1.

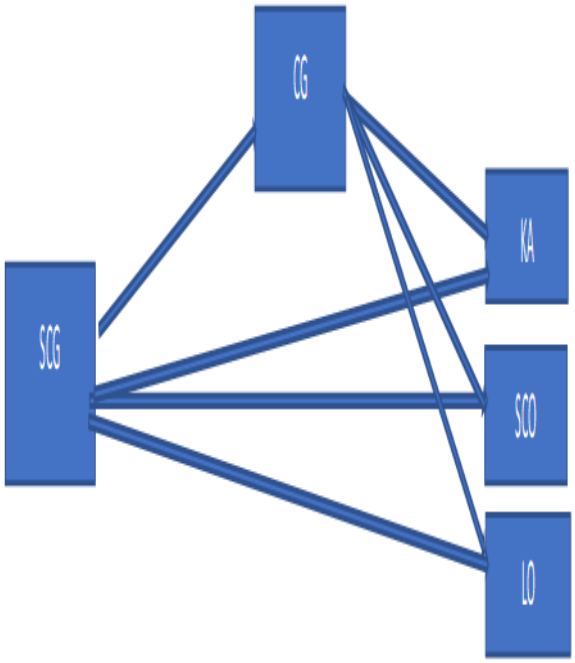

Figure 1: Conceptual framework

3.0. Methodology

The current study is using a quantitative study, to achieve the research objectives of the current study. The prime objective of the current study is to investigate the impact of supply chain governance, and corporate governance on supply chain capability. In addition to that the mediation role of corporate governance in the relationship between supply chain governance and supply chain capabilities is also intended to examine. The data from 432 employee with the aid of adapted questionnaire is collected from the operation and finance mangers of Indonesian manufacturing firms listed on Indonesian stock exchange. For the statistical analysis, we have used SEM-PLS which is most recent module pf structural equation modeling.

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4.0. Research Analysis and Discussion

The smart PLS-SEM is used to achieve the research objective of the current study. According to [34] and [35], The SEM, PLS is a two-step process. The first step is the assessment of inner model and the second step is the assessment of outer model. In the SEM-PLS estimation of the measurement or the outer model is done before designing the structural or inner model. Each constructs of the model are individually tested initially while estimation of the outer model, in order to ensure its unidimensional and validity Same is the case for handling domain of the higher order construct). The factor loading, convergent validity and discriminate validity assessment are basic steps in the inner model assessment. The term loading refers to the relationship that the manifested variables or the indicants exhibit about the construct. According to [30], 0.50 or above of the loadings are considered to be appropriate, while the square of it equals the variance that is shared or contributed by the construct and variable. This explains 50% of construct with the variance, thus having a measurement variance error of 50%. Hair et al. [30] suggested that 0.70 of the loadings and above is said to be applicable. For the first studies, value between 0.50 and 0.60 loadings are somehow appropriate. Consequently, initial value of 0.50 or above was employed for this study.

Earlier the Cronbach alpha was being used as a measure of reliability, however, recently it is required to the estimate of composite reliability, in case of a present research. Hair et al. [36] suggested that higher reliability explains lower error variance. Also, composite reliability sometimes referred towards validity of the construct.

Table 1. Convergent and Discriminant Validity

	Indicators	Loadings	CR	AVE
SCG	SCG1	.843	0.995	0.832
	SCG2	.855		
	SCG4	.802		
	SCG5	.925		
	SCG7	.955		
	SCG8	.922		
	SCG9	.917		
CGI	CGI1	.924	0.902	0.737
	CG23	.912		
	CGI4	.771		
SCM	SCPR1	.822	0.960	0.871
	SCPR2	.955		
	SCPR3	.722		
	SCPR4	.825		
	SCPR5	.941		
	SCPR6	.898		
	SCPR7	.891		
	SCPR8	.981		
	SCPR9	.896		
	SCPR10	.881		
	SCPR13	.882		
	SCPR15	.908		
	SCPR16	.890		
	SCPR17	.901		
	SCPR18	.802		

After assessment of factor loading and composite reliability in measurement model, the next step is SEM-PLS is the assessment of discriminant validity. The discriminant validity can be defined

as the extent to which constructs are explainable by each other. Other than that, estimate of discriminant validity shows the extent to how the indicators of latent variable that is given differs the other latent variable based on its indicators. Hence, correlation among the constructs are required to be lower as compared to the estimates of reliability in the present study, discriminant validity was established by comparing the items loadings with cross-loadings as presented in Table 1. To actualize this, experts on path modelling have suggested that all the items loadings should exceed the cross-loadings

Table 2. Discriminant Validity

	1	2	3
SCG	0.948		
CG	0.731	0.798	
SCPR	0.518	0.550	0.801

After the assessment of inner model or measurement of model the next step is to estimate the structural equation modeling. In the structural model assessment, the direct and indirect relation between and among the variables are accessed. Bootstrapping procedure at 1000 is used to estimate the hypothesized results in this process, the p-value was considered. While analyzing the data, 0.05 minimum level of p-value was considered to test the hypothesis. The direct results of the current study are shown in table 3

Table 3. Direct Effect

	(β)	SD	T-value	P-Values
H1	0.411	0.235	4.221	0.000
H2	0.357	0.152	3.618	0.000
H3	0.427	0.232	4.518	0.000
H4	0.434	0.224	3.221	0.000
H5	0.212	0.267	3.118	0.000
H6	0.327	0.219	3.518	0.002

Along with the direct relationship between supply chain governance corporate governance and supply chain capability, the current study is also interested in investigating the mediating rating role of corporate governance in the relationship between supply chain governance and supply chain capabilities The results of the mediating effect of supply chain governance is shown in the table 4 . These results of moderation show that for both mediation hypothesis, the t-value is above 1.96 and p-value is below 0.05 which accept H3.

Table 4. In-Direct Effect through Mediation

	(β)	SD	T-value	P-Values
H7	0.376	0.123	4.311	0.000
H8	0.345	0.128	4.322	0.000
H9	0.368	0.132	3.230	0.000

Additionally, the predictive relevancy of Q2 is also examined besides evaluation of the predictive accuracy criteria. Just as the approach of effect size, in order to assess the values of R2, the Q2 values are measured to calculate the effect size of q2. The criterion of goodness of fit for PLS-SEM is also done for the current study as examined in the previous researches. Brief discussion of the relevant statistics is included in the next section to help interpreting the results of PLS. The path modelling experts suggested that the loadings for all items must exceed its cross loadings. The f2 i.e. effect size is observed in order to evaluate the value of R2 i.e. endogenous construct

5.0. Conclusion

Supply Chain governance is an emerging phenomenon, the interorganizational theories are placing an increasing emphasis on the internal governance, which helps a firm in integrating the process and networks by keeping or sustaining theory dynamic nature [36, 42-45]. While discussing the governance, it is impossible to ignore the corporate governance and its role in enhancing the governance of corporates in the modern times. As a tool of management, the Supply chain governance is increasingly gaining importance to not solely act as a corporate responsibility and sustainability measure but also actively achieve opportunities for cost savings and avoidance breaking all the norms. Therefore, the supply chain and corporate governance are interlinked, and their increasing interface is gaining an increasing attention as the supply chain acts a stable as well as an unstable structure with a multi-layer value chain such as captive, hierarchy, market, modular and relational which ranges from the highest levels of power symmetry to its lowest level The prime objective of the current study is to explore the impact of supply chain governance on supply chain capabilities. Meanwhile the study has examined the mediating role of corporate governance in the relation between the supply chain governance and supply chain capabilities. We have used the SEM-PLS as a statistical tool to achieve the objectives of the current study. The

data is collected with the aid of an adapted questionnaire. The operation managers and finance managers of Indonesian manufacturing firms are chosen as final sample of the current study. The results of the study are providing support to the proposition of agency theory and resource-based theory. Overall the findings of the current study are in line with the proposed findings.

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