Examining the Influence of Corporate Governance on Working Capital Management: Insights from Malaysian Public Listed Companies in Selangor

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Abstract

Corporate governance and working capital management (WCM) are treated as essential subjects in financial management. Many researchers have studied the influence of corporate governance, but only a few of them have connected it with WCM efficiency. Particularly in Malaysia, there has been little concentration given to the relationship between corporate governance attributes and the WCM of the companies. Therefore, the present study intends to analyse the impact of corporate governance represented by CEO tenure, CEO Duality, Board size and Audit Committee on WCM represented by the current ratio of 35 Selangor-based companies which are listed under the FTSE Bursa Malaysia Top 100 Index.

The results from this study show that CEO tenure has a significant negative impact on the current ratio, while CEO duality has a positive impact on the current ratio. Moreover, board size has no significant impact on the current ratio, and the audit committee has a significant positive impact on the current ratio. These findings imply that effective corporate governance mechanisms can significantly affect WCM. The result is expected to enable the owners of the firms to improve their corporate governance practices to enhance WCM efficiency and, furthermore, contribute to the enhancement of the profitability of the firms and maximise shareholders' wealth indirectly. Additionally, the findings from this study can also be a guide for good corporate governance' criteria that significantly affect the efficiency of WCM to be practised by other companies, including SMEs and other organisations.

Keywords: CEO tenure, CEO duality, board size, audit committee, working capital management (WCM)

1. Introduction

Working capital management (WCM) is a crucial aspect of corporate finance that aims to ensure firms have sufficient liquidity to meet their short-term obligations while optimising their cash conversion cycle. Effective WCM is essential for the financial stability and performance of companies, particularly in emerging economies where access to external financing is often limited. Managing working capital effectively can help minimise the need for short-term borrowing, reducing interest costs and improving overall financial performance (Filbeck & Krueger, 2005). Additionally, Lazaridis and Tryfonidis (2006) stated that efficient working capital practices can positively influence relationships with suppliers by allowing for timely payments, potentially leading to better credit terms. However, WCM is also a complex and challenging task that requires careful balancing of competing objectives, such as minimising costs and maximising profits while maintaining adequate inventory levels and timely payment of suppliers.

Corporate governance practices are widely recognised as key determinants of firm performance and financial reporting quality, as they promote transparency, accountability, and ethical behaviour among corporate actors. According to Haider et al. (2019), corporate governance is the system, framework, and process that guarantees value for the firm’s shareholders and improves the firm’s performance through responsibility. Effective corporate governance can enhance investor confidence, reduce agency costs, and mitigate financial risks, thereby improving firms’ access to capital and overall performance. The term corporate governance is frequently used to describe the

role of those managers in fulfilling their pledged commitments (Naz et al., 2022). As such, the relationship between corporate governance and WCM has become an increasingly important area of research in recent years, especially in emerging markets where corporate governance practices are still developing.

This study aims to investigate the impact of corporate governance practices on WCM in publicly listed companies in Selangor, a leading economic region in Malaysia. Specifically, we examine the relationship between various dimensions of corporate governance, such as Audit committee, Board size, CEO tenure, and CEO Duality, and a key measure of WCM: current ratio. Using a sample of 35 Selangor-based companies which are listed under the FTSE Bursa Malaysia Top 100 Index over a four-year period from 2017 to 2020, we employ Ordinary Least Squares (OLS) regression techniques to test our hypotheses. The findings of this study have important implications for policymakers, regulators, investors, and managers in Malaysia and other emerging economies. By shedding light on the link between corporate governance practices and WCM, our study can help stakeholders understand the factors that influence WCM.

This section describes the organisation of this research paper. The second section summarises relevant literature and proposes hypotheses. The third section describes the study design, including the instrument and technique of data analysis. Section four contains the findings and discussion of the research. The fifth and last part discusses the study’s limitations and future research prospects.

2. Literature Review and Hypotheses Development

2.1 Corporate Governance and Working Capital Management (WCM)

Corporate governance refers to the set of processes, principles, and values that guide a company’s decision-making, accountability, and control mechanisms. Tanko and Oladele (2015) mentioned that corporate governance is concerned with the methods and institutions that members of the firm use to actively protect the interests of stakeholders (Kyere & Ausloos, 2021).

WCM, on the other hand, refers to the management of a company's short-term assets and liabilities, including its inventory, accounts receivable, and accounts payable. It is a critical aspect of financial management that involves the efficient control and utilisation of a company's short-term assets and liabilities to ensure operational liquidity and maximise profitability (Deloof, 2003). Efficient WCM is vital for sustaining day-to-day operations, meeting short-term obligations, and enhancing overall financial performance (Ganesan, 2007).

The importance of corporate governance in WCM cannot be overstated, as it is crucial in controlling WCM by developing sound policies. Several studies have investigated the impact of corporate governance on WCM. A study by Kabir et al. (2011) found that companies with better corporate governance practices tend to have lower levels of working capital, indicating that they are more efficient in managing their short-term assets and liabilities. They suggest that this may be because companies with better corporate governance practices have better financial reporting, stronger internal controls, and greater transparency, which can help reduce the amount of working capital required. Weak corporate governance will lead to inefficient WCM, which has an adverse effect on shareholder wealth (Isshaq et al., 2009; Jonathan & Kumara, 2017).

However, other studies have found mixed results regarding the relationship between corporate governance and WCM. A study by Eljelly (2004) found that there is no significant relationship between corporate governance and WCM. They suggest that other factors, such as the company’s financial policy and business environment, may also play a role in determining the company’s WCM.

Furthermore, some studies have also examined the impact of specific corporate governance mechanisms on WCM. For example, a study by Al-Najjar and Abed-Rabbo (2013) found that corporate governance on the board is positively associated with efficient WCM. They suggest that this may be because independent directors can provide greater oversight and accountability, which can lead to better management of working capital.

Overall, the relationship between corporate governance and WCM is complex and may depend on various factors. This study mainly focuses on four important elements of corporate governance, namely, the audit committee, the board size, CEO tenure, and CEO duality, which could affect the WCM, represented by the current ratio. These variables are chosen based on their theoretical relevance to corporate governance and financial management, as well as their practical implications for WCM. Previous studies may be focused on the influence of corporate governance on performances, such as return on equity or return on asset, but only a few of them connect it with WCM efficiency. Particularly in Malaysia, more concentration needs to be given to the relationship between corporate governance attributes and the WCM of the companies.

2.1.1 Current Ratio

To keep WCM at a promising level, a company's financial management must keep an eye on the factors influencing the optimal level of working capital, as internal and external factors influence the ideal level of working capital (Haider et al., 2019). Economic and business environment, industrial effects, legislation, competition, financing regulations, managerial practice, investment policy, supply chain and production management, inventory management, payable management, and firm size are all factors that influence WCM (Chaudhry & Ahmad,2015). These variables can have a variety of effects on WCM. Aside from these factors, corporate governance is an important factor that requires investigation to determine its impact on WCM (Haider et al., 2019).

Previous studies have used different methods to measure the current ratio as a tool for WCM. The current ratio is a financial and efficiency ratio that gauges a company's ability to pay its short-term and long-term outstanding obligations (Gill & Biger, 2020). One common approach is to use the formula: Current Ratio = Current Assets / Current Liabilities. This method has been used in several studies, such as the one conducted by Siddiqui and Naeem (2015), who investigated the impact of WCM on the profitability of Pakistani firms. They found that the current ratio was positively correlated with profitability, indicating that firms with a higher current ratio were more profitable.

Another study by Akhtar and Oliver (2011) examined the impact of WCM on the performance of United Kingdom manufacturing firms. They also used the current ratio as a measure of WCM and found that firms with a higher current ratio had better financial performance. Several studies have measured the current ratio as a WCM tool. Akhtaruddin and Haron (2010) used the current ratio as a measure of liquidity and WCM for Malaysian firms. They found that firms with higher current ratios were better able to meet short-term obligations and had lower financial risks. Chen and Li (2012) used the current ratio as a measure of WCM efficiency in Chinese listed companies and found that firms with higher current ratios tended to have better WCM and could generate more profits.

Additionally, a study by Afza and Nazir (2013) authors found that firms with higher current ratios were more likely to have better liquidity and profitability. They used the current ratio as one of the measures of WCM efficiency in Pakistani manufacturing firms. Similarly, Jain and Jain (2014) used the current ratio as a measure of WCM efficiency in Indian companies and stated that firms with higher current ratios had better liquidity positions and were better able to manage their working capital needs. Overall, the current ratio is a widely used measure of WCM and has been shown to be a valuable tool for predicting firm performance in various contexts (Siddiqui & Naeem, 2015; Akhtar & Oliver, 2011).

The following sections will review the theories that relate to corporate governance and WCM and past studies on the determinants of WCM from a corporate governance perspective.

2.1.2 Audit Committee

One of the vital parts of good corporate governance is the audit committee. Therefore, the role of the audit committee on the board of directors' performance cannot be disputed. A sub-committee is independently responsible for the preparation of financial reports and accurate disclosure in compliance with reporting standards with internal control system and strong enough audit standards (Coleman et al., 2020). The audit committee's role is to ensure that the corporation's financial reporting meets the standards set by the corporate governance council (Kyere & Ausloos, 2021). It also ensures entity compliance, such as mandatory disclosures (Davidson et al., 2005) (Kyere & Ausloos, 2021).

The relationship between the audit committee and the current ratio has been widely studied in the literature. The current ratio is a liquidity ratio that measures a company's ability to meet short-term obligations using its current assets. The audit committee is a subcommittee of the board of directors responsible for overseeing financial reporting and auditing processes (Carcello & Neal, 2003). This section provides a literature review of studies investigating the relationship between the audit committee and the current ratio.

In a study by Mohamed and Nor (2013), they found that there was a positive relationship between the audit committee and the current ratio. The authors argued that the audit committee's oversight role in financial reporting and internal control processes may enhance the quality of financial reporting, leading to a more efficient use of current assets and, hence, an improvement in the current ratio. Similarly, a study by Jiang and Wang (2018) found that the audit committee's expertise and independence were positively related to the current ratio. They argued that an independent and knowledgeable audit committee would be better equipped to identify and mitigate financial reporting risks, leading to more reliable financial reporting and an improvement in the current ratio.

In contrast, A study conducted in Oman found that two of the three independent variables, including audit committee size, have an insignificant effect on financial performance (Shamsuddin & Alshahri, 2022). However, the authors

argued that the size and independence of the audit committee might have influenced the results. They suggested that a larger and more independent audit committee might have a more significant impact on the current ratio.

Ahmed et al. (2018) found a positive relationship between the audit committee and the cash conversion cycle and between the audit committee and the Current Ratio. They indicated that when the size of the audit committee increases, the cash conversion cycle also increases, therefore decreasing profitability. Their study further contributes to the literature by suggesting that small audit committees significantly affect profitability as compared to large audit committees, and small audit committees will also improve the WCM efficiency.

On the contrary, Chaudry and Ahmad, 2015 found that the Audit Committee is negative and significant for the cash conversion cycle. They indicate that the Audit committee improves WCM efficiency by auditing accounts receivable, accounts payable and stock in trade, which, in turn, reduces agency conflicts and agency costs. Additionally, Gill and Biger (2012) found a non-significant relationship between the audit committee and the current ratio. This finding indicated that the audit committee had no influence on WCM regarding the current ratio.

There are mixed findings related to the effect of audit committee size and WCM. However, looking back at the role of the audit committee, it is expected to enhance the efficiency of WCM. The audit committee is in charge of auditing the company’s cash accounts, accounts receivable, accounts payable, and inventory accounts. This helps keep agency problems and costs to a minimum (Gill & Biger, 2013). Therefore, a bigger audit committee size could help to strengthen their roles in reducing agency problems and ultimately improve the management of working capital. Thus, the following hypothesis is proposed:

H1: The audit committee has a significant positive influence on working capital management (WCM).

2.1.3 Board Size

According to economic theories, the board of directors plays an important role in the corporate governance structure (Kyere & Ausloos, 2021). The board structure usually consists of 5-20 members within the board group, taking into consideration that whatever size of the board group shouldn't affect the decision-making effectiveness. (Gill & Biger, 2020). Shareholders are concerned about whether the board of directors is capable of monitoring and controlling managers to ensure that they act in the best interests of the owners. Board size and current ratio are important factors that affect the financial performance of firms. This literature review aims to examine the relationship between board size and current ratio by discussing the findings of previous studies.

Several studies have investigated the impact of board size on financial performance, and some have found that larger boards are associated with lower performance (Kaplan & Mike, 2005; Rajgopal & Shevlin, 2006). This may be because smaller boards are more efficient, with recent research highlighting the benefits of streamlined decision-making and enhanced communication among board members (Denis & McConnell, 2003). Additionally, studies have also specifically examined the relationship between board size and the influence on the current ratio. For example, a study by Imran, Yousaf, and Azeem (2015) found that board size is positively related to the current ratio, which suggests that larger boards are associated with higher levels of short-term liquidity. This may be because larger boards are more likely to have diverse expertise and knowledge, which can help in making better decisions regarding short-term liquidity management.

However, other studies have found a negative relationship between board size and current ratio. For instance, a study by Haniffa and Cooke (2005) found that larger boards are associated with lower current ratios. They suggest that larger boards may be less effective in decision-making due to communication and coordination problems, which can negatively impact the firm's liquidity. According to Coleman et al. (2020), larger board size is seen as one with various expertise and diverse experience and knowledge to enable proper decision-making that enhances better firm performance than a smaller board size. Hence, manufacturing firms can improve their WCM efficiency by increasing their board size (Chaudhry & Ahmad, 2015).

Furthermore, Kamau and Basweti (2013) found that there is an insignificant positive relationship between board size and WCM efficiency. They suggest that the size of the board has no significant impact on the levels of WCM of a firm. Similarly, Ahmad et al. (2023) found that board size had a non-significant negative low impact on the current ratio. Furthermore, Gill & Biger (2013) found a negative relationship between board size and current ratio, which in turn indicates that a larger board size may not be in favour of American manufacturing firms because it does not improve WCM efficiency. In addition, Ahmad et al. (2018) observed a positive relationship between board size and current ratio, which indicates that larger boards increase firms' liquidity.

Previous studies yield mixed findings in relation to the impact of board size on WCM represented by the current ratio. In relation to resource dependency theory, it is expected that a larger board size would bring a wider range of skills

and perspectives, which in turn leads to more informed decisions, including WCM (Coleman et al., 2020). This is because individual directors have access to individual-specific resources that assist in the special consideration of making payments to payables and recovering receivables as and when due to ensure the efficient management of working capital. Hence, the following hypothesis is proposed:

H2: Board size has a significant positive influence on working capital management (WCM).

2.1.4 CEO Tenure

CEO tenure represents the length of time a person holds the position of Chief Executive Officer within a company. This period can range from a few years to several decades, and it is a critical factor that can impact various aspects of a company's operations and governance.CEO tenure is an important consideration for a company's stakeholders, including shareholders, board members, and employees, due to its potential effects.

CEO tenure and current ratio are important factors that can affect the financial performance of firms. This literature review aims to examine the relationship between CEO tenure and current ratio by discussing the findings of previous studies. Several studies have investigated the impact of CEO tenure on firm performance. Some studies have found a positive relationship between CEO tenure and firm performance (Anna et al., 2016). These studies suggest that CEOs who have longer tenure may have a better understanding of the company's strategy, culture, and resources, which can lead to better decision-making. Kamau & Basweti (2013) found that CEO tenure was found to have a positive but weak relationship with the levels of WCM efficiency. They suggest that CEOs who serve for a long term are only able to moderately improve the levels of WCM efficiency of a company.

Additionally, a study by Ng and Tan (2015) found that there is a positive relationship between CEO tenure and current ratio, suggesting that longer-serving CEOs are associated with higher levels of short-term liquidity. This may be because CEOs who have longer tenure may have a better understanding of the company's financial position and may make better decisions regarding short-term liquidity management. When a CEO serves longer in a firm, it serves as an added incentive to promote the interests of shareholders due essentially to the fact that apart from job security, the CEO is afforded the opportunity to witness the results of decisions taken. (Gill & Biger, 2013). The more experience the CEO has, the better the efficiency in managing working capital. (Khalaf, & Al-Tarawneh, 2019)

On the contrary, Ahmad et al. (2018) found a significant negative relationship between CEO tenure and cash conversion cycle and between CEO tenure and current ratio. They state that more experience of the CEO tenure leads to the efficiency of managing organisational resources, and the longer the CEO serves in the firm, the more protection they will give to the interest of the shareholders. Additionally, they conclude that CEOs with longer tenure have more understanding of the dynamic nature of the organisation and are in a better position to set policies that will benefit the firm.

However, other studies have found mixed results regarding the relationship between CEO tenure and the current ratio. A study by Das and Ray (2018) found that there is no significant relationship between CEO tenure and the current ratio. They suggest that other factors, such as the company's financial policy and business environment, may also play a role in determining the company's short-term liquidity. Gill & Biger (2013) found a non-significant relationship between CEO tenure and cash conversion cycle and positive relationships between CEO tenure and current ratio. They indicated that when a CEO serves longer in a firm, he or she has a positive influence on WCM efficiency. Therefore, there is no conclusive evidence on how the duration of CEO service in a company would affect the management of working capital. The relationship may depend on various factors, such as the CEO's knowledge, skills, and experience, as well as the company's financial policy and business environment. Additionally, Ahmad et al. (2018) argued that longer-serving CEOs are better able to establish policies that will benefit the company since they have a deeper awareness of the dynamic nature of the business. It implies that the longer the tenure of the director, the more resourceful a director will be in terms of making WCM decisions, which is consistent with resource dependency theory. Thus, the following is proposed:

H3: CEO tenure has a significant positive influence on working capital management (WCM).

2.1.5 CEO Duality

CEO duality is a common phenomenon where the CEO also holds the position of the board chairman. Generally, CEO duality exists when a board member holds the position of CEO in the same company (Ahmad et al., 2018). The duality of the CEO denotes the situation where the CEO is also the chairperson of the board CEO (Naz et al., 2022). The literature on CEO duality suggests that it can have both positive and negative effects on firm performance. This literature review aims to examine the relationship between CEO duality and current ratio by discussing the findings of previous studies.

Several studies have investigated the impact of CEO duality on firm performance. Some studies have found a negative relationship between CEO duality and firm performance (Shrivastav & Kalsie, 2016). CEO duality can lead to conflicts of interest and a lack of oversight, which can negatively affect the company's financial performance. Moreover, Mehraban et al. (2016) found that there is a negative relationship between CEO duality and current ratio, suggesting that companies with CEO duality are associated with lower levels of short-term liquidity. This may be because CEO duality can lead to a lack of oversight, which can result in poor financial management and a higher risk of default. On the contrary, Coleman et al. (2020) stated that better decisions are made with clarity and understanding and allow for proper policy-making and monitoring when there is no dual role of the CEO. Additionally, they stated that CEO duality improves the efficiency of accounts receivable management, which in turn helps reduce working capital requirements. The dual role of the CEO on the board supports maintaining an appropriate level of working capital in the organisation (Gill & Shah, 2012; Ajanthan & Kumara, 2017).

Other studies have found mixed results regarding the relationship between CEO duality and current ratio. A study by Goyal and Park (2002) found that there is no significant relationship between CEO duality and current ratio. They suggest that other factors, such as the company's financial policy and business environment, may also play a role in determining the company's short-term liquidity. Gill and Biger (2012) found a non-significant relationship between CEO duality and cash conversion cycle and between CEO duality and current ratio. This is supported by Ahmad et al. (2018), who found a non-significant positive relationship between CEO duality and cash conversion cycle and between CEO duality and current ratio. They suggest the non-significant are due to different organisations having different requisitions of corporate governance practices. CEO duality has an insignificant impact on WCM. This could be because the drawback of ineffective monitoring from CEO duality is exactly offset by the cost-saving benefit of leadership consolidation and information transfer, hence the neutral effect (Fiador, 2016).

The majority of studies found the insignificant effects of CEO duality on WCM. However, Naz et al. (2022) assert that according to the agency theory, CEO duality impedes both accountability and transparency while also encouraging behavioural dominance, severely harming the development and performance of organisations. Additionally, the management domination of the board of directors may result in dubious agenda control (Kyere & Ausloos, 2021). In a similar vein, it would also jeopardise the CEO's ability to manage working capital effectively. Therefore, the following is proposed:

H4: CEO duality has a significant negative influence on WCM.

2.2 Agency Theory

Agency theory is a theoretical framework that has been widely used to explain the relationship between corporate governance and WCM. This study employed the agency theory to give a clear view of the relationship between board characteristics and WCM efficiency. Agency Theory can be described as the interaction between managers (agents) and shareholders (principals) (Kyere & Ausloos, 2021). The theory suggests that the objectives of both the agents and principals in the company should be matched. The theory posits that a company is made up of a set of agents who have their own interests and objectives that may not always align with those of the shareholders or owners of the company. This misalignment of interests is known as the agency problem, which can lead to inefficiencies in the management of the company's resources (Purag et al., 2016), including its working capital (Ajanthan & Kumara, 2017).

Agency theory also highlights the importance of board institutions for mitigating the agency problem in companies. The findings of this study are anticipated to create attention and perception in the policymakers and top management that formulating good corporate governance will influence the efficient WCM. The WCM will have a very significant impact on the profitability of the firms (Ng et al., 2017). Thus, effective WCM will indirectly result in the enhancement of companies' profitability and boost the shareholders' wealth. Additionally, the maximisation of shareholders' wealth is an indicator of the reduction and elimination of agency problems in the companies.

The theory aims to address conflicts between the organisation's management and its owners by defining methods for resolving such conflicts, such as transferring decision-making responsibility to project managers (Kyere & Ausloos, 2021). The relevance of agency theory to WCM could be seen from the perspective of the financial manager, who, in most cases, is an agent of the owners (principals) of a company and who makes all of the key decisions about the current assets and liabilities of a company. He takes charge of decisions about debtors, creditors, inventories or stock and liabilities of a company. (Ajanthan and Kumara, 2017)

Therefore, corporate governance mechanisms are put in place to address the agency problem by aligning the interests of the agents with those of the shareholders. For instance, the board of directors is responsible for monitoring the actions of the managers and ensuring that they act in the best interests of the shareholders. This involves efficiently

overseeing the company's working capital, minimising the necessary amount of working capital, and optimising the returns derived from it.

WCM can also be viewed through the lens of agency theory. The managers of a company are seen as the agents responsible for managing the company's working capital, while the shareholders provide the capital. The managers may have their own objectives, such as maximising their salaries or job security, which may only sometimes align with the shareholders' objective of maximising profits. Therefore, effective corporate governance structures play a vital role in overseeing managerial actions, safeguarding the interests of shareholders, promoting accountability within firms (Hermalin & Weisbach, 2003) and ensuring that they act in the shareholders' best interests.

In summary, agency theory provides a valuable framework for understanding the relationship between corporate governance and WCM. Effective governance mechanisms, such as the board of directors, are essential for aligning the interests of the agents with those of the shareholders and ensuring that the company's working capital is managed efficiently.

3. Research Design

3.1 Data Collection and Sample Selection

This study aims to analyse the impact of corporate governance characteristics on WCM efficiency. This study used the secondary data obtained from the annual financial reports of the 35 publicly listed companies based in Selangor and listed under the FTSE Bursa Malaysia Top 100 Index**.** These companies were identified as Selangor-based companies by observing their principal place of business, business address, head office, headquarters, and corporate office. The information regarding this was taken from its annual report, website, and the company's social media, such as Facebook, Twitter, and Linked In, which appeared on its website. 35 publicly listed companies in Selangor were chosen as samples because it is Malaysia’s most populous state, as well as its most developed state. In 2022, the state of Selangor contributed the highest gross domestic product (GDP) in Malaysia, which was 25.5 per cent. (www.statista.com). Additionally, Selangor is known for its diverse range of industries, such as manufacturing, technology, and services. Therefore, the sample of publicly listed companies from Selangor would be representative of different industries, providing a more comprehensive analysis of the impact of corporate governance on WCM.

The data are collected for the period from 2017 to 2020 from annual reports of the firms Thomson Reuters Eikon and DataStream. This period reflects the revision of the corporate governance enhancement in Malaysia (The Malaysian Code on Corporate Governance, 2017, which supersedes its earlier edition in 2012).

The findings of this study are applicable to the Malaysian industry at large, thus focusing on the non-financial sector as the study population. Financial and service firms are not incorporated in the study because of the nature of their business, and data required for the analysis are not used in their financial statement (Ahmad et al., 2018). The selection of non-financial companies is important to control the heterogeneous characteristics of the companies selected (Marimuthu & Kolandaisamy, 2009). The final sample consists of 98 observations.

3.2 Data Analysis

The objective of this study is to examine the effects of corporate governance elements on WCM. Based on previous studies, four corporate governance elements are selected: the Audit Committee, Board Size, CEO Tenure and CEO Duality. Meanwhile, the current ratio is used as a proxy for WCM. The current ratio is a critical component of WCM, focusing on the efficient utilisation of current assets and liabilities. A higher current ratio is indicative of stronger liquidity, which can be crucial for responding to unexpected financial challenges, seizing new business opportunities, and maintaining financial stability. To test the hypothesis on the direct effect of corporate governance elements (Audit Committee, Board Size, CEO Tenure and CEO Duality) on the current ratio, this study used OLS regression analysis. Specifically, this study regresses the current ratio on:

$$CR_{i,t} = \alpha + b_1 ADC_{i,t} + b_2 BDS_{i,t} + b_3 CET_{i,t} + b_4 CED_{i,t} + \varepsilon \quad (1)$$

Where $CR_{i,t}$ is the Current Ratio at time *t*, $ADC_{i,t}$ is the Audit Committee at time t; $BDS_{i,t}$ is the Board Size at time *t*; $CET_{i,t}$ is the CEO tenure at time *t*; $CED_{i,t}$ is the CEO duality at time *t*; Ɛ is the error term.

Table 1 summarises the measurement of the variables:

Table 1. Variable Operationalisation

Variables	Measurement
Audit Committee (ADC)	Size of the audit committee (Ahmad et al., 2018; Chaudhry & Ahmad, 2015; Gill & Biger, 2013)
Board Size (BDS)	Size of the board members (Ahmad et al., 2018; Chaudhry & Ahmad, 2015; Gill & Biger, 2013)
CEO Tenure (CET)	CEO Experience in years in an organisation (Ahmad et al., 2018)
CEO Duality (CED)	A dummy variable that takes the value of 1 if the CEO is also acting as Chairman of the board; otherwise, 0. (Abbas et al., 2019; Ahmad et al., 2018; Gill & Biger, 2013)
Current Ratio (CR)	Current asset / current liability (Achchuthan & Kajananthan, 2013; Gill & Biger, 2013)

4. Results and Discussion

4.1 Descriptive Statistics

Table 2 shows the descriptive statistics of the variables. On average, the number of members of the Audit Committee is between 3 to 4 members. Meanwhile, the average number of board members is 9, ranging from a minimum of 5 members to a maximum of 14 members. In relation to CEO tenure, the majority of the CEOs had served the company for an extended period, as the average tenure is 15. There is a very low incidence of CEO duality, where only 5 out of 98 CEOs serve as Chairman of the company. The current ratio indicates that the majority of the companies manage their working capital well, as the average current ratio is 1.665. This means that the majority of the company has RM1.665 of current assets for every RM1 of current liabilities.

Table 2. Descriptive Statistics

Variables	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Audit Committee (ADC)	2	6	3.602	0.756
Board Size (BDS)	5	14	9.051	2.198
CEO Tenure (CET)	1	39	15.092	10.199
CEO Duality (CED)	0	1	0.051	0.221
Current Ratio (CR)	0.030	4.006	1.665	0.774

4.2 Linear Regression Results

Table 3 and Table 4 present the correlation between variables and the result of regression analysis. According to Hair Jr et al. (2014), the existence of multicollinearity is evidenced by a high correlation ($r=.9$ and above) between independent variables. For the sample used in this study, there is no multicollinearity problem as the highest significant correlation is shown in Table 3 between board size (BDS) and the CEO duality (CED), $r=.323$, $n=98$, $p<.01$. Additionally, Table 4 shows that the tolerance (above 0.1) and VIF (below 10) value indicated there is no multicollinearity issue.

Table 3. Correlation table

	1	**2**	**3**	**4**	**5**
1. Audit Committee (ADC)	1				
2. Board Size (BDS)	.310**	1			
3. CEO Tenure (CET)	-0.145	0.127	1		
4. CEO Duality (CED)	-0.186	-.323**	-0.052	1	
5. Current Ratio (CR)	-.371**	0.036	0.069	.318**	1

**. Correlation is significant at the 0.01 level (2-tailed).

The model explained 26% of the variance in WCM, proxied by the current ratio. The findings in Table 3 have revealed the significant influence of audit committee (ADC) ($b = -0.402$, $p<0.01$), board size (BDS) ($b=0.093$, $p<0.01$) and CEO Duality (CED) ($b = 1.158$, $p < 0.01$) on current ratio.

Table 4. The effect of Corporate Governance on Working Capital Management (WCM)

	Unstandardised Coefficients		**Standardised Coefficients**	**t**	**Sig.**	**Collinearity Statistics**	
	B	Std. Error	B			Tolerance	VIF
Constant	2.212***	0.429		5.155	0.000		
ADC	-0.402***	0.098	-0.392	-4.078	0.000	0.861	1.162
BDS	0.093***	0.035	0.265	2.672	0.009	0.808	1.238
CET	0.000	0.007	-0.005	-0.050	0.960	0.945	1.058
CED	1.158***	0.332	0.331	3.490	0.001	0.886	1.128
N							98
R-square							26%
F							8.157***

Notes: The dependent variable is the Current Ratio. Variables are defined in Table 1. ***, ** and * stand for statistical significance at the 1%, 5% and 10% level, respectively.

In relation to H1, the size of the audit committee (ADC) has a significant negative impact on WCM. Hence, H1 is not supported because it is contradicted by the hypothesis that a higher number of audit committee members resulted in a lower current ratio, indicating a poor WCM. Nevertheless, it is consistent with a previous study by Ahmad et al. (2018), who claimed that small audit committees would also improve the WCM efficiency. This finding indicated that the audit committee size does not represent a better corporate governance practice. This is probably due to the bigger size, which would lead to more disagreement and result in a lower ability to reduce agency problems and improve WCM.

Board size has a significantly positive impact on the current ratio, and hence, H2 is supported. This result is consistent with previous studies by Ajanthan and Kumara (2017) and Ahmad et al. (2018). This indicates that a large number of directors sit on the board creates a resourceful and higher capabilities board in managing the working capital. This is evidenced by the regression result where an increase in 1 board size would increase the current ratio by 0.093, indicating a higher company's ability to meet its short-term liabilities commitment. In the context of agency theory, a growing body of literature suggests a positive relationship between board size and effective working capital management. Larger boards are often associated with enhanced monitoring capabilities and reduced agency conflicts, contributing to improved control over working capital components (Raheman & Nasr, 2007). Meanwhile, H3 is not supported because there is no significant relationship between CEO tenure and current ratio, which is consistent with a study by Gill and Biger (2013).

H4 is also not supported because the results contradict the hypothesis that expects a significant negative relationship between CEO Duality and WCM. The finding shows duality resulted in better WCM as evidenced by a higher current ratio. The positive relationship between CEO duality and working capital management can be linked to agency theory, as CEO duality may lead to a more aggressive approach to financing but a more conservative approach to investment, balancing the risks and returns of implementing the working capital policy (Kumpamool & Chancharat, 2022) which may contribute to cost savings and improved WCM efficiency. Therefore, instead of leading to board domination, which risks the board's role as an agent, CEO duality resulted in effective WCM by having comprehensive knowledge about the company from their dual roles.

In conclusion, the different results of this study compared to other studies are due to several reasons. Firstly, the study was conducted in the context of Malaysian publicly listed companies, which may have different characteristics and practices compared to companies in other countries (Adnan et al., 2023). Secondly, the study employed a quantitative approach and Ordinary Least Squares (OLS) regression techniques to test the hypotheses, while other studies may have used different research methods and measures of corporate governance and working capital management (Khan et al., 2021). Thirdly, the study focused on specific corporate governance elements, such as CEO

duality, board size, and audit committee, which may affect working capital management differently than other corporate governance elements. Therefore, the differences in the study context, research methods, and corporate governance elements may have contributed to the different results found in the Malaysian study compared to other studies in other countries.

5. Conclusion and Recommendation

In conclusion, this study aimed to investigate the impact of corporate governance mechanisms, such as audit committees, board size, CEO tenure, and CEO duality, on WCM in publicly listed companies. The findings indicate that the audit committee has a significant negative impact on the current ratio, while board size has a significant positive impact on the current ratio. Moreover, CEO tenure has no significant impact on the current ratio, and CEO duality has a significant positive impact on the current ratio. These findings imply that effective corporate governance mechanisms can significantly affect WCM. Therefore, publicly listed companies should pay more attention to their corporate governance practices, especially in terms of board size and duality and the existence and effectiveness of the audit committee.

It is recommended that companies adopt a culture of continuous evaluation and improvement in WCM practices. Regular monitoring and assessment of key performance indicators related to working capital, such as inventory turnover, accounts receivable days, and accounts payable days, can help identify areas for improvement. Companies should also stay updated on emerging trends, best practices, and regulatory changes in WCM to ensure their practices remain effective and aligned with industry standards. Additionally, companies should foster better collaboration and communication between the various stakeholders involved in WCM, including the CEO, board of directors, audit committee, finance department, and other relevant departments. This can be achieved through regular meetings, clear reporting lines, and the establishment of robust communication channels. Open dialogue and information-sharing will facilitate a better understanding of WCM practices and ensure alignment with strategic goals.

However, there are limitations to this study that should be acknowledged. Firstly, this study only considers four corporate governance mechanisms, whereas other factors, such as ownership structure and institutional ownership, may also have an impact on WCM. Secondly, this study only focuses on publicly listed companies, and the findings may not be applicable to other types of organisations. Future research could explore the impact of other corporate governance mechanisms and factors on WCM. Additionally, further research could examine the impact of corporate governance on other financial performance measures, such as dividends, earnings per share, profitability and liquidity.

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