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The Effect of Quality of Internal Corporate Governance Mechanisms on Investors' Confidence: Evidence among Indonesian Sharia Compliant Companies

Risna Wijayanti[1], Sofri Yahya[2] and MD Harashid Haron[3]

[1] *Faculty of Economics and Business Universitas Brawijaya, Malang, Indonesia, E-mail: risna@ub.ac.id*
[2] *Graduate School of Business Universiti Sains Malaysia Penang, Malaysia, E-mail: sofri@usm.my*
[3] *School of Management Universiti Sains Malaysia, Penang, Malaysia, E-mail: harashid@usm.my*

Abstract: This study investigates the effect of the quality of internal corporate governance mechanisms and investor confidence. Various efforts for corporate governance reform have been conducted in order to enhance investor confidence. Previous evidences showed that investors do not always concern with information disclosure about internal corporate governance mechanisms. As such this study attempted to investigate the linkage between information about four attributes reflecting the quality of internal corporate governance mechanisms and investor confidence. Based on 227 Sharia compliant companies included in List of Sharia Securities (Daftar Efek Syariah/DES) in Indonesia, this study found that firms size has significant influence on investor confidence. Meanwhile, the quality of internal corporate governance mechanism has also significant effect on investor confidence but with different direction. Board Structure and Board Composition as two out of four attributes for the quality of internal corporate governance mechanisms were positively related, while the other two attributes that are Board Process and Board Characteristics were negatively related to investors' confidence. This evidence implied that the quality of internal corporate governance mechanisms have some influence on investors' confidence.

Keywords: Investors' Confidence; Internal Corporate Governance Mechanisms; Attributes; List of Sharia Securities (DES), Sharia compliant companies

I. INTRODUCTION

Recently, most investors are requiring practically perfect information to analyze good corporate governance (GCG) in addition to the performance of companies in generating revenue. Good corporate governance GCG is perceived to have an important role as a basic mechanism to manage and run the company in a way by which shareholders' interests are a top priority of the company's goals including maximizing profit and cash flow of the company.

In the context of Sharia compliant companies especially for Sharia compliant companies listed in stock exchange, GCG disclosure is needed for assuring investors that the Sharia compliant companies has used appropriate mechanisms to monitor and evaluate *Shariah* compliance rely essentially on arrangements internal to the firm. Boards of directors as a tool of internal corporate governance mechanism should disclose information about their activities in monitoring and evaluating corporate Sharia compliance's activities. This information is expected to be able to boost investors' confidence. However, in the term of listed Sharia compliant companies, recently, information about internal corporate governance mechanisms disclosed by the Sharia compliant companies are still not showing the acts of Boards of director as a tool of internal corporate governance mechanism in monitoring and evaluating compliant activities of Sharia compliant companies. Therefore, the purpose of this study is to examine whether internal corporate governance mechanisms in Sharia compliant companies affect investors' confidence.

Previous literatures showed that effective boards of director reflect their success as representative of investors/shareholders (Mak & Li, 2001) functioning to monitor and evaluate the suitability of managers' decisions and actions with the interests of shareholders/investors (Pascual & Larraza-Kintana, 2003) leading to enhance corporate performance (Zahra & Pearce, 1989). Nevertheless, other empirical evidences showed that investors do not always concern with information related to the effectiveness of boards of director (Conyon & Peck,1998; Mak & Li, 2001; Uadiale, 2010). They suggested that internal corporate governance mechanisms still required further investigation to find attributes that boost investor confidence. This is especially true in Indonesian countries that have poor internal corporate governance disclosure (ADB, 2014). The level of good corporate governance of Indonesian country is still in the second lowest level compared to corporate governance of other ASEAN countries. Therefore, this study attempts to find out how attributes of quality of internal corporate governance mechanisms influence investor confidence.

This study chose Indonesian Sharia-compliant companies as the unit of analysis. There are several issues underlying the choice for studying Sharia compliant companies in Indonesia. Firstly, Indonesian Sharia-compliant companies experience faster growth rather than non-Sharia-compliant companies, but the market share of Sharia-compliant companies are still covered 1 percent of the potential market in Indonesia (sindonews.com, 2011). Hence, Sharia-compliant companies face challenges to increase their market share. Secondly, Indonesian Sharia-compliant companies should have better internal control mechanisms than any other companies have due to the companies' fiduciary for complying with the requirement for being Sharia compliant companies. Thirdly, even though there are numerous numbers of literature related to internal corporate governance mechanisms for Sharia-compliant companies, the literatures were focused on developing conceptual models (Grais & Pellegrini, 2006), and identifying the fundamental principles controlling the actions of Sharia-compliant companies (Mizushima & Mizushima, 2014). Likewise, empirical evidences investigating Indonesian Sharia compliant companies are available, but they are mainly focused on investigating financial performance of Sharia-compliant companies (Setiawan & Oktariza, 2013) and the influence of internal corporate governance mechanism on the effectiveness of corporate actions (Haniffa & Cooke, 2002). Whereas, studies investigating the effect of quality of internal corporate mechanisms of Sharia compliant companies toward investor confidence are still in limited numbers.

Therefore, this study attempts to find out how attributes of quality of internal corporate governance mechanisms influence investor confidence in Sharia-compliant companies in Indonesia.

II. LITERATURE REVIEW

One of the critical attributes of listed company is good corporate governance. Listed companies with good corporate governance were expected to be able to be a reflection of efficiency, transparency, and reliability of management systems (Corporate Governance Center, 2006). Good internal corporate governance mechanisms are expected to be a good signal for reducing investors' uncertainty/risk in their investment (La Porta *et al.,* 2000). Hence, listed companies with good corporate governance are expected to create trust and confidence among shareholders and other related parties.

Internal corporate governance mechanisms are commonly connected with Boards of Directors, because the quality of corporate control highly depends on the effectiveness of Boards of Directors' activities. A number of scholars documented the important role of Boards of director in reducing financial restatement (Abbott, Parker and Peters, 2004), reducing information asymmetry between management of company and shareholders by increasing the quality of financial disclosure (Karamanou & Vafeas, 2005), reducing agency conflict (Fama & Jensen, 1983). Also, Boards of Directors functioned as the means for driving internal control mechanisms to mitigate agency problems (Dwivedi & Jain, 2005), for monitoring and evaluating the suitability of managers' decisions and actions with the interests of stockholders (Pascual & Larraza-Kintana, 2003; Rosenstein &Wyatt, 1997; Kim & Purnanandam, 2009; Huang, Chan, Huang, & Chang, 2011; Suvankulov & Ogucu, 2012), and for protecting investors' wealth and investors' interest from corporate management's expropriation (Jensen & Meckling, 1976; Fama & Jensen, 1983). Hence, Boards of director can serve to bridge the gap between investors and companies' management.

Moreover, effective Boards of director are also a major determinant affecting investors' behavior in capital markets (Rosenstein & Wyatt, 1997; Kim & Purnanandam, 2009; Huang *et al.,* 2011; Suvankulov & Ogucu, 2012). Likewise, agency theory literatures suggested that efforts to increase investor confidence should focus on attributing effective Boards of director as one of the primary solutions to protect shareholders' interest from the opportunistic behavior of management (Jensen & Meckling, 1976). Therefore, Boards of director is deemed to function as a reflection of real internal corporate governance mechanisms (Shleifer & Vishny, 1997).

Boards of Director can be divided into four categories (Zahra and Pearce,1989), namely Board Process, Board Structure, Board Composition, and Board Characteristics. Board Process refers to the activities and styles of Boards of the Director in decision making related to conducting their duties as a representative of investors. Effective Board Process determines a success of Boards' functions. Board Structure denotes Boards' organization division of labor among standing committees, and the efficiency of its operation. Board Composition refers to the size of Boards and different types of the Boards. Meanwhile, Boards Characteristics refer to Boards' experience, functional background, independence, stock ownership, similar variables affecting directors' interest in and performance their tasks.

Board Process and Investor Confidence

The effectiveness of Board Process should be a measure of Board activity (Brick & Chidambaram, 2010) to undertake strategic controls and fiduciary duty towards stockholders. Board Process can be an attribute that has a direct effect on Board performance and helps investors for assessing Board effectiveness and ensuring that investor interests have been protected (Zahra & Pearce, 1989). Several empirical studies confirmed that the level of Board activity has a critical role in operational activity of a company leading to change its operating performance (Vafeas, 1999) and positively affects firm value (Kula & Tatoglu, 2006; Brick & Chidambaram, 2010). As a result, information about the quality of Board Process should be interpreted as positive attributes to increase investor confidence in investment decision making. Therefore, hypothesis 1 is built as:

H1: The quality of Board Process is related to investor confidence

Board Structure and Investor Confidence

Previous scholars has demonstrated empirical evidence that Board Structure could enhance monitoring management and accounting transparency (Leuz, Nanda, and Wwysocki, 2003), mitigated the variability of annual accounting return on assets, accounting accruals, extraordinary items R&D expense, the level of R&D expenditures, and reduced information asymmetry (Chung, Elder, & Kim, 2010).

Considering the important role of Board Structure, other scholars showed that Board Structure functions as a driver to generate higher corporate performance (e.g., Kula & Tatogulu, 2006; Uadiale, 2010). The significant effect of Board Structure in determining corporate performance leads investors to be more appreciative to companies with better Board Structure (Bhana, 2010) and more interested in investing their funds in companies with better Board Structure (Carson, 2002). Other scholar confirmed that stronger Board Structure could attract more investors (Chung & Zhang, 2011). Therefore, this study posits the following hypothesis.

H2: The quality of Board Structure is related to investor confidence

Board Composition and Investor Confidence

Board Composition is perceived as a reflection of objective (Weisbach,1988) and effective control mechanisms due to their desire to maintain their reputation (Fama & Jensen, 1983, Conyon & Peck, 1998; Ponnu, 2008). Other scholars also documented that Board Structure represented by independent Boards are supposed to balance control power (Conyon & Peck, 1998) and enhance corporate compliance with corporate governance standard (Ponnu, 2008). Likewise, several evidences showed positive linkages between some Boards' members and firm valuation (Mak & Li, 2001; Darmadi, 2011). The significant linkages between Board Composition and corporate performance should be able to encourage investors to attribute Board Composition as a reflection of good internal control mechanisms. Consequently, market responded information about Board Composition positively (Hermalin & Weisbach, 1988). Given that matter, the subsequent hypothesis 3 is proposed.

H3: The quality of Board Composition is related to investor confidence

Board Characteristic and Investor Confidence

Board Characteristic reflects the quality of Board attitude and experience and its function as a critical device or mechanisms device to assess Boards's attitude in taking the risk (Sung and Hanna, 1996) and to monitor and advise companies' management to manage business affairs that satisfy shareholders' interest (Fama & Jensen, 1983). Additionally, Rivas, Hamori, & Mayo (2009) justified that firm with Board Characteristic (represented by Board age) is related to the capability to build firm internationalization.

Other attribute of Board Characteristic such as corporate ownership held by Boards of director and corporate managers is a critical device for increasing operating performance and determining the possibility of disciplinary management turnover (Bhagat & Bolton, 2006), reducing the possibility of hostile takeover (Shivdasani, 1993), and enhancing the involvement of Board members to perform strategic control (Johnson, Hoskisson & Hitt, 1993). Other evidence showed that Board Characteristic represented by Boards of a director with additional directorship is considered to have greater experience, expertise, and competence to maintain higher governance quality (Vafeas, 2003), which ultimately can provide better decision-making performance.

Prior evidences showed that market responded positively on proxies of quality of Board Characteristic such as Board age (Francis, Hasan, & Wu, 2012), the announcement of short-term executive compensation plan adoption (Tehranian and Waegelein, 1985), outside directors with multiple directorship (Ferris, Jagannathan, & Pritchard, 2003), and the proportion of insider ownership (Chun, Stuart, Nanda, & Wallace, 1992). In light of the above argument, the succeeding final hypothesis is postulated.

H4: The quality of Board Characteristic is related to investor confidence

Firm Size

Firm size is regarded as one variable taken into account by investors in investment decision-making process (Anderson & Reeb, 2003; Anderson & Reeb, 2004; Javed & Iqbal, 2007; Barontini & Bozzi, 2009; Entwistle *et al.,* 2012). The present study uses log natural of total asset as have been conducted by previous studies (Anderson & Reeb, 2003; Anderson & Reeb, 2004; Entwistle, *et al.,* 2012). The log natural of total asset aims to eliminate scale effects (Baker & Hall, 1998; Barontini & Bozzi, 2009 Alimehmeti & Paletta, 2012). Previous literatures have documented that firm size was strongly related to less material error in corporate reporting less financial risk (Kinney & McDaniel, 1989), faster growth, and better internal control mechanisms (Doyle, Ge, & McVay, 2007). Nonetheless, finding of the current study is not consistent with previous studies associating total asset with investor such as firm valuation (Anderson & Reeb, 2003; Anderson & Reeb, 2004), investor reaction (Kinney & McDaniel, 1989; Bamaber & Cheon, 1995; El-Gazzar, 1998). Regarding that matter, the following hypothesis 5 is proposed:

H5: Information about the total revenue is related to investor confidence

In addition, total revenue is other proxy of firm size representing the capability of a company to generate sales revenue. The level of sales was commonly associated with the level of investor confidence. Greater sales was regarded as a reflection of higher effective monitoring of Boards of directors toward corporate management (John & Senbet, 1997), higher effort in creating greater prospects for future opportunities, and higher effort in restricting expropriation minority shareholders (Nworji, Adebayo, & David, 2011), which in turn to affect positively significant toward corporate value (Mak & Kusnadi, 2005). These findings implied that investors provide positive valuation on the level of sales generated by companies in assessing corporate performance. Therefore, it can be expected that total revenue can be used as a variable control of the attributes of effective management and effective monitoring in relation to the level of investor confidence as explained in John and Senbet (1997); Zhu, Tian, and Ma (2009); Bhana (2010); and Nworji *et al.* (2011).

Moreover, Ertimur, Livnat, and Martikainen (2003) have documented that positive sales surprises was related significantly to positive market reaction and it became stronger when it was compared to the market reaction on cost saving surprises. Information disclosure about total revenue could also be interpreted as a reflection of higher monitoring of board of directors to induce corporate management to enhance corporate disclosure (Lang & Lundholm, 1993). In fact, preliminary evidence indicates that total revenue is a determinant of sustainability of companies (Constantinou & Constantinou, 2003; Cosh, Hughes, Lee & Singh as cited in Constantinou & Constantinou, 2003).

H6: Information about total asset is related to investor confidence

CONCEPTUAL FRAMEWORK

Based on the hypotheses that are illustrated above, the conceptual framework is suggested as the following figure

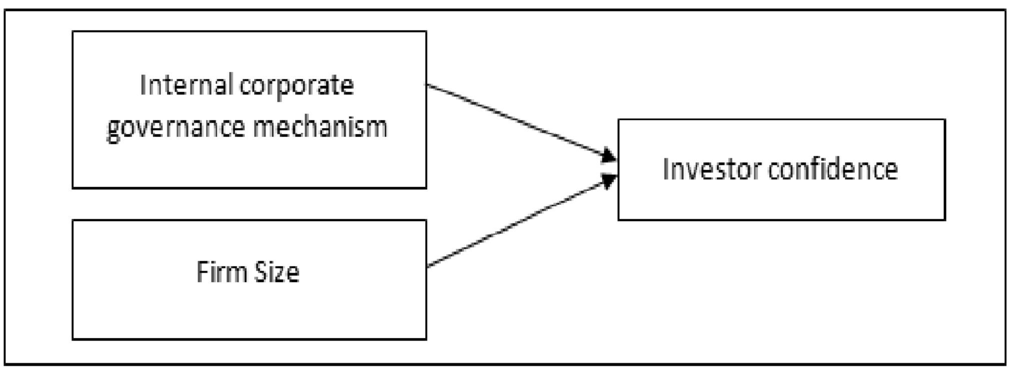

Figure 1: Proposed Conceptual Framework

Based on the discussion explained above, a conceptual framework for investors' confidence was proposed as presented in Figure 1. It represented the relationship between internal corporate governance mechanisms and firm size toward investors' confidence. The conceptual framework focused on two independent factors represented by internal corporate governance mechanism and firm size and one dependent variable represented by investors' confidence. The factor of internal corporate governance mechanism were represented by four variables namely Board Process, Board Structure, Board Composition, and Board Characteristics, while the factor of firm size was represented by total asset and total revenue. To measure the dependent variable, the returns' skewness was used as a proxy of investors' confidence. Therefore, there were six hypotheses that were proposed. The supporting theory used to account for the conceptual framework illustrated in Figure 1 was agency theory.

Agency theory refers to a set of concepts indicating agency relationship between principal and agent who are engaged in cooperative behavior under a set of contracts (Eisenhardt, 1989). The principal (i.e., investors) ideally would achieve optimal level of confidence in the relationship if an agent (i.e., corporate management) acting in line with goals and behalf of principal (Shepherd & Zacharakis, 2001), In fact, the agency relationship faces agency problem when there are different goals between principal and agent. They tend to enhance their own interests by decisions that are suboptimal to other party (Fama & Jensen, 1983). Hence, the principal commonly feels fear (less confidence) in agent's acts (Institute of Chartered Accountants, 2005).

Control mechanism is one of the solutions to reduce conflict of interest (Jensen & Meckling, 1976). Strategies to build control mechanisms can be divided into two broad categories. The first category is control mechanisms based on principal perspective assuming that agent tend to be self-interest and hard to be trusted (e.g., Smith, 1776; Fama & Jensen; 1983; Williamson, 1988; Eisenhardt, 1989; Sridharan, & Navissi, n.d.). The second category is solution based on agent perspective assuming that agent also needs to ensure that the agent would not take actions that would harm the principal. This study focused on the second category of control mechanism. The main reason for using control mechanism based on principal perspective is to support companies' strategy aiming to convince investors in the fiduciary role of Boards of Director to satisfy investors' interest. Hence, if companies disclose information about firm size as a representation of firm size represented by total asset and total revenue; and board process, board structure, board composition, and board characteristics as representations of internal corporate governance mechanisms, it can be expected that the companies can enhance investors' confidence.

III. METHODOLOGY

Sampling Design

This study uses 227 sample companies out of 260 companies listed on the list of Sharia Securities (DES) in Indonesia in 2011. The determination of the sample size was based on data availability in Indonesia Stock Exchange (IDX).

Research Procedure

Data on internal corporate governance mechanisms were hand-collected from annual reports published on IDX website (*www.idx.co.id)*. Meanwhile, data on investor confidence were collected from IDX in the form of daily stock price coming from IDXs documents and Yahoo Finance website.

Measures

Firm size was represented by total asset and total revenue measured by log of total asset (TA) and log of total Sales (TR). Meanwhile, the measure of investor confidence is the coefficient of conditional skewness (SKEW) referring to Bae, Lim, and Wei (2006). The formula of coefficient of SKEW is as follows:

$$SKEW_i = \frac{(n(n-1)^{\frac{3}{2}} \Sigma_{t=1}^{n} R_{it}^3}{(n-1)(n-2)\left(\Sigma_{t=1}^{n} R_{i,t}^2\right)^{\frac{3}{2}}} \tag{1}$$

Where:

Rit = daily returns represents daily returns of stock I during period t

n = the number of observations on daily returns during the period.

This measure indicated a change in returns related to a stock that has larger positive (negative) value in the skew of the return distribution. The coefficient of SKEW reflects investor preference towards the change of payoffs in the individual stock itself. (Bae, Lim, and Wei, 2006). Hence, the coefficient of SKEW captures investor confidence in holding stock.

The internal corporate governance mechanism was measured by four proxies. The four themes were built by referring to Board's performance attributes categorized by Zahra and Pearce (1989). Meanwhile, items of each themes as well as coding for each item refer to parts of items used by Dey (2005) extended by parts of items referring to Zahra and Pearce (1989). The Table 1 showed the measure of each proxy representing internal corporate governance mechanism.

Table 1
The Measure of Each Proxy of Internal Corporate Governance Mechanisms

Proxy	*Measure*
The level of Board Process	Total score of the attributes of Board Process
The level of Board Structure	Total number of the attributes of Board Structure
The level of Board Composition	Total number of the attributes of Board Composition
The level of Board Characteristics	Total number of the attributes of Board Characteristics

The relationship between four attributes of internal corporate governance mechanisms and investor confidence is examined by using regression analysis for the following model.

$$SKEW = \beta_0 + \beta_1 BP_{it} + \beta_2 BS_{it} + \beta_3 3BC_{it} + \beta_4 BCh_{it} + \beta_5 TA_{it} + \beta_6 TR_{it} + e_{it} \quad (2)$$

Results of Multiple Linear Regression Analysis

This study uses Multiple linear regression analysis to investigate the influence of internal corporate governance mechanisms represented by board process, board structure, board composition, and board characteristics, and firm size represented by firm revenue and total asset. The results of multiple linear regression analysis as demonstrated in Table 2.

Table 2
T-test Analysis Result

	t	*df*	*Sig. (1-tailed)*	*95% Confidence Interval of the Difference*		*Mean*	*Std. Deviation*
				Lower	*Upper*		
Constant	47.586	226	.000	.898	.975	.999	.060
TA	1.884	226	.061	.000	.016	6.028	.852
TR	-1.280	226	.202	-.009	.002	5.683	1.270
BP	-14.176	226	.000	-.019	-.014	11.760	3.115
BS	10.516	226	.000	.006	.008	17.470	5.273
BC	10.622	226	.000	.015	.021	6.890	1.641
BCh	-1.804	226	.0726	-.003	.000	11.550	3.260

The result of the regression analysis supports the hypothesis one to four that Board Process ($t=-14.176$ at $p<0.01$), Board Structure ($t=10.516$ with $p<0.01$), Board Composition ($t=10.622$ with $p<0.01$), and Board Characteristics ($t=-1.804$ with $p<0.1$) are significantly related to investors' confidence. Firm size represented by total asset ($t=1.884$ with $p<0.1$) is also associated with investors' confidence significantly while total revenue ($t=-1.280$ with $p >0.1$) shows no significant effect on investors' confidence. The model showed F change of 61.347 in which significant at $p<0.01$ with adjusted R2 of 61.6 percent. Although most of the hypotheses are supported by significant evidence of regression analysis, the sign of effect is different among the variables. Board Composition and Board Structure showed a positive effect on investors' confidence. This result denoted that investors are more confident in a company with higher scores of Board Composition and Board Structure.

On the contrary, Board Process and Board Characteristics show an opposite direction (a significant negative effect) on investors' confidence. It means that investors are less confident in a company with higher score of Board Process as well as the level of Board Characteristic.

CONCLUSION AND DISCUSSION

The effect of firm size shows significant positive effect on investor confidence represented by total asset while total revenue as a representation of firm size does not show significant effect on investor confidence. The finding show that total asset is considered by investors in their decision making process. This support several previous studies showing that total asset was related significantly with investors' valuation (anderson & reeb, 2003; anderson & reeb, 2004) and investors' reaction (kinney & mcdaniel, 1989; bamaber & cheon, 1995; el-gazzar, 1998). Meanwhile, total revenue shows weak effect on investors' confidence. This finding does not support previous studies showing that the total revenue had significant effect on investors' reaction (ertimur, livnat, and martikainen, 2003) and investors' confidence (john and senbet, 1997); zhu, tian, and ma, 2009); bhana, 2010); and nworji *et al.,* 2011). Total sales probably is not considered by investors in decision making process, because total sales is not a proper reflection of the capability of a company to enhance investors' wealth. To determine whether a company can enhance investors' wealth, the investors should know how efficient a company manage its operation. In addition, it is hard to interpret that information about total revenue is a reflection of effective management and supervising the activities of a company.

Moreover, board process and board composition show negative significant effect on investors' confidence. The possible reasons for the negative relationship between Board Process and investor confidence are that investors may attribute higher score of Board Process as excessive, inefficient and costly actions as found by Danoshana and Ravivathani (2013). They found that Board Process represented by Board meeting frequency increased management costs. The second possible reason is that investors may attribute higher score of Board Process as a cover for satisfying regulations and avoiding shareholder litigation as argued by Brick and Chidambaran (2010). The third possible reason is that investors may attribute higher score of Board Process as an indication that a company has some problems and challenges causing an increase of Boards' activity (Jay and MacIver, 1989). Additionally, Lasfer (2007) found that Board Process represented by Board meeting frequency increased when companies faced financial distress.

In addition, negative relationship between Board Characteristic and investor confidence implied that investors are less confident when Sharia-compliant companies present higher score of Board Characteristics.

This finding is contrary to the number of studies suggesting positive relationship between the components of Board Characteristics and investor behavior, such as Tehranian and Waegelein (1985), Rivas *et al.* (2009) and Francis *et al.* (2012) and firm performance (Francis *et al.,* 2012).

The result of this study is consistent with several previous kinds of literature. For example, Wiersema and Bantel (1992) found that Board age as a proxy of Board Characteristic was negatively linked to the propensity to change corporate strategy, and Nakano and Nguyen (2011) highlighted that Board Characteristic (represented by Board age) was negatively related to corporate growth, variability of operating profits and chance to conduct acquisitions. Additionally, Core, Holthausen, & Larcker (1999) noted a negative link between Board age and capital market behavior.

From this, it appears that investors may perceive that the higher scores of the quality of Board Characteristic, the less confidence of investors in the effectiveness of Boards to undertake their tasks in line with investors' interests. When we look at each item of Board Characteristic, it can be assumed that there are several reasons underlying the negative effect.

Firstly, investors may regard older Board members are more concerned with their career as they near retirement. Hence, Boards with older members may make an excessive commitment to maintaining their positions rather than attempting to reduce agency conflict.

Secondly, Barontini and Bozzi (2009) found that managers' excessive compensation was never related to firms' future performance, especially for companies with founding families. Dah (2012) also confirmed that high directors' compensation reduced the likelihood of CEO turnover, mitigated the turnover-performance sensitivity, and encouraged managerial entrenchment. The evidence may lead investors to perceive that higher compensation for corporate management means a higher likelihood of manager entrenchment and controlling power of founding families or managers that can increase their focus on self- interest rather than minority shareholders. As such, Core et al. (1999) found that firms with agency problems tended to provide higher CEO compensation. This is consistent with the finding of this study, which showed a negative relationship between Board Characteristic and investor confidence.

Thirdly, another explanation for the negative effect of Board Characteristic on investor confidence is that investors may attribute Board ownership and multiple directorships as a reflection of less independence of Board members in undertaking their responsibilities. Ferris *et al.* (2003) argued that Boards with high share ownership be more likely to prioritize management and major shareholder interests. Additionally, an earlier study of multiple directorship/ experience showed that multiple directorships were a detriment to corporate governance (Richardson, 1987). Investors may perceive that multiple directorships reflect a tendency to have substantial external commitments and encourage collusion.

Furthermore, busy commissioners may not have enough time to fulfill their responsibilities, leading to ineffective monitors of corporate management and firm performance (Fich & Shivdasani, 2006). Given the negative effect of the attributes of Board Process and Board Characteristics, disclosing attributes of Board Process and Board Characteristics should be addressed carefully, because investors do not always show positive respond to the corporate bonding effort in disclosing attributes of internal corporate governance mechanism. It should be undertaken deep analysis to know what attributes of internal corporate governance mechanism that actually investors need for convincing them in investment decision making.

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