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Board Characteristics, Investors' Confidence and Firm Value: Malaysian Evidence

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ABSTRACT

This study aims to investigate the association between board characteristics and firm value taking into consideration the role of investors' confidence. The subject of corporate governance is still of interest to researchers and practitioners due to its importance and the complexities surrounding it. This is because there are many elements that may interplay with corporate governance in influencing the value of firms. Despite abundance of research on the effect of board characteristics on firm's value, the empirical evidences are still inconclusive. One of the consequences of having good governance as evidenced by many empirical research is the higher firm value. The agency theory explains this relationship such that good governance reduces agency cost, increasing investors' confidence on the firm, hence its value. This explanation indicates that the influence of good governance on the firm's value could be due to its effect on investors' confidence. This study extends the understanding on the relationship between corporate governance and firm value by investigating the role of investors' confidence on this relationship. Companies listed on Main Board of Bursa Malaysia are selected as sample using proportionate stratified random sampling method. The results demonstrate that CEO duality and board independence significantly related to firm value consistent with prior studies. The analysis on the role of investors' confidence in the relationship between board characteristics and firm value indicates that investors' confidence plays significant role in the relationship between CEO duality and firm value. The results provide input to firms on factors that contribute to firm value and to relevant authority on the important aspect of corporate governance.

Keywords: Board independence; CEO duality; audit committee independence; remuneration committee; investor confidence; firm value

Introduction

The importance of corporate governance in today's progressive business environment cannot be denied. Good governance structure can ensure the interest of shareholders is protected (Swedan & Ahmed 2019). From a bibliometric review on corporate governance research, Zheng and Kouwenberg (2019) concluded that more research is needed especially on the topics of how board of directors can contribute to the sustainability of the company. The cost of poor corporate governance is borne heavily by minority shareholders, especially so in the case of emerging markets (Graham, Litan & Sukhtankar 2002). Public listed companies that intend to seek capital from financial institutions and institutional investors should be sensitive to their corporate governance image, since this is a critical factor in the ultimate decision to provide funding to the company (Lipman & Lipman 2015). As noted by Adebambo and Yan (2017), firm value is one of the most fundamental concepts in finance as it has important implications for market efficiency, capital allocation as well as investment's decision. Firm value is important because it is an indicator of how the market perceives the company (Hirdinis 2019). Firm value is not only important indicator for investors but also to creditors. For creditors, firm value can be related to liquidity of the company, indicating whether or not the company can make good its loan (Hirdinis 2019). There are many factors that contribute to firm value such as profitability, ownership structure and corporate social responsibility (Rusdiah, Sudirman & Su'un 2014). However, according to Adebambo and Yan (2017), based on simple behavioral argument, investors' confidence has a direct effect on firm valuation, where the more confident the investors on the company, the higher these investors will value the company. In other words, the investors' confidence and firm value is positively related.

Market players especially investors are important stakeholders in determining the value of the firm as well as funding opportunity. Hence, one of the reasons of having a good corporate governance is to increase investors' confidence in the firm. According to Zaman, Chowdhury and Islam (2019), firms need not only have good governance but must also make good corporate governance a branding. In other words, for good governance to have impact on investors' confidence, firm needs to communicate its good governance practices. Research on corporate governance thus far focuses on consequences of corporate governance including firm's performance (Nazli Anum 2010; Lakshan & Wijekoon 2012; Swedan & Ahmed 2019), disclosure (Gao & Kling 2012) as well as misconduct (Rezaee 2005) and enforcement action (Embong & Md Radzi 2017). Despite abundance of empirical research into the consequences of good governance, findings on the board characteristics association on firm value are still inconclusive. Cucari (2019) stated that corporate governance is still a topic of interest requiring further understanding due to complexities surrounding it.

Build upon agency theory, corporate governance works as monitoring mechanism to align the agent's action to principal's interest. The Malaysian Code of Corporate Governance (MCCG) was first introduced in 2000, and revised in 2007, 2012 and 2017, respectively. Good corporate governance is essential to reinforce public confidence as it safeguards against unethical conduct, mismanagement and fraudulent activities. Nonetheless, most companies pushed towards a culture of compliance, rather than culture of excellence. Boards need to recognize that good corporate governance culture adds value to the company. They need to move away from mere advisors to become active and responsible fiduciary.

MCCG 2012 supersedes MCCG 2007, which sets out 8 broad principles, followed by 26 recommendations which companies should adopt in making good corporate governance an integral part of their business transactions and culture. In essence, MCCG 2012 is to create awareness that good governance is critical in creating shareholder value, which can only be sustained by well-informed strategic direction and engaged oversight. Key amendments made in MCCG 2012, includes enhance the roles and responsibilities of the board, strengthen the number of independent director in the board, examine director independence, separation of chairman and CEO position, improves the company management framework and internal control system, improves the standard of company financial reporting standard, and improve the relationship between company and shareholders. The revised MCCG 2017 presents a major departure from MCCG 2012, in that it "apply or explain an alternative" as compared to "comply or explain" approach. This reform is to improve and enhance efficiency and effectiveness of the control mechanism. Companies which depart from a practice are expected to have an alternative and explain how the application of the practice achieves the intended outcome. The CARE (Comprehend, Apply and Report) approach stated in the MCCG 2017 "aims to reinforce mutual trust between companies and their stakeholders by promoting meaningful disclosures that will be relied upon by stakeholders to have effective engagements with the company. It also promotes a culture of openness and mutual respect that benefits both the company and its stakeholders" (MCCG 2017, page 5). This indicates that stakeholders especially investors are the major concern of MCCG and its direct beneficiary. Hence, good governance should increase investors' confidence and this in return increase firm value. This mediating role of investors' confidence in the relationship between corporate governance and firm value is yet to be empirically researched into. Hence, this paper will provide evidence on the role of investors' confidence.

Investor confidence has been a subject of interest among financial market participants, researchers, and regulators. According to a survey conducted by TowersGroup, a New York public relations firm, and Opinion Research Corporation, following Enron's scandal, 43% of individual investors have lesser confidence in the share market. Further, 88% believe Enron executives, board and auditors intentionally misled the public. No doubt that public's trust is the cornerstone of capital market (Christopher 2002). Existing literature has found that both overconfident CEOs and individual investors take excessive risks (Gervais, Heaton & Odean 2011); take excessive leverage (Sullivan 2009) and tend to pay too much for their respective investments (Biais, Hilton, Mazurier & Pouget 2005) compared to rational CEOs and individual investors. Due to this over-confidence, there is increased in trading volume and this lead to speculation of the market. On the other hand, where there is under-confidence of investors, this may distort the market. In other words, investors' confidence is found to be significantly related to firm value. Investors in Malaysia is found to be reference-dependent and not rational in their investment decision (Toh & Ahmad 2010). This implies that these investors make decision based on their sentiment, perception and confidence. Study by Tuyon et al. (2016) also shows that the effect of investors' sentiment or confidence is not temporary. The change of Malaysian government in 2018 inevitably creates market instability, and hence one of the key objectives of the new government is to boost investors' confidence. Malay Chamber of Commerce Malaysia Research and Development Foundation chairman Datuk Dr Syed Ali Al-Attas said the chamber is hoping for transparent and corruption free practices which will create trust among foreign investors to invest in the country (Andria 2018). The recent concern about investors' confidence indicates that the study on the role of investors' confidence and its influence on firm's value is pertinent and the findings can be used by firms in policy determination.

Despite the importance of investors' confidence, to the best of our knowledge little or no research has been conducted concerning the role of investors' confidence in the relationship between board characteristics and firm value. This study intends to empirically analyze the role of investors' confidence in the relationship between board characteristics and firm value. The components of board characteristics are selected based on 8 broad principles of MCCG 2012, which are reinforced independence, strengthened composition and foster commitment. Firm value is measured using Tobin's Q while investors' confidence is represented by price earnings ratio (PE ratio). The results supported earlier findings on the relationships between board characteristics and firm value. Investors' confidence is also found to mediate the relationship between CEO duality and firm value. The results can be useful to the authority especially those related to capital market in setting or revising rules and regulations relating to corporate governance. This paper will proceed with literature reviews and hypothesis development followed by methodology. Findings and discussions are presented before this paper ends with conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Empirical research on corporate governance are abundance with multiple measurements used. There are a mixed of single variables, multiple variables and self-defined index used as measurement of effective corporate governance. The results are however inconclusive regarding the impact of corporate governance on firm value. Bhatt and Bhatt (2017) using self-defined Malaysian Corporate Governance Index (MCGI) to measure the governance parameter found that there is a positive and significant relationship between corporate governance and firm performance. On the other hand, Mohd Hassan, Rashidah and Sakthi (2008) using multiple variables to measure corporate governance found that firm performance is not associated with the level of disclosure and timely reporting. These different findings could be due to the use of different measurement of corporate governance mechanism. The following sections details out each component of corporate governance that are tested in this research after the discussion on agency theory that explains the relationship between corporate governance and firm value as well as the mediating role of investors' confidence.

AGENCY THEORY

Agency theory explains the relationships between agents and principals. In corporations, the agent, namely the management of the company represents the principal that is the owners or shareholders in business transaction and is expected to represent the best interests of the principal (Benn & Bolton 2011). The interests of agent and principal however, may not be the same, and the differences may become a source of conflict, leading principal-agent problem. Incentives such as rewards may be used to redirect the behavior of the agent to realign these interests with the principal's concerns.

Corporate governance is introduced to change the rules under which the agent operates and restore the principal's interests. Based on agency theory and understanding on agency costs and problems, the appropriate incentives can be designed by considering what interests motivate the agent to act. Establishment of corporate governance is one of the mechanism to align the interest of agents to those of the principals. The main objective of corporate governance is to assure the maximization of the firm value and as a form of protection of the owners (Navarro & Urquiza 2010). The stock market ability to estimate firm value will be higher when firms provide forward looking information disclosures. One of the most important tenet of corporate governance mechanism is to increase transparency through greater disclosure. Greater transparency reduces the opportunity for corporate misconduct. Hence this explains how good corporate governance may increase investors' confidence and subsequently firm value.

The most common board characteristics that are researched into are board size, board independence, CEO duality, gender diversity, board remuneration, AC independence, board experience, nomination and remuneration community. Majority of previous studies investigate the influence of board characteristics on firm performance such as Nazli Anum (2010) that study the relationship between board independence and firm performance and Tien and Hui (2014) that look at the relationship between CEO duality and firm value. There are abundance of studies in this area that practically investigate every characteristic of corporate governance. Since the focus of this study is on investors' confidence, the board characteristics selected are the ones that are of interest to investor. Hence this study limits the investigation on board independence, CEO duality, audit committee independence and remuneration committee. These may be considered as more important factors that is considered by investors compared to other characteristics. In June 2019 for example, shareholders of FGV Berhad rejected the resolution on directors remuneration (thestaronline, 26th June 2019). This indicates that certain characteristics are seen as more important to investors compared to other.

BOARD INDEPENDENCE

One of the requirements listed in the Bursa Malaysia Listing Requirements (2015, revised 2018) stated that at least two directors or 1/3 of the board of directors, whichever is the higher, are independent directors . Independent director means a director who is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of an applicant or listed corporation. The Listing Requirement further details the criteria of independence which includes not a majority shareholder, not having family member in the management or shareholder of the firm etc. (Chapter 1 Listing Requirements).

Agency theorists predict that an independent board is able to effectively align management action with shareholders' interests through intensive monitoring and efficient contracting (Jensen 1986). In corporation, effective monitoring will be restricted to certain groups or individuals, in this case the board of directors. This is so because the board is seen as having the necessary expertise and incentives to fully monitor management. The incentive to effectively monitor management's action will be clouded if the directors are not independent, hence it is important to have independent directors on the board. Empirical evidence such as Rosenstein and Wyatt (1990) shows that there is positive association between the proportion of independent board members and firm performance. The finding is further supported by Yammeesri and Kanthi (2010) for Thailand. Black and Kim (2012) for Korea, Liu et al. (2015) for China and Bhatt (2016) for Malaysia.

However, incorporation of independent directors as board members is always viewed as an inefficient monitoring mechanism. Managers are essentially trustworthy individuals who make decisions that maximize the value of the firm (Donaldson & Davis 1991). Literature suggests that insiders on the board might be more capable of making superior investment decisions because of their firm-specific expertise. An inverse relation between the proportion of outside directors and firm performance is expected for this case. This is documented by Claessens and Fan (2002) and Nguyen et al. (2017). In Vietnam, independent directors face two challenges when participating in board, mainly information asymmetry between insiders and outsiders as well as an expertise knowledge of the inside directors. Inside directors are expected to have better knowledge about current company business, as compared to outside directors. In Malaysia context, Nazli Anum (2010), based on research of 87 non-financial listed companies found that independent director is not significantly related to firm performance. Empirical evidence on the relationship between independent directors and firm value is mixed. However, based on agency theory and the more common findings including Rosenstein and Wyatt (1990), Yammeesri and Kanthi Herath (2010), Black and Kim (2012), Liu et al. (2015) as well as Bhatt (2016), this study hypothesized that:

H_1: There is a positive relationship between board independence and firm value

CEO DUALITY

The MCCG 2012 highlights the importance of the board composition and structure to ensure the directors steer the company towards good corporate governance and upholding the ethical values. Recommendation 3.4 of MCCG 2012 states that "The positions of chairman and CEO should be held by different individuals, and the chairman must be a non-executive member of the board" (page 17). The word used however is "should" and hence the practice of CEO duality prevails post 2012. MCCG 2017 however puts a definitive on the duality role of CEO as stated in Practice 1.3, "The positions of Chairman and CEO are held by different individuals" (page 13). This is because the directors are expected to exercise greater vigilance and professional scepticism in understanding and shaping the strategic direction of the company.

Giovanna and Antonio (2012) claims that CEO duality cause the CEO to have highest authority in decision making and results in difficulty for the board to be independent. CEO duality board structure may encourage high cash holdings structure for the company's investment, which lead to inefficient investments and reduce firm value (Tien & Hui 2014). CEO overconfidence affect their information provision incentives and their investment decision, this is worsen when CEO and chairman is the same person (Goel & Thakor 2008).

On the other hand, Boyd (1995) concludes that CEO duality is more advantageous under certain external environmental conditions, for example resource scarcity, complex and dynamic environments. Elsayed (2010) also found that the performance of the board is better in CEO duality board structure. This inconclusive finding could be due to the influence of various contextual factors on this relationship. For instance, its applicability may vary with the characteristics of firms, such as the firm size, age and ownership (Elsayed 2010). Based on agency theory, a single individual who hold both CEO and chairman creates a conflict of interest that could negatively affect the interest of shareholders. The chairman of the board is supposed to monitor the actions of management including the CEO. If however the CEO and the chairman is the same person, then the monitoring role of the board may be compromised. Thus, it is hypothesized that:

H_2: There is a negative relationship between CEO duality and firm value

AUDIT COMMITTEE INDEPENDENCE

All the audit committee (AC) members must be non-executive directors, with a majority being independent directors as per Bursa's Listing Requirement. A step up process under MCCG 2017 that the AC should comprise solely of independent directors. All AC members should be financially literate and are able to understand matters under the purview of the audit committee including the financial reporting process. However, the ultimate responsibility for a company's financial reporting process rests with the full board.

AC enhances the integrity of financial statement and reduces the audit risk thereby enhancing the quality of reported figures (Christine & Robyn 2014). Adjaoud, Zeghal, and Andaleeb (2007) concludes that company with independent audit, nominating, and compensation committees have positive economic values rather than accounting values.

In some case, existence of AC is to avoid sanctions. Studies by Abdullah et al. (2014) and Al Mamun et al. (2013) contradicted with above research whereby they claimed that some independent AC neither help in reducing earnings management nor improving company's profitability, but increasing fraud to happen in the firm. This is due to the limited number of qualified independent AC members who are able to read, interpret and analyze financial reporting, which is crucial to discharge their roles diligently.

Mohd Saleh, Iskandar and Rahmat (2007) found that it is important to have effective audit committee especially in country with inadequate legal protection as compared to developed countries in order to reduce agency cost. To be able to discharge their responsibility effectively, the audit committee need to be independent. Thus, the following hypothesis is stated as:

H_3: There is a positive relationship between audit committee independence and firm value.

REMUNERATIONS COMMITTEE

There is no mandate requirement to establish remuneration committee (RC) in Malaysia, other than nominating committee and audit committee (Bursa Malaysia Listing Requirements 2015, revised 2018). In fact, some companies is combining the role of nominating committee, together with RC for efficiency purpose, though the board is encouraged to establish a stand-alone RC (MCCG 2018). The existence of separate RC from nomination committee may be seen as important to investors as monitoring of the board can be done more effectively through RC. This is evidenced from the case of FGV Berhad in Malaysia where the remuneration packages proposed was rejected by shareholders and FGV Berhad do not have separate RC. The existence of RC may encourage board to perform their duty more effectively in monitoring management. On the other hand, the existence of separate RC may also be for the purpose of "legal compliance activities" and "information dissemination" rather than control of CEO (Machold & Farquhar 2013). Empirical evidence on this aspect is sparse, hence taking from the example of FGV Bhd as well as agency theory, we propose that the existence of RC is seen as effective monitoring mechanism by investors. Therefore the fourth hypothesis is stated as follows:

H_4: Remuneration committee is positively related to firm value

MEDIATING EFFECT OF INVESTOR CONFIDENCE BETWEEN BOARD CHARACTERISTICS AND FIRM VALUE

Maintaining investor confidence is very crucial for public firms because the inflow of resources and capital by outside investors is the important element for growth and even survival. There has been long debate among finance theorists and researchers on whether investors' confidence influence the stock return is still to a large extend not resolved. A research by Black suggests the concept of "noise' where investors are guided by their own sentiment influencing the market outcomes of firms (Black 1986). On the emerging market, Aitken (1998) found that as soon as institutional investor starts to invest, the domestic stock return experiment a high increase in auto correlations. Hence he concludes that the existence of institutional investor sentiments does contribute to stock return in emerging market.

However, some researchers (e.g. Elton, Martin & Jeffrey 1998; Doukas & Milonas 2004) do not agree with the notion that investors' confidence would be able to distort the market outcome. Brown and Cliff (2004) also concludes there is lack of strong relationship between investor sentiment and stock return. Based on the review of literature on investor confidence and firm value, there is no firm conclusion which is agreed by all the researchers. The result of correlations between the two variables is inconsistent and change depends on the country economic status. Malaysia is classified by World Bank as one of the top emerging economies in Asia and provides a good reference for study of the relationship between investor confidence and firm value in the status of Asia country (World Bank 2015). This is strengthened by findings of Jasman Tuyon et al. (2016) and Toh and Ahmad (2010) that show Malaysian investors are influenced by sentiment in their investment decisions. The mediating role of investors' confidence is therefore depicted in Figure 1 and hypotheses 5 are stated as follows:

H_{5a}: Investor confidence mediated the relationship between Board independence and firm value

H_{5b}: Investor confidence mediated the relationship between CEO duality and firm value

H_{5c}: Investor confidence mediated the relationship between audit committee independence and firm value

H_{5d}: Investor confidence mediated the relationship between remuneration committee and firm value

METHODOLOGY

DATA COLLECTION AND THE SAMPLE

The source of data for this study are companies' annual report and DataStream database. The annual report data is used to assess the variable on board independence, CEO duality, independence of audit committee and remuneration committee. The DataStream was used to assess the information on firm value, investor confidence, leverage, profitability and firm size. This study does not take other sources of disclosure of companies if the companies reported and disclosed in their company's websites, independent sustainability disclosure report, press material and other channel in order to standardize

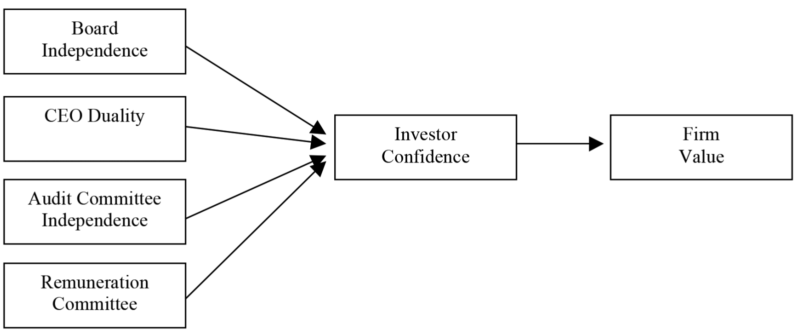

FIGURE 1. Research Framework

the sample and comparable data between each other. Proportionate stratified random sampling is applied. The population of this study consists of public listed companies on Main Market Bursa Malaysia for the year ended 2016. As shown in Table 1, total companies are 751, excluding banking and insurance sectors. Annual reports are chosen as the main data in this study as the annual reports are the most important source of corporate communication and reporting. Public listed companies' annual reports in Malaysia are the most accessible source of information. Study period of 2016 is chosen to avoid the confounding effect of changes in corporate governance as put forward in MCCG 2017. As depicted in Table 1, the final total sample of this study is 120 and this consists of representative from each industry that is proportionate to the total companies in that specific industry.

The composition of industri included in the sample is according to the composition of industry listed on the Main Board. For example the consumer product companies included in the sample is 19, that is 16% of the total sample tested and this is in accordance to the composition of consumer product companies listed on the Main Market.

MEASURE OF CONSTRUCTS

Dependent Variable (DV) for this study is the extent of firm value for listed companies at Bursa Malaysia. Tobin's Q (TOBQ) is used in this study as a proxy for firm value. TOBQ compares the market value of the firm with the replacement cost of the firm's assets. It also implies that the greater the real return on investment, the greater the value of Q.

$$\text{TOBQ} = \frac{\text{Total Market Value of the firm}}{\text{Total Asset Value}}$$

Where Q is higher than 1, company market value is higher than its total assets, which signifies the probability of company's shares are overvalue; and when Q is lesser than 1, there is a probability that the company's shares are undervalued (Mishra & Kapil 2018).

Majority of study on board characteristics test multiple variables and the purpose of this study is to look at the relationships of each characteristic, not in totality. Hence the the independent variables (IV) for this study are board independence, CEO duality, audit committee independence, and remuneration committee. Table 2 summarizes the measurement of respective variable. All the information is collected from the annual report of the company.

This study tested the mediating effect of investors' confidence. Conventionally, there are two major approaches to measure investor sentiment, which are survey-based and market-based measures (Jasman Tuyon et al. 2016). Survey-based usually only available at the aggregate market while market-based can be constructed at the firm level. Single proxy, price to earnings (PE)

TABLE 1. Sample Composition by Industry Sector

Industry Sector	Number of firms listed on Main Market	Number of firms included in sample
Construction	49	8
Consumer Product	122	19
Hotel	4	1
Industrial Product	209	33
IPC	4	1
Mining	1	0
Plantation	42	7
Properties	99	16
SPAC	3	0
Technology	32	5
Trading	186	30
Total Sample	751	120

TABLE 2. Measurement of Independent Variables

Independent Variables	Measurement	Reference
Board Independence	"BIND": Percentage of independence non-executive director over board size.	Amrinder Khosa (2017)
CEO Duality	"CEO": CEO of company also holds the board chairman position. "1" if the CEO holds the chairman position, and otherwise "0".	Bhatt and Bhatt (2017)
Audit Committee Independence	"ACIND": Coded "1" if committee members are majority (at least 2/3) independent non-executive directors and otherwise "0".	Ahmed and Neila (2018)
Remuneration Committee	"RC": Coded "1" if RC meeting is two times or more and "0" if RC meeting is less than 2 times	Mohammadreza and Mohammad (2013)

ratio is applied to do the measurement for this research (Boonlert 2017). Unavailability of consumer confidence index for individual firm in Malaysia leads to quantitative measurement with single proxy to be selected in this study.

PE ratio is one of the most common ratio in determining stock valuation, showing whether a company's stock price is overvalued or undervalued. The PE ratio helps investors determine the market value of a stock as compared to the company's earnings. The PE ratio shows what the market is willing to pay today for a stock based on its past or future earnings. This is a way to measure investor confidence as when investor is confidence to the company that it has future earnings prospect, the share price is perceived high.

Control variable in this study consisting of firm size, leverage, and profitability that are found to influence firm value by previous studies are also included in the analysis. The measurement for these control variables are summarized in Table 3.

DATA ANALYSIS

The data collected from the annual reports are coded directly into IBM SPSS 23 Statistical software. With SPSS, the data is used to run descriptive statistics. Descriptive statistics on variables such as mean, median, standard deviation, minimum and maximum values and frequency are generated to test the pattern and normality of the companies' corporate governance using SPSS. After that, the data is imported into Smart PLS 3.0.

The relationship between each variable is known as path coefficient in PLS. This is being generated after analysis through PLS algorithm. Then bootstrapping is run to obtain standard error and t-value. The predictive power of a structural model is measured through the coefficient of determination, R^2. It measures the mixed effect of independent variables on the dependent variable. Cohen (1989) suggested that the coefficient of determination, R^2 value's 0.26 for substantial, 0.13 for moderate and 0.02 for weak. Next, PLS blindfolding is being run with a specific omission distance, D to compute predictive relevance, Q^2. Based on Hair et al. (2017), value larger than 0 indicates that exogenous constructs have predictive relevance for endogenous constructs. Mediating analysis assesses the indirect effect of independent variables on dependent variable via an intervening variable. Bootstrapping and blindfolding are used to test the mediating effect.

FINDINGS AND DISCUSSIONS

SPSS is used to run descriptive statistic and frequency analysis of the sample. It is conducted on variables to check validity of the samples and to check whether there are missing values of the variable. Table 4 presents the result of descriptive statistic for sampled companies listed on Bursa Malaysia operating in 2016 with available financial result.

DESCRIPTIVE ANALYSIS

Descriptive analysis is presented to provide a brief summary of characteristic of all the studied variables as this statistic will be able to provide a breakdown of analysis in terms of means and standard deviation.

Based on the result in Table 4, board independence (BIND) has a minimum of 28.57% to maximum 80.00%. The mean for BIND is 48.97%, which align with MCCG 2017 that independence director should account for minimum one third of the board. Firm value is measured by TOBQ. There is a huge range between firm values of the sample where the means appears to be 0.810 which the maximum number is 6.878 and minimum number is 0.084. This suggests huge variance of firm's value in the sample. Generally, firms with large TOBQ signals overstated value of the firms. Similar to firm's value, investor confidence (INVCONF) that is measured by PE ratio also shows huge range and a standard deviation of 10.221. There are firms with high investor confidence and there are firms with low investor confidence.

Panel B in Tables 4 shows frequency of Audit Committee independence, CEO duality and frequency of Remuneration Committee. CEO duality is a dichotomous variable with value of "1" assigned to companies with CEO duality and 0 otherwise. The remuneration committee's (RC) meeting is also a dichotomous variable where companies with RC's meeting less than 2 is assigned "0" and value of "1" assigned to companies that conduct RC's meetings for two times or more in the year of study. The result indicates that there are 22 companies with CEO duality in the board of directors. It is equaled to 18.33% of sample. 81.67% of companies practice separation of duty between CEO and chairman. In Table 4, it also shows that 34 companies conduct RC meetings 2 times or more and 86 companies conduct RC meetings less than 2 times in financial year 2016.

TABLE 3. Measurement of Control Variables

Control Variables	Measurement	References
Firm Size	"FSize": total assets of companies reported in annual report	Mishra and Kapil (2018)
Leverage	"LEV": percentage of debt over equity of the company.	Mishra and Kapil (2018)
Profitability	"ROA": return on assets is the percentage of profit after tax over total assets of the company	Li et al. (2008)

TABLE 4. Descriptive Statistics

Panel A				
Variable	Minimum	Maximum	Mean	Std. Deviation
BIND	28.57%	80.00%	48.97%	12.99%
TOBQ	0.084	6.878	0.810	1.091
INVCONF	0.003	70.700	10.221	10.999
FSize	3.916	7.965	5.756	0.749
LEV	-0.33%	69.81%	26.67%	12.06%
ROA	-146.87%	38.08%	1.49%	17.57%

Panel B: Frequency Analysis

Variable	Yes (%)	No (%)	Total (%)
ACIND	96 (80%)	24 (20%)	120 (100%)
CEO Duality	22 (18.3%)	98 (81.7%)	120 (100%)
RC	34 (28.3%)	86 (71.7%)	120 (100%)

ASSESSMENT OF STRUCTURAL MODEL

The key criteria to assess structural model in PLS includes (1) significance of path coefficient, (2) coefficient of determination and (3) predictive relevance.

SIGNIFICANCE OF PATH COEFFICIENT

Path analysis is employed to test the hypothesis developed for the model. As PLS assumes that the data is not normally distributed, thus, it relies on a nonparametric bootstrap procedure to test and validate the significance of estimated path coefficients. Commonly used critical value for one-tailed test are 1.28 with the significance level at 90%, 1.645 with the significance level at 95%, and 2.33 with the significance level of 99% (Hair et al., 2017). Figure 2 shows the PLS structure model for path coefficient and R^2. Figure 3 shows the PLS structure model for t-value with PLS bootstrapping.

Table 5 provides summary of the results of analysis performed to test the hypotheses. Hypothesis H_1 predicts board independence to be positively related to firm value. The result of analysis shows that H_1 is statistically significant at $p<0.10$ and positively related (path coefficient = 0.146, t-value = 1.513), hence, hypothesis H_1 is supported. The finding is consistent with past study for example Rosenstein and Wyatt (1990) finds a positive stock market reaction on the announcement date of an outside board member appointment.

Hypothesis H_2 proposed that CEO duality is negatively related to firm value. The result shows that H_2 is statistically significantly at $p<0.01$ and negatively related (path coefficient = -0.138, t-value = 2.376), hence,

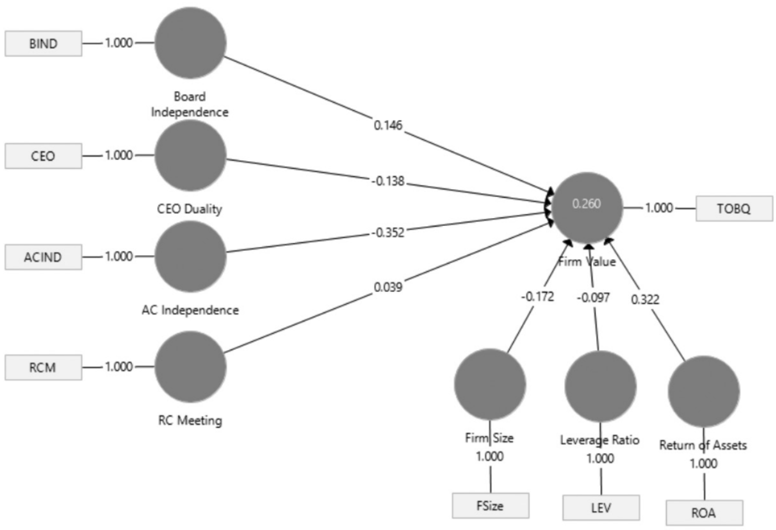

FIGURE 2. PLS Structure Model for Path Coefficient and R^2

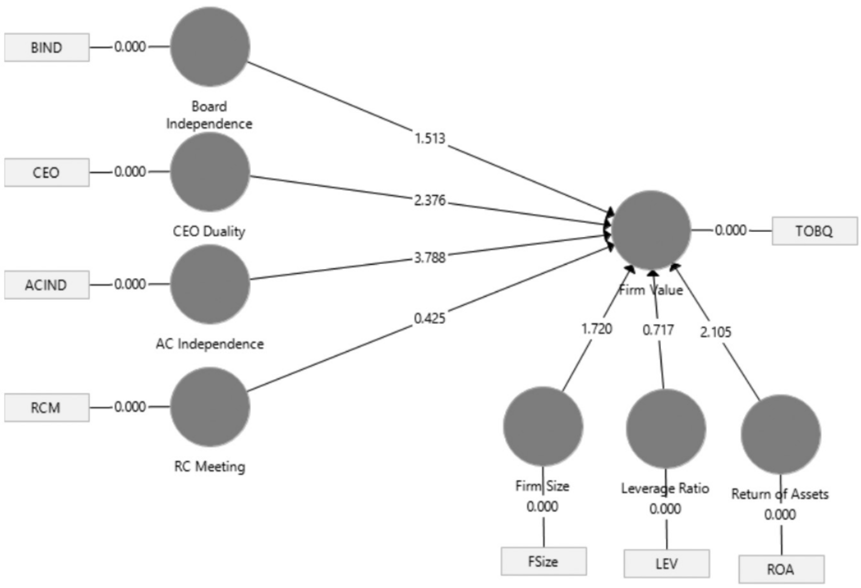

FIGURE 3. PLS Structure Model for t-value

TABLE 5. Path Coefficient and t-value for Independent Variables

Hypothesis	Relationship	Path Coefficient	Standard Error	t-value	Decision
H1	BIND -> TOBQ	0.146	0.097	1.513*	Supported
H2	CEO -> TOBQ	-0.138	0.058	2.376***	Supported
H3	ACIND -> TOBQ	-0.352	0.093	3.788***	Not supported
H4	RC -> TOBQ	0.039	0.091	0.425	Not supported

***p<0.01, **<0.05, *<0.10

hypothesis H_2 is supported. The finding is consistent with past studies such as Tien and Hui (2014) that found CEO duality to be related to inefficient investment decision and this in return lower firm value. This is further exacerbated when the CEO and chairman role is the same person (Goel & Thakor 2008).

Hypothesis H_3 predicts that audit committee independence is positively related to firm value. The result of analysis shows that H_3 is statistically significant at p<0.01 but negatively related (path coefficient = -0.352, t-value = 3.788), hence, hypothesis H_3 is not supported. Al-Mamun et al. (2013) found that independent AC is not significantly related to profitability and firm performance. The result of this study is inconsistent with the expectation as well as the agency theory. One explanation to this is that independent AC may be deemed as having insufficient technical knowledge of the firm and hence may result in the failure of making a good recommendation to the board. In other words, investors may see independent AC as having less technical knowledge on the firm and hence incapable of effectively advising the board. Therefore, for this sample, it shows that independent AC is negatively related to firm value. Hypothesis H_4 proposed that remuneration committee is positively related to firm value. The result shows that H_4 is not statistically significant (path coefficient = 0.039, t-value = 0.425), hence, hypothesis H_4 cannot be supported. This indicates that stand-alone remuneration committee could only be set-up to comply to the regulation (Adam 2018). Results for control variables, namely size, leverage (Mishra & Kapil 2018) and profitability (Li et al. 2008) are consistent with prior findings.

COEFFICIENT OF DETERMINATION, R^2

R-squared (R^2) is widely used to measure the goodness of fit for a model by giving an explanation on model quality in a suggested model. Cohen (1989) suggested that R^2 is 0.02 for weak, 0.13 for moderate and 0.26 for substantial. Table 6 shows the R^2 value for firm value at 0.260 which signifies that 26.0% variance in firm value can be explained by this model.

TABLE 6. Coefficient of Determination

Dependent Variable	Coefficient of Determination, R^2
Firm Value	0.260

PREDICTIVE RELEVANCE, Q^2

When the Q^2 value is greater than "0", this indicates that independent variables have predictive relevance (Hair et al, 2014) for the firm value. The model is being tested with blindfolding procedure. Table 7 shows that the value of Q^2 is 0.186 and it is greater than "0", which means that it provides predictive relevance for firm value.

TABLE 7. Blindfolding

Dependent Variable	Predictive Relevance, Q^2
Firm Value	0.186

TESTING THE MEDIATING EFFECT

Bootstrapping is run to test on the indirect effect result, and results as depicted in Table 8 concludes that only H_{5b} is statistically significant at p<0.01 and negatively related (path coefficient = -0.144, t-value = 1.999). Also the indirect effects 95% Boot Confidence Interval (LL: -0.262, UL: -0.023), does not straddle a 0 in between, indicating there is mediation (Preacher & Hayes 2008). Hence, it can be concluded that the mediation effect is statistically significant.

Hereunder mediation analysis procedure as shown in Table 8, each variable with mediating effect is being tested (Hair et al. 2017). The result for H_{5a} shows that the mediator variable, investor confidence is not significant, hence it can be concluded that it does not function as a mediator in this tested relationship. The direct relationship between investor confidence and firm value is however statistically significant as depicted in Figure 4 and Table 8.

For H_{5b} it shows that the direct and indirect effects are significant. The next step is to determine whether it is complementary or competitive partial mediation. For this scenario, the product of direct and indirect effect is negative. Hence we conclude that H_{5b} is having competitive partial mediation. The result of H_{5c} shows that the mediator variable, investor confidence is not significant, leading to conclusion that it does not function as a mediator in this tested relationship. Since it is significant under direct relationship, as showed in Table 9, H_{5c} is having direct relationship (no mediator). For H_{5d} it shows that the direct and indirect effects are insignificant. Hence it can conclude that H_{5d} is having no effect (no mediation) in this study.

The range of correlation is between -1.0 to 1.0. as shown in Table 10. The correlation between investor confidence (measured by PE ratio) and firm value (measured by TOBQ) is 0.481, which indicates that there is weak positive correlation. One of the possible reasons for the remaining three hypotheses not supported might be due to information on board independence, audit committee independence and remuneration committee need time and effort to extract out from annual report, hence this

TABLE 8. Path Coefficient and t-value for Independent Variables with Mediating Effect

Hypotheses	Relationship	Path Coefficient	Standard Error	t-value	LL	UL	Decision
H_{5a}	BIND -> INVCONF-> TOBQ	0.037	0.118	0.31	-0.175	1.214	Not supported
H_{5b}	CEO -> INVCONF-> TOBQ	-0.144	0.072	1.999**	-0.262	-0.023	Supported
H_{5c}	ACIND -> INVCONF-> TOBQ	-0.084	0.127	0.665	-0.278	0.148	Not supported
H_{5d}	RC -> INVCONF-> TOBQ	-0.012	0.092	0.128	-0.150	0.154	Not supported

***p<0.01, **<0.05, *<0.10, LL=Lower Level, UL=Upper Level

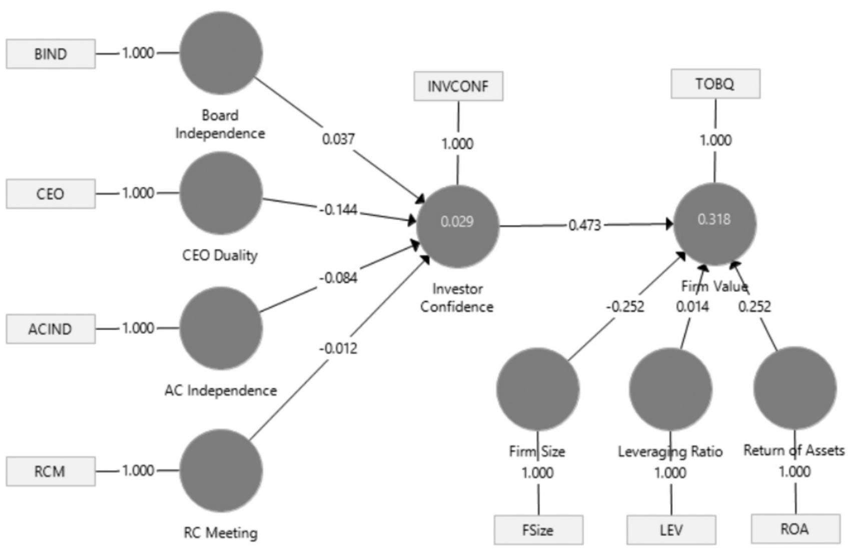

FIGURE 4. PLS Structure Model for Path Coefficient and R^2 with Mediating Effect

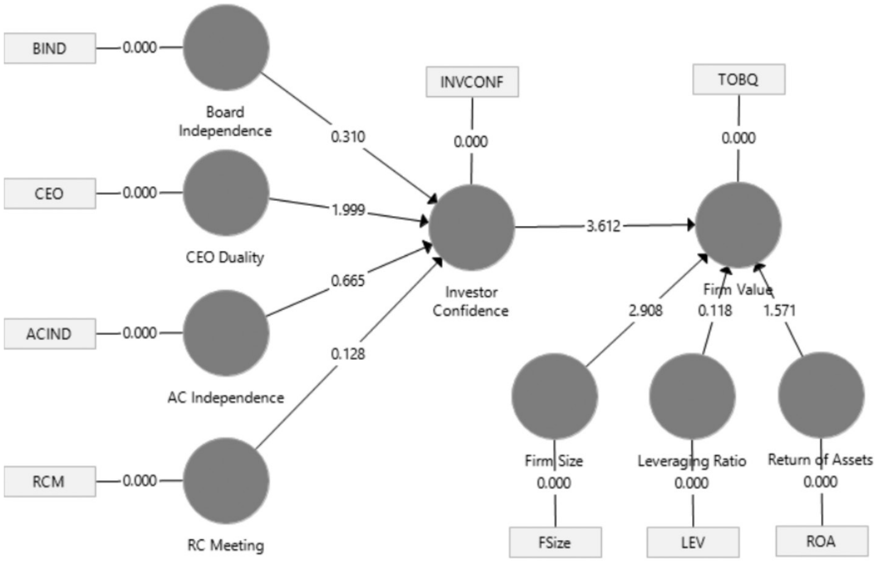

FIGURE 5. PLS Structure Model for t-value with Mediating Effect

TABLE 9. Reporting Mediation Analysis

Variable	Significance			Results
	Indp to Med	Med to Dep	Indp to Dep	
BIND	No	Yes	Yes	Direct only (no mediation)
CEO	Yes	Yes	Yes	Competitive (partial mediation)
ACIND	No	Yes	Yes	Direct only (no mediation)
RC	No	Yes	No	No effect (no mediation)

TABLE 10. Correlation table

Variable	Investor Confidence
Firm Value	0.481

information may not be considered in investors' decision making.

CONCLUSION

This study attempt to provide evidence on the role of investors' confidence in the relationship between board characteristics on firm value. Board characteristics that are tested in this study are 4 characteristics that are deemed to be of importance to investors which are board independence, CEO duality, audit committee independence and remunerations committee.

The test on direct relationships shows that CEO duality, board independence and audit committee independence are significantly related to firm value. However, remuneration committee does no significantly related to firm value. One explanation is may be because remuneration committee is not compulsory in any of the MCCG version, hence it may not be seen as an important feature by investors.

In the test of mediation, investor confidences are being tested as mediator in the relationship between board characteristics and firm value. The results indicate that there is no mediating effect of investors' confidence on the tested characteristics except for CEO duality. The results also show that investor confidence only partially mediates CEO duality to influence firm value. The importance of CEO duality as a factor of corporate governance is duly acknowledged in the latest MCCG 2017.

This study emphasizes the importance of board characteristics on firm value. While board characteristics might not be having significant impact on investors' confidence, it does influence firm value directly in Malaysia. One explanation could be the level of sophistication among investors in Malaysia. Malaysian investors consist mainly of retail investors, and this could explain the level of sophistication among investors. Sophisticated investors tend to evaluate potential firms using all relevant information, financial and non-financial in making investment decision. This finding implies the importance of investment decision based on fundamental assessment of companies. This study sets up a new perspective for Malaysia investor to also look at corporate governance practices of firms while making investing decisions. On top of that it also creates awareness for firm's management to practice and conform to corporate governance and consequentially reduce agency cost. Finally, for regulators, investors can be protected by having relevant rules and regulations as the results of this study indicates that companies tend to comply to rules and regulations.

For future study purpose, exploration on other corporate governance characteristic can be tested such as board size and diversity. This study uses PE as proxy for investor confidence as other measurements are not readily available. One limitation is that this measurement might not be applicable for all the company especially companies with loss during the year and might contribute to negative PE ratio. Future studies may find a more appropriate measure of investor confidence.

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