

DEVELOPING PROCUREMENT COOPERATE GOVERNANCE FOR THAI INDUSTRIAL GOODS IMPORTER FROM CHINA IN COVID-19 RESPONSE

Chia-Ta Lee¹, Hui-Jun Liu² and Xiong-Fei Shi³

China-ASEAN International College, Dhurakij Pundit University, Thailand

DOI: 10.46609/IJSSER.2021.v06i01.009 URL: <https://doi.org/10.46609/IJSSER.2021.v06i01.009>

ABSTRACT

Cooperate governance, which defines the mechanisms and interactions through which governance is put into action, can be an important tool for cooperation to enhance their oversight capabilities while enabling management to implement governance initiatives. "A governance operating model supplies the 'how' that entrepreneurs seek and can reveal gaps or shortcomings in management. Renewed pressure from cooperate operating difficulty in recent years by financial crisis has led boards of directors to examine and strengthen governance roles and responsibilities. The focus on board-level oversight is especially intense nowadays after Covid-19 economic impact, given the scale and complexity of governance efforts at regional Thai-China procurement management.

Keywords: Cooperate governance, procurement management, Covid-19, macroeconomic

1. Introduction

In recent years, many business owners/directors/shareholders have been struggling by creating the effective cooperate governance model, to establish an operation framework to make things work appropriately [2]. Especially after Covid-19 macroeconomic impact, companies are facing severe environment while running business. Thus, to enhance governance frameworks, organisation job re-allocation, management operation system will be priority to implement, this study will focus on industrial importer in Thailand mostly as under ASEAN framework, who have enjoyed the zero-tax benefit while operationalized the corporate structures.

From GMI (Governance Metrics International), among emerging markets [3], Thailand and China were still at stage that in the middle or below that stakeholders are more concerned nowadays after Covid-19 among ASEAN regional business recession, trying to be more conservative while importing industrial good and keeping stocks. EPC (engineering,

procurement and constructions) projects and contracts held up in 2020 for several remarkable landmark, for instance, One Bangkok skyscraper and smart-city idea, integrated by shopping mall, offices, living-hood and hotels [25]. Once facing the crisis, for industrial import business owners are suffered by sales delay, bank loan payback, and cash flow issues are open book topics now. They should focus more and to be more active oversight in order to survive in business [4]. The paper will be leaned on procurement operating model between these two countries as it is the key that detect your sustainability while running cooperation.

2. Economy impact by Covid-19 spillover

Why a health crisis globally turns into an economic crisis, believe it's the answer lying by coronavirus stifled economic activities. Back into 2019, there's a US-China trade war anxiety, the global growth of 3.4% predicted by IMF had already not positive enough and economists were taken a pessimistic view in 2020. Nowadays [5], Covid-19 have made situation worse and enormous loss in stock market in February accounted US\$ 5 trillion in wealth [6]. The spread of the virus globally has been changing our life and furthermore the economics by 5 aspects:

- Social distance which creates the barricade for business activities and events globally.
- Second burstout has been occurred within few countries, it heightened uncertainty and lockdown as a policy still continuing.
- International travel for business activities have almost bunged up and tourism industry hurt most, both held up consumption and investment.
- Restrictive policy, monetary policy, public health control and SME (small and medium enterprise development bank) funding plan still keep monitoring in Thailand
- Stock markets volatility have been raised due to quantitative easing (QE), however not into substantial economy, but creating bubbles for coming financial crisis.

Based on historical experience, starting from late 90s, Asian financial crisis in 1997 that the depreciation of Thai Baht that wounded the Thailand economy and created panic to region wide scale. Time back to 2008, loosing monetary policy by subprime mortgages, banks played leverage game and led to global economic recession. [7] [8]; repercussion of this recession, following the Greece financial structural weakness in 2010, the Eurozone caused a chain reaction as a whole. [9]. Hypothetically, global recession could be as the 2007-2008 financial crisis followed by a recovery in 2011. Assuming Covid-19 impact to entity economy will still be bad in

2021. Then, it raises a major question for Thai importer- entrepreneurs should respond right now and move forward.

Theoretically, the ASEAN countries export/import circumstance might be recovering soon between China supply chain and consumer demand to economy prior next year mid of the month. However, the truth is the economic recession, that worries dramatically by business owners/entrepreneurs. The treat is real and significant, thoughts if they could survive by this recession [10]. Therefore, a more systematic model for cash outflow/inflow issue must be organized, effected and be more active oversight by them. By this paper, we'll focused on governance cash outflow control from logistic and procurement process while Thai firms import from China manufacturers under ASEAN framework. Most of Thai industrial firms, such as wholesaler or trading businesses are small to medium cooperation, shortage of management/operating governance that is obvious, especially facing crisis, procurement sector implements its policies by mangers and sales forecast prediction to purchase would be less efficient on their workings, and for their results. [11]

Under Covid-19 economy impact, the operating model may assist the business owners in fulfilling their governance roles in Thailand [12]. Such as a model they could foresee the supplier chain lead-time while supplying products and not much delay by logistics issue. Furthermore, their purchasing process when procure different product line while factories might have difficulty to manufacture due to labor force shortages or by corona virus shutdown through provinces in China in 1st quarter of 2020 and 2nd burst-out potential risk that might affect their importing timeline and cash flow control from purchase to sale process.

From OECD forecast that slashed growth rate by half, from 2.9% to 1.5% in March, 2020 [13]. Although IMF has signaled that they will issue a significant revision soon, but their first-round revision might still be too optimistic. Globally, as of 19:00pm GMT+7, 19th Dec 2020, 73,996,237 confirmed cases (South-East Asia 11,572,247 confirmed-15.64%), 1,663,474 deaths from WHO dashboard record (Below Figure 1) [14]

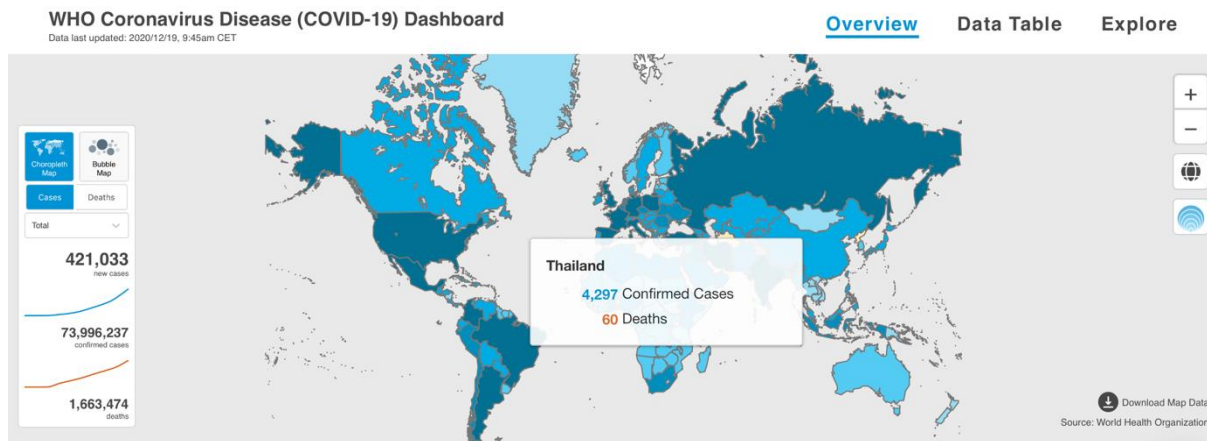


Figure 1: WHO Coronavirus Disease (Covid-19) Dashboard

Although, Thailand disease control have been done an excellent job, in place of, 5% contracted in 2020 of Thai economy [15], still the extreme declines among Pacific Regions as below major features:

- Export business drops sharply due to global lockup, especially automobiles parts is important in global supply chain; Industrial goods import chokes by EPC projects on held.
- Severe job losses from tourism field that almost 15% up of Thailand GDP.
- Damage of private consumptions due to uncertainty for tourist industry recovery, retailers and entertainment services.

Thailand 's real GDP growth is -7.145% reported by IMF in Dec, 2020 Thailand's import and export from July update data was decreased by 23.1% and 17.9%, according to CEIC data indicators. [16]

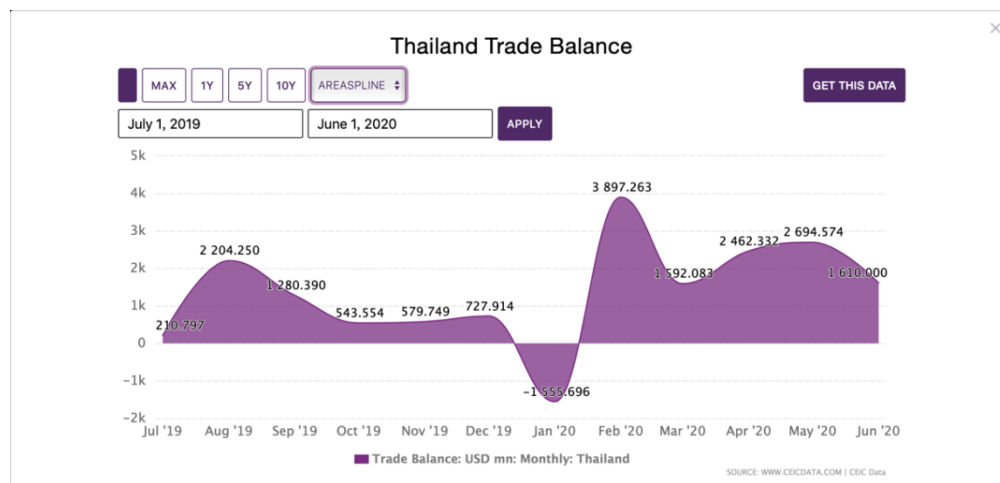


Figure 2: CEIC Data, Thailand Trade Balance, updated on 24th July, 2020

From figure 2, we could study its movement and monitoring data by CEIC indicators. Prior Covid-19 spillover 1st quarter of 2020 record, the real GDP growth in Thailand contracted from 1.5% in Dec, 2019 to -1.8% YOY in Mar, 2020 as figure 3 shown [17].



Figure 3: CEIC Data, Thailand real GDP growth, updated on 24th July, 2020

3. Framework

The option between diverse system has been prejudiced by given conditions, such as company scale, funding aptitude, and other managing objectives. [18] Consumer power for the Thai

importers' is an increasingly important consideration while dealing with procurement cooperate governance systems, particularly, desperation to endure in COVID-19 economic crisis at the austerity-driven world. The significant delay of project procurement plan were highly relative to bad cash flow and financial difficulties faced by contractors, for instance, EPC project in Thailand for industrial importer, the mechanism of procurement process flow chart as below figure 4 shown, and easily we could notice for each EPC project, it's generating its RFQ (request for quotation) by multiplier effect to several vendors and various suppliers.

As mostly of small and medium enterprises have encountered, highly competition will surely turn quality concern into low price concept, in order to be honored the project. Significantly, badly-behaved procurement outcomes will be happening, such as low-quality purchase that causes after-sale service rate high, extra cost for replacement and the most critical is client lost confidence for future collaboration. On the other hand, manufacturers, who have more supplying power and decent operation with good quality will walk away due to low bidding rate. A procurement control organization, involved at the initial stage of acquisition strategy development and dedicated to procurement control, will have a pronounced effect on the successful completion of the program and attainment of its objectives.

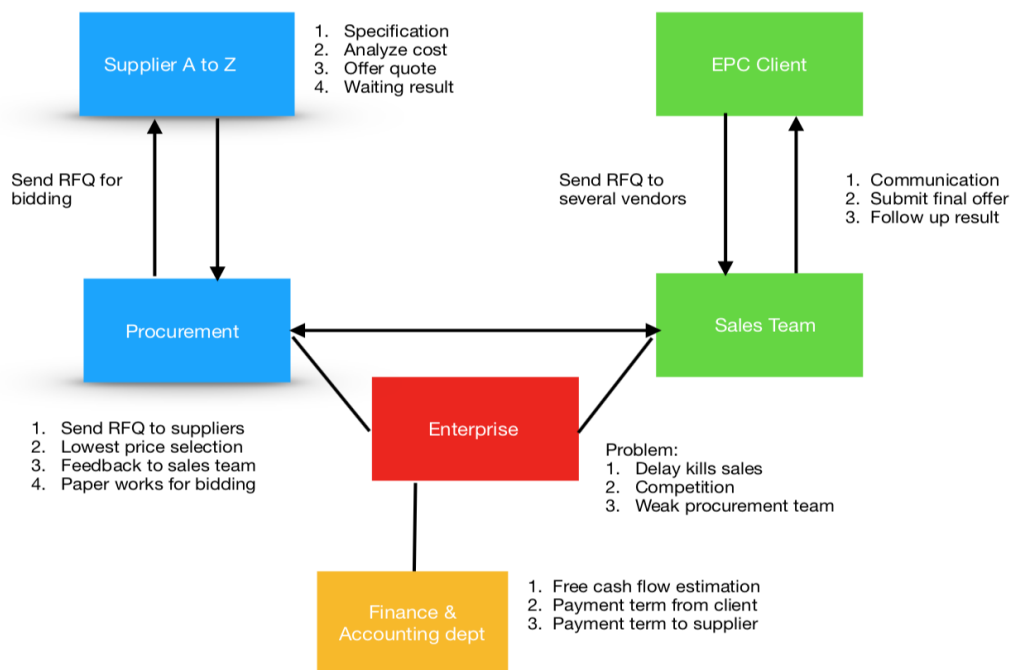


Figure 4: EPC project procedure and framework

Surely each sector staff must follow the lead top to bottom by executives' order and execute in the right course. Nevertheless, while job responsibility becomes daily routine and lack of motivation, owners/entrepreneurs will be facing their vicious circle if they do not take any action. The Deloitte Governance Framework (see Figure 5) was developed to help boards and executives assess their organizations' governance programs.[19]



Figure 5: Deloitte Governance Framework by Deloitte Development LLC.

Refer to figure 4 as example, encircling all elements of the framework is the corporate governance infrastructure. Collecting by the people, processes, and systems, management has put in place to govern day-to-day activities. The flow also includes the procedure to gather and report information to the executives, as well as to management [20].

Most exporters/importers in Thailand are small to medium size, such as, wholesalers, more leaning on trading type and requiring purchase raw material, working in process product and

finish goods from China under ASEAN regional framework. By understanding this mechanism, entrepreneurs could develop own effective operating model as more likely the Covid-19 impact has no light yet to see the end, at least below goals must be taken into account:

- Sales forecast, estimation by last year and this year growth or recession rate to measure the possible cash inflow monthly.
- Procurement plan by product lines and lead-times to pre-schedule its purchase plan followed by sales forecast.

- Current inventory level and the preservation of assets. To estimate coming 12 months cash flow report, risk control takes place while under uncertain future.
- Define responsibilities of managers within organization and allocates resources to implementing governance. Afterwards, monitor and report back to management and board.
- Focus on core activities and eliminate all non value-added activities.
- Seek to attract high-caliber employees.

4. Improvement of procurement operating

To understand more on this original flowchart improvement, four major aspects that we could focus [19]. First of all is cultural difference through communication between Thai importer purchasing staff and China supplier, that long-term relationship shall be built up to avoid communication error from product specification and project demand due to misunderstanding. Secondly, internal responsibility (refer figure 4) within sales/procurement teams should create symbiotic relationship rather than doing the routine job, delay kills sales. Management must monitor responsibilities at least weekly basis to support. Thirdly, ISO9001:2008 [21] structure should be applied, as this is the weakness for most family business and small to medium firms, owners' will overwhelm system and employees only obey the order that cooperate will not move forward to the right direction. At last, and most important is integrity, since client information and supplier sources are both valuable assets for industrial good trading/importing enterprises, executives by all means must have recruiting/firing authority to build strong procurement team and job re-allocation plan should be considered for preventing abuse of power or corruption of team members.

Defines standards and metrics by which success will be measured ; Create an implementation plan in an electronic, visual format that enables the team to track progress on action steps and to log disposition of risks and related issues. Thus, it's appropriate that frameworks define principles and responsibilities. Here is critical, if not define well and execute command without grey area, team member will not be able to do the right work and again, it's back to original status, then cooperation will increase invisible opportunity costs for re-building the team, miscommunication with supplier chain, pass the buck internally within sectors. [22]. The management power will be losing and lack of control to its job allocation. Mostly this is a common issue in Thai middle-scale corporation, as employees merely follow instruction and managers act their role as information recipient not intrapreneur type. Which means under this framework, top management could not get effective information from bottom to top chain.

Therefore, the components defined above are essential to implement at initial stage correctly, not only paper-work listing.

Surprisingly, from control and ownership structure, internal corporate governance control by family control, those usually are the best performers from one-third of S&P listed companies [23]. From the finding, leadership, quick decision making, breeding loyalty, investing in growth and no absentee landlords. Believe this could be examined by cross-matching from major components of a strong governance model, after all, motivations and responsibilities from employee and managers, there are still a degree difference while comparing to family business owner [24] [25].

5. Procurement benefit by application

A transparent procurement process has a positive effect on good governance practice, increasing cost effectiveness and accountability, and decreasing collusion among vendors.[26] As stated, after Covid-19 macroeconomy impact, the lockdown within China and ASEAN countries that hurt the consumption power, i.e. lack off purchase demand urgently or on hold. For logistic and procurement, which companies locate in Thailand, adopting four ideas could be advantageous [27]:

- Improved clarity: What's the lead-time for estimated arrival date after purchase must be well- planned by procurement division.
- Greater visibility: What's the sales division response and if give correct feedback back. That provide a ball-park map for import and time frame per prospects.
- Improved coordination: Decent manner to communicate with supply chain and acquire enough information back to sales team.
- Increased effectiveness: Quick response, sufficient know-how on product lines to resolve problem efficiently and appropriately.

Therefore, employees, mangers, board of directors, and stakeholders are involved while at difficult time, daily operating activity must be monitoring by the executive director, their roles and direction become more important and lead to a result whether surviving in business or not. [28]. Benefits that will be working if above points mentioned have been setup steadfastly [29] [30]

- Good corporate governance ensures corporate survivability, while economy is in recession stage.

- Strong corporate governance maintains shareholders' confidence, which company could raise capital easily.
- Strong management team lowers the operating cost and avoid risk.
- Decent manner also minimizes fraud internally, expenditures and risk in organization.
- Sales capability under recovery stage after economy downturn.

Conclusion

In wholesaler and trading importer under ASEAN framework, it's very clear that entrepreneurs, business owner and management, who have increased uncertainty of future growth and threat of survival under Covid-19 economy impact, also export and import type model has been challenged. [27] Although, most of middle to larger scale companies might already embrace the idea and build up robust internal control system, if more and more small to middle scale firms could adopt the framework and implementation, that might assist them to sustain under crisis [28].

After all, corporations themselves consider carrying social responsibility to create job opportunities, despite significant recent recession in ASEAN countries and to the world. The desired governance operating model, especially procurement and logistic difficulties these companies are facing, take action in a right course never be too late. In order to cope with the new challenges posed by the epidemic, it is necessary to pay more attention to multi-layer collaborative management, supervision mechanism of procurement links, judicial review and compliance with procurement laws in the later stage. Establish an independent monitoring mechanism and commercial sensitive information that may be excessively exchanged. Only when these checks and balances are brought into play, the cooperative operation model will be effectively supervised. [31].

References

- [1] "OECD Principles of Corporate Governance, 2004". OECD. Retrieved 2013-05-18.
- [2] Shailer, G. (2004) *An Introduction to Corporate Governance in Australia*, Pearson Education Australia, Sydney.
- [3] GMI Ratings (formerly, GovernanceMetrics International) — Country Rankings as of September 27, 2010.

https://web.archive.org/web/20110125201141/http://www.gmiratings.com/Images/GMI_Country_Rankings_as_of_10_27_2010.pdf

- [4] Goergen, M, *International Corporate Governance*, Prentice Hall 2012, ISBN 978-0-273-0
- [5] Georgieva, K (2020). IMF Managing Director Kristalina Georgieva's Statement Following a G20 Ministerial Call on the Coronavirus Emergency. IMF Press statement.
<https://www.imf.org/en/News/Articles/2020/03/23/pr2098-imf-managing-director-statement-following-a-g20-ministerial-call-on-the-coronavirus-emergency>
- [6] Reuters (2020). *GRAPHIC-Coronavirus, then oil collapse erase \$5 trillion from U.S. stocks.*
<https://www.reuters.com/article/health-coronavirus-stocks-carnage/graphic-coronavirus-then-oil-collapse-erase-5-trillion-from-us-stocks-idUSL1N2B23XR>
- [7] Jagannathan, R., Kapoor, M., & Schaumburg, E. (2013). Causes of the great recession of 2007–2009: The financial crisis was the symptom not the disease. *Journal of Financial Intermediation*, 22(1), 4-29.
- [8] Lee, J & Shailer, G. *The Effect of Board-Related Reforms on Investors Confidence.* *Australian Accounting Review*, 18(45) 2008: 123-134.
- [9] El-Erian, M. (2020). *The Coming Coronavirus Recession and the Uncharted Territory Beyond.* *Foreign Affairs*, Media Report.
<https://www.foreignaffairs.com/articles/2020-03-17/coming-coronavirus-recession>
- [10] Financial Times (2020). *Global recession already here, say top economists.*
<https://www.ft.com/content/be732afe-6526-11ea-a6cd-df28cc3c6a68>
- [11] Tricker, B., *Essentials for Board Directors: An A–Z Guide*, Bloomberg Press, New York, 2009, ISBN 978-1-57660-354-3
- [12] Shleifer, A., & Vishny, R., (1997). "A Survey of Corporate Governance," *Journal of Finance*, 52(2), pp, 737–783.
- [13] The World Bank. *Thailand Economic Monitor June 2020: Thailand in the time of Covid-19.*
<https://www.worldbank.org/en/country/thailand/publication/thailand-economic-monitor-june-2020-thailand-in-the-time-of-covid-19>

- [14] WHO Coronavirus Disease (Covid-19) Dashboard.
https://covid19.who.int/?gclid=Cj0KCQjw6uT4BRD5ARIsADwJQ18TsdXHeZXA4BfD4Bac-g0duDPQ6LXKzpDkIKhV7nLvVe_bExVhm-MaAmsiEALw_wcB
- [15] CEIC Data. *Thailand Trade Balance*. <https://www.ceicdata.com/en/indicator/thailand/trade-balance>
- [16] CEIC Data. *Indicators*.
<https://www.ceicdata.com/en/indicators>
- [17] CEIC Data. *Indicators: Real GDP Growth*.
<https://www.ceicdata.com/en/indicator/real-gdp-growth>
- [18] Sanchez-Graells, A. (2019) Centralisation of procurement and supply chain management in the English NHS: some governance and compliance challenges. *NILQ*, 70(1), 53-75.
- [19] The Wall Street Journal. *Governance Operating Model: A Tool for More Effective Board Oversight*, Media Report by Deloitte.
<https://deloitte.wsj.com/riskandcompliance/2013/06/11/governance-operating-model-a-tool-for-more-effective-board-oversight/>
- [20] Soni, A., (2018). *Corporate Governance in 21st Century*, ISSN 2349-5138
- [21] ISO9001:2008 Quality Management Systems-Requirements
<https://www.iso.org/obp/ui/#iso:std:iso:9001:ed-4:v2:en>
- [22] Bebchuk, L., & Fried, J., *Pay Without Performance – the Unfulfilled Promise of Executive Compensation*, Harvard University Press 2004, 15–17 & 21-27
- [23] Business Week. *Surprise! One-third of the S&P; 500 companies have founding families involved in management. And those are usually the best performers*.
http://www.businessweek.com/magazine/content/03_45/b3857002.htm
- [24] Sanchez-Graells, A. (2019) *Centralisation of procurement and supply chain management in the English NHS: some governance and compliance challenges*. *NILQ*, 70(1), 53-75.
- [25] Rotchanakitumnuai, S. (2013). *The governance evidence of e-government procurement. Transforming Government: People, Process and Policy*.
- [26] Eriksson, P. E. (2006). *Procurement and governance management-development of a*

conceptual procurement model based on different types of control. Management revue, 30-49.

[27] Hart, O., (1989). "An Economist's Perspective on the Theory of the Firm," Columbia Law Review, 89(7), pp. 1757–1774.

[28] Zelenyuk, V., & Zheka, V., (2006). "Corporate Governance and Firm's Efficiency: The Case of a Transitional Country, Ukraine," Journal of Productivity Analysis, 25(1), pp. 143-157, [1]

[29] Abdullah, M. R., Rahman, I. A., & Azis, A. A. A. (2010). *Causes of delay in MARA management procurement construction projects.* Journal of Surveying, Construction and Property, 1(1).

[30] Bhagat, S., & Black, B. (1999). *The Uncertain Relationship between Board Composition and Firm Performance.* Business Lawyer, 54(3), 921-963.

[31] Belev, G. C. (1991). *Procurement control-A proactive approach to seller management.* Transactions of the American Nuclear Society, 63