Corporate Governance practices and Working Capital Management Efficiency: Special Reference to Listed Manufacturing companies in SriLanka

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Abstract
The main objective of the study is to find out the significant difference between corporate governance practices on working capital management efficiency in listed manufacturing firms in SriLanka. Secondary literature reviews and Secondary data collection methods were used to conduct the study. Twenty five listed manufacturing firms were selected as sample size in Colombo Stock Exchange for the periods 2007, 2008, 2009, 2010 and 2011. Independent sample one – way Anova (f-test) and Independent sample t-test have been utilized to find out the significant difference between corporate governance practices on working capital management efficiency. The results revealed that there is no significant mean different between the levels of working capital management efficiency among corporate governance practices as board committees, board meetings and proportion of non executive director except board leadership structure. Based on the findings, we recommended that the effective policies in the working capital management must be formulated through the corporate governance practices in the listed manufacturing firms in SriLanka.

Keywords: Corporate Governance practices, Manufacturing companies and Working Capital Management Efficiency.

1. Background of the study

Corporate governance is now an international topic due to globalization of businesses. It is acknowledged to play a major role in the management of organizations in both developed and developing countries. At the same time, Developing countries differ from developed countries in a wide variety of ways. Therefore, there is need for developing countries to develop their own corporate governance models that consider the cultural, political and technological conditions found in each country (Mulili and Wong ,2011). Corporate governance is about putting in place the structure, processes and mechanism that ensure that the firm is being directed and managed in a way that enhances long term share holder value through accountability of managers and enhancing organizational performance (Velnampy, 2013). Good corporate governance practices are important in reducing risk for investors; attracting investment capital and improving the performance of companies (Velnampy & Pratheepkanth, 2012). According to the Australian Standard (2003), the corporate governance is considered as the process, by which organizations are directed, controlled and held to account. This implies that corporate governance encompasses the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organizations. Further, Morin and Jarrell (2001) argued the corporate governance mechanism, it implies that corporate governance mechanism is a framework that controls and safeguards the interest of the relevant players in the market which include managers, employees, customers, shareholders, executive management, suppliers and the board of directors. Comparing with the approach of Australian Standard, Morin and Jarrell (2001) have jointly approached the corporate governance in the holistic way; it implies that, corporate governance practices are the strategies which should be formulated, in line with the short, medium and long term objectives of the company with the interest of stakeholders.
In the short term objective of the companies, the working capital management efficiency is viewed as one of the key mechanism. And also working capital management is considered to be a vital issue in financial management decision and it has its effect on liquidity as well as on profitability of the firm. Moreover, an optimal working capital management positively contributes in creating firm value (Bagchi and Khamrui, 2012). In this context, the main responsibles of the board in the corporate governance practices are viewed as (1) ensuring effective systems to secure integrity of information, internal control and risk management; (2) ensuring that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations (Code of best practice on corporate governance, 2008). Furthermore, working capital management

efficiency is vital especially for manufacturing firms, where a major part of the assets is composed of current assets. It directly affects the profitability and liquidity of the firms. Also profitability liquidity tradeoff is important because if working capital management is not given due consideration then firms are likely to fail and face bankruptcy (Raheman, Afza, Qayyum and Ahmed bodla , 2010; Raheman and Nasr,2008). In this context, the working capital is known as life giving force for any economic unit and its management is considered among the most important function of corporate management. Due to that, every organization whether, profit oriented or not, irrespective of size and nature of business, requires necessary amount of working of working capital. Working capital is the most crucial factor for maintaining liquidity, survival, solvency, and profitability of the business (Raheman et al., 2010 ; Mukhopadhyay,2004). Therefore the manufacturing firms in the globalised level should take the action to get the better level of efficiency in the working capital management through the corporate governance practices to achieve goals as survival, solvency, and profitability of the business. Finally A study on Corporate Governance practices and Working Capital Management Efficiency among manufacturing firms from an emerging market like Srilanka, in the South Asian Context, can be fruitful empirical work, which may likely to differ from other developing countries in world wide.

2. Research Problem

Global financial crisis points out the importance of a strong corporate governance and financial management for a company that has to deal with effects of unexpected crises and uncertainties that bear future business events. Effective financial management decisions in the field of horizontal and vertical structure of capital, insurance of short-term and long-term capital, maintaining liquidity and solvency are viewed as a key function in the creation of competitive advantages (Ivanovic, Baresa and Bogdan, 2011). In the Liquidity concept, Working Capital Management is viewed as life giving force for any economic unit and its management is considered among the most important function of corporate management (Mukhopadhyay, 2004). Due to that, the decision making on the working capital management is considered as the strategic element in the corporate governance. Further, the corporate working capital management is influenced by proportion of outside directors on a board, ownership style, executive compensation, firm size, firm sales growth and industry practices in different way
(Moussawai, Laplante, Kieschnick and Baranchuk , 2006) .Therefore, The specialized persons in the field of finance should be hired by the firm for the expert advice on the working capital management (Raheman, Afza, Qayyum and Ahmed bodla , 2010).
Meanwhile, corporate governance rules have been mandated by the Securities and Exchange Commission of SriLaka. But, we have seen the differences between the practices and mandatory issues on the corporate governance in the listed companies except banking institutions in SriLanka. In which, the board structure and board committees have the significant difference between practical issues and mandatory issues (Senaratne and Gunaratne, ------------; Kumudini, 2011). In the case of board structure, the first issue that the srilankan code required for effective corporate governance was separation of the top two positions of the board (CEO and Chairman). And also, in the case of board committee, listed companies should form the three committees as audit, remuneration and nomination (Code of best practice on corporate governance, 2008). Because, three committees have the unique duties and responsibilities compare with each other. According to our study, in the practice, separate leadership style has been utilized by fifteen listed manufacturing firms in the study sample as twenty five manufacturing firms. And rest of the ten firms has utilized the combined leader ship in the board structure. In the board committee perspective, Out of twenty five listed manufacturing firms, three firms have formed the all three committees as Audit, Remuneration, and Nomination. And rest of the twenty two firms has formed the one or two committees. Due to that, this study is focused to answerer the research question as:
Is there any significant different between corporate governance practices on the working capital management efficiency

3. Objectives of the Study

The main objective of the study is to find out the significant difference between corporate governance practices on working capital management efficiency. And the secondary objective is to suggest the listed manufacturing firms in SriLanka to get the efficiency in the working capital management through the best corporate governance practices.

4. Theoretical and Empirical Perspective: Corporate Governance Practices and Working Capital Management Efficiency

4.1. Corporate Governance Practices

Corporate governance received much attention during the last two decades owing to certain economic reforms in countries and accidents of economic history such as regional market crisis and large corporate debacles (Senaratne and Gunaratne,------------). Scholars normally describe the evolution of the corporate governance in terms of changes in relationship between ownership and control (Chandler, 1977; Fligstein, 1990). The idea of corporate governance was quickly adopted in different parts of the world but with some major variations because circumstances vary from country to country (Mulili and Wong, 2011). In this context, two main approaches of corporate governance can be identified as Agency theory and Stewardship theory. According to the Kiel and Nicholson (2003), Agency theory is viewed as the separation of control from ownership. It implies that the professional managers manage a firm on behalf of the firm's owners. Further , the theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mulini and Wong, 2011; Mallin, 2004). In contrast the Stewardship theory is considered as stake holder's theory. The theory suggests that a firm's board of directors and its CEO, acting as Stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests (Mulini and Wong, 2011). Furthermore, Kajananthan (2012) have identified the dimensions of the corporate governance practices as leadership style, board committee, board size, board meeting, and board composition in the SriLankan Manufacturing firm's perspective.

4.2. Working Capital Management Efficiency

In finance literature there is a common opinion about the importance of working capital management (Raheman and Nasr, 2008). Efficient working management includes planning and controlling of current liabilities and assets in a way it avoids excessive investments in current assets and prevents from working with few current assets in sufficient to fulfill the responsibilities (Mehmet and Eda , 2009). Cash conversion cycle is considered as key measure to determine the efficiency in working capital management. Further, cash conversion cycle for a firm is the period during which it is transited from money to good and again to money (Deloof, 2003; Raheman and Nasar, 2008; Mehmet and Eda, 2009). According to Harris (2005) working capital management is a simple and straight forward mechanism of ensuring the ability of the firm to fund the difference between the short term assets and short term liabilities. And also , it has been covered by the activities of the company related to the vendors, customers and products (Hall, 2002; Azam and Haider, 2011). Due to that, now a day, working capital management has been considered as the main central issues in the financial management by the executive / managers (Azam and haider, 2011; Lamberson, 1995).

4.3. Corporate Governance Practices and Working Capital Management Efficiency

Generally corporate governance practices are linked with firm performance, capital structure and share holder value. Mean while working capital management efficiency is connected with profitability, firms performance, firm size. But, we have linked the both concept as corporate governance practices and working capital management efficiency in our study. In the desk study, we have found the literature gap in the studies on corporate governance practices and working capital management efficiency.

Hawawini, Viallet and Vora (1986) have approached the influence of a firm's industry on its working capital management. They concluded that there is a substantial industry effects on firm working capital management practices. In this context, Moussawi, Laplante, Kieschnick and Baranchuk (2006) have approached corporate working capital management and its determinants & consequences. They have focused on the U.S public corporation from 1990 to 2004 and concluded that industry practices, firm size, future firm sales growth, the proportion of outside directors on a board, executive compensation, and CEO share ownership significantly influence the efficiency of a company's working capital management .Further, they have pointed that the larger the proportion of outsiders on firm's board, the better its working capital management performance. And the larger the CEO's current compensation the better the firm's working capital management performance.

Harford, Mansi and Maxwell (2008) have focused on the study on the corporate governance and firm cash holdings in the U.S context; they have found that, firms with weaker corporate governance structures actually have smaller cash reserves. When distributing cash to shareholders, firms with weaker governance structures choose to repurchase instead of increasing dividends, avoiding future payout commitments. The combination of excess cash and weak shareholder rights leads to increases in capital expenditures and acquisitions. Firms with low shareholder rights and excess cash have lower profitability and valuations.

5. Conceptualization

Based on the research question and objectives of the study, the following conceptual model has been constructed.

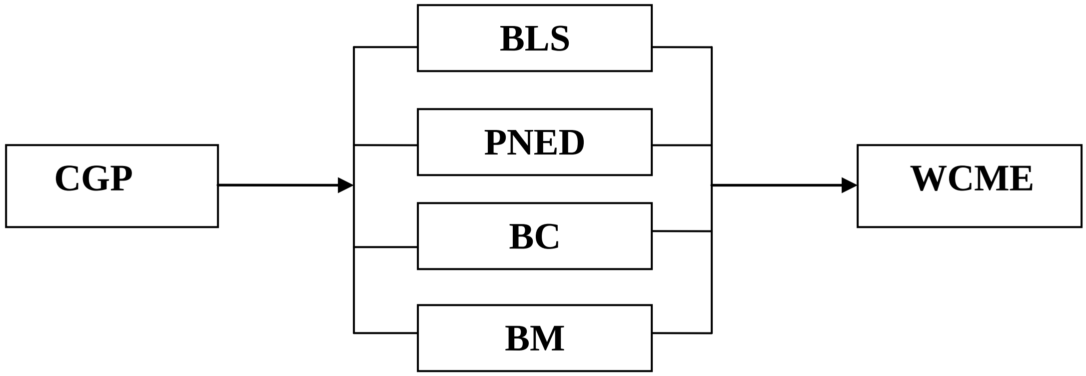

Figure no 1: Conceptualization Model

Where:
CGP: Corporate Governance Practices
WCME: Working Capital Management Efficiency
BLS: Board Leadership Structure
PNED: Proportionate of non executive directors in the board
BC: Board Committees
BM: Board Meeting

6. Design of the variables: Operationalisation and Measurement of Variables

Table No 1: Design of the variables

Concept	Variables	Measures	Symbols
Corporate Governance Practices	Board Leadership Structure	1 for separate Leader ship and 2 for combined Leadership	BLS
	Proportionate of non executive directors in the board	1 for below the measure 0.70 and 2 for beyond the measure 0.70	PNED
	Board Committees	If less than two committees which has been represented as 1; available of all three committees has been represented as 2	BC
	Board Meeting	Based on the No of meeting; 1- 5 has been represented as 1; 6- 10 has been represented as 2; 11-15 has been represented as 3.	BM
Working Capital Management Efficiency	Accounts Receivable period	(Average Trade receivables / Net sales) x 365 days	ARP
	Accounts Payable Period	(Average Trade Payables / Cost of Sales) x 365 days	APP
	Accounts Inventory period	(Average inventory / Cost of sale) x 365 days	AIP
	Cash Conversion Cycle	(Accounts receivable period + Accounts Payable Period - Accounts Payable Period)	CCC
	current Ratio	Current Assets/ Current Liabilities	CR

Board Leadership structure, Board composition (Proportionate of non executive directors in the board), Board committees and Board meeting are considered as the key variables to determine the corporate governance practices (Kumudini,2011; Kajananthan, 2012). And also, Cash conversion cycle , Accounts receivable period, Accounts Payable period, Accounts inventory period and current ratio are viewed as the key dimensions to determine the working capital management efficiency (Mehmet and Eda, 2009; Azam and Haider, 2011; Raheman, Afza, Qayyum and Bodla, 2010).

7. Hypotheses of the Study

H1: There is a significant mean different between efficiency levels of working capital management across the Board Leadership Structure

H2: There is a significant mean different between efficiency levels of working capital management across the Proportionate of non executive directors in the board
H3: There is a significant mean different between efficiency levels of working capital management across the Board Committees
H4: There is a significant mean different between efficiency levels of working capital management across the Board Meeting

8. Methodology

8.1. Data collection

Data on corporate governance and working capital management efficiency were collected from secondary sources as Annual reports of the manufacturing companies, Colombo stock exchange publications and URL of the Colombo stock exchange.

8.2. Sample Selection

Twenty five listed manufacturing firms were selected as sample size in Colombo Stock Exchange for the periods 2007, 2008, 2009, 2010 and 2011. Further, earlier mentioned firms have been selected based on the availability of data on the corporate governance practices and working capital management efficiency of the listed manufacturing firms in SriLanka.

8.3. Data Analysis Method

Various Statistical methods have been utilized to compare the data collection from twenty five listed manufacturing firms in Colombo Stock Exchange on corporate governance practices and working capital management efficiency.
Descriptive statistics which involve in collecting, summarizing and presenting data. This analysis is given information for the data through the frequency distribution, central tendency, and the dispersion.
Inferential statistical tools which involve in drawing conclusions about a population based on the sample data. In which Independent sample one – way Anova (f-test) and Independent sample t-test have been utilized to find out the significant difference between corporate governance practices on working capital management efficiency.

9. Results and analysis

9.1. Descriptive Statistics

Table No 2: Descriptive Statistics of the study

Dimension	Mean	Standard Deviation
Board Structure	1.40	.50
Board Committee	1.12	.33
Board Meeting	2.00	.86
Proportion of Non executive Directors	1.60	.50
Accounts Receivable Period	106.50	130.72
Accounts Payable Period	105.23	157.21
Accounts Inventory Period	125.42	93.93
Cash Conversion Cycle	126.69	156.74
Current Ratio	2.20	2.42

Based on the mean value in the descriptive studies, Cash Conversion Cycle, Accounts Receivable Period, Accounts Payable Period and Accounts Inventory Period are not in line with the standards. According to the Charted Institute of Management Accountants, Over 85 days of the Accounts Receivable and Over 60 days of the Accounts Payable denote the high risk in the working capital management. In this study, Accounts Receivable, Accounts Payable and Cash Conversion Cycle have the period which is beyond the standard days. Due to that, we are able to come to the conclusion that extension of cash conversion cycle can increase the sales, thus profit of the firm. But increasing the need for working capital in parallel with the extension of the conversion cycle brings together an additional financing cost (Deloof, 2003; Raheman and Nasar, 2007; Mehmet and Eda, 2009).
In contrast, the current ratio has the mean value as 2.20, which is acceptable by the standard of the Charted Institute of Management Accountants. Based on the standard, the value as over 1.5 denotes the low risk in the liquidity perspective. According to the current ratio, listed manufacturing firms in SriLanka have the favorable working capital mechanism to ensure the efficiency level.

9.2. Independent Sample t-test

In this study, Independent Sample t-test is utilized to find out the significant mean different between the working capital management efficiency across the Board Leadership Structure, Proportionate of non executive directors in the board and Board Committees.

Board Leadership Structure Vs Working Capital Management Efficiency

Based on the group statics, fifteen listed manufacturing firms have utilized the separate leader ship in the board structure, and rest of the ten firms has utilized the combined leader ship in the board structure.
Table No 3: Results of t-test for Board Leadership Structure

t-test variable	t-value	P value	Mean difference
Accounts Receivable Period	1.065	.298	56.66
Accounts Payable Period	-.391	.700	-25.53
Accounts Inventory Period	-.443	.662	-17.30
Cash Conversion Cycle	1.015	.321	64.90
Current Ratio	-1.878	.043	-1.76

Note: Significant at 0.05 levels

Based on the table no 3, there is no significant mean different between efficiency levels of working capital management across the Board Leadership Structure except for current ratio in the working capital management efficiency ($P > 0.05$). In contrast, there is a significant mean different between the levels of the Current Ratio across the Board Leadership Structure ($P < 0.05$). Based on the mean value, combined leadership style has utilized the conservative working capital management policy. At the same time, the separate leadership style has approached the current ratio with the favorable standard as 1.5 (based on the Charted Institute of Management Accountants).
Note: based on the group statistics, mean values of the current ratio of the combined and separate leadership structure are 3.26 and 1.49 respectively.

Proportionate of non executive directors in the board Vs Working Capital Management Efficiency

Based on the group statics, out of twenty five listed manufacturing firms, ten firms have utilized the non executive directors who have the proportion below 70 % in board size. And rest of the fifteen firms has utilized the non executive directors who have the proportion beyond 70 % in board size.

Table No 4: Results of t-test for Proportionate of non executive directors

t-test variable	t-value	P value	Mean difference
Accounts Receivable Period	.699	.492	37.20
Accounts Payable Period	.303	.765	19.82
Accounts Inventory Period	-.156	.877	-6.11
Cash Conversion Cycle	.180	.859	11.76
Current Ratio	.405	.689	.40

Note: Significant at 0.05 levels

Based on the table no 4, there is no significant mean different between efficiency levels of working capital management across the Proportionate of non executive directors in the board ($P > 0.05$).

Board Committees Vs Working Capital Management Efficiency

Based on the group statics, out of twenty five listed manufacturing firms, three firms have formed the all three committees as Audit, Remuneration, and Nomination. And rest of the twenty two firms has formed the one or two committees in the board structure perspective.

Table No 5: Results of t-test for Board Committees

t-test variable	t-value	P value	Mean difference
Accounts Receivable Period	.119	.907	9.75
Accounts Payable Period	.473	.640	46.56
Accounts Inventory Period	-.217	.830	-12.78
Cash Conversion Cycle	-.506	.618	-49.59
Current Ratio	-.204	.840	-.31

Note: Significant at 0.05 levels

Based on the table no 5, there is no significant mean different between efficiency levels of working capital management across the Board Committees (P > 0.05).

9.3. Independent Sample one –way ANOVA test

One –way ANOVA test can be utilized to find out the significant mean different between efficiency levels of working capital management across the Board Meeting.

Board Meeting Vs Working Capital Management Efficiency

Based on the descriptive statics, out of twenty five listed manufacturing firms, nine firms have conducted the meetings which have the frequency as one to five meetings per annum. And also another ten firms have conducted the meetings which have the frequency as six to ten meetings per annum. Finally rest of firms has conducted the meetings which have the frequency as eleven to fifteen meetings per annum.

Table No 6: Results of f-test for Board Meeting

f-test variable	f-value	P value
Accounts Receivable Period	2.167	.138
Accounts Payable Period	1.072	.360
Accounts Inventory Period	1.691	.207
Cash Conversion Cycle	.546	.587
Current Ratio	.901	.421

Note: Significant at 0.05 levels

Based on the table no 6, there is no significant mean different between efficiency levels of working capital management across the Board meetings (P > 0.05).

9.4. Hypotheses Testing

NO	Hypotheses	Results	Tools
H1	There is a significant mean different between efficiency levels of working capital management across the Board Leadership Structure	Partially Accepted	t-test
H2	There is a significant mean different between efficiency levels of working capital management across the Proportionate of non executive directors in the board	Rejected	t-test
H3	There is a significant mean different between efficiency levels of working capital management across the Board Committees	Rejected	t-test
H4	There is a significant mean different between efficiency levels of working capital management across the Board Meeting	Rejected	f-test

10. Discussion and Conclusion

Based on the overall study findings, we are able to come to the point that, there is no significant mean different between the levels of working capital management efficiency (Accounts Receivable, Accounts Payable, Accounts Inventory and Cash Conversion Cycle) among corporate governance practices as board committees, board meetings and proportion of non executive directors. In contrast, there is a significant mean different between the levels of the Current Ratio across the Board Leadership Structure. In this context, the combined leadership style has utilized the conservative working capital management policy (Mean value of current ration as 3.26). In which too much of money is invested in the current assets. And, the separate leadership structure has focused on the current ratio in the better way, because, the ratio is fitted to the standard as 1.5 (based on the Charted Institute of Management Accountants). Due to that, the listed manufacturing firms which have the separate leadership structure are in the satisfactory manner in the working capital management. Further, the effective policies in the working capital management must be formulated through the corporate governance practices in the listed manufacturing firms in SriLanka. Especially the financial management professionals should focus on the payment, collection and inventory management policies of the firms to give the better strategic solutions or alternatives in the dynamic and hyper competitive environment. Finally, in the Srilankan context, corporate governance practices should be reviewed. In this context, board perspective should be adopted in future corporate governance reforms based on the stake holder approach to corporate governance rather than focusing only on the share holder primacy which gives a narrow connotation to corporate governance. Further greater independence and authority needs to be granted to oversight committees within the firm. In particular, the roles and functions of the remuneration and audit committees need to be strengthened. This will serve to facilitate both transparency and accountability within firm (Senaratne and Gunaratne,------------).

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