Study of the Influence of Corporate Governance Level on Investors' Confidence

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Abstract

Stock market investment has the Sheep-Flock Effect, so investors' confidence relates to the stability and healthy development of the stock market. The functional mechanism of investors' confidence is complicated with many influential factors. This paper selects the factor of corporate governance level to investigate and study the great effect of corporate governance level evaluation on maintaining and increasing investors' confidence from the perspective of investors. In this paper, the method to measure investors' confidence and corporate governance level is improved, and the data of A-share companies listed in Shanghai Stock Exchange of China in 2011-2013 is selected as the sample to analyze the panel data. The results show that, the higher the corporate governance level is, the stronger investors' confidence is; investors' confidence is also influenced by the macro level of the market and the nature of various industries is different, so significances of influences of corporate governance level in different industries on investors' confidence are not the same. At the same time, the empirical results show that investors' confidence has a positive lag effect.

Key words: Investors' confidence; Corporate governance; Infuluence study; Lag effect

INTRODUCTION

In recent years, investor confidence has become the research hotspot among domestic and overseas scholars. At the beginning of 2007, global financial crisis triggered by American subprime mortgage crisis produced huge impact on stock market in China and accumulative decline of stock markets of Shanghai and Shenzhen excessed 70%. During this period, dramatic change of stock market was influenced by the variation of investor confidence to some extent. With supervision and management on listed companies strengthened by government, issuance of a series of favorable policies and new opportunities in the economic growth of our country, business operation was improved and performance of listed companies increased. In the latter half of the year 2007, China stock market somehow rose. Does it mean investor confidence changes in recent years? Which factors affect investor confidence? Shiller et al. (1989) investigated and found that investors were irrational in the process of investment and investment in stock markets showed sheep-flock effect and investors' mentality affected their investment behaviors to a great extent. Investor confidence is associated with the stable and healthy development of stock markets. It is of real significance for study on investor confidence. However, formation mechanism of investor confidence is relatively complex, but which are the major factors? A series of surveys on individuals and institutional investors made by McKinsey Company indicated that a majority of investors would like to pay for higher premium for companies with good management status (Newell & Wilson, 2002). For most investors, one of important sources of investor confidence is corporate value and growth and it tries to obtain benefits from the investment decision. However, corporate governance level is the significant signal for measuring corporate value and growth and has vital impact on investor confidence.

In the paper, combined with relevant data in 2010-2014, empirical study was conducted on the influence

of corporate governance level on investor confidence. Compared with previous study, different indexes were chosen in this research from various aspects to conduct comprehensive and quantitative assessment on the governance level from the perspective of connotation of corporate governance. Through comparison and analysis on the current study, measurement on investor confidence was improved. In addition, total samples were analyzed in the paper and typical samples in the industry were selected to do contrastive analysis. Meanwhile, it took hysteresis effect of investor confidence and lag effect of corporate governance on investor confidence into account.

Research significance of the paper is to examine and study the important role of corporate governance level in maintaining and building investor confidence and to evaluate practical significance of corporate governance level from the perspective of investors. This study will be helpful for enriching the application research of corporate governance level evaluation and analyzing influence factors of investor confidence and making the correct choice for investors.

1. LITERATURE REVIEW

In recent years, numerous research literatures related to corporate governance and investor confidence from wide research perspectives can be found at home and abroad, but few of literatures are directly targeted at the corporate governance level and investor confidence. Modern corporate governance is the combination of internal and external mechanisms (Diane et al., 2003), mainly aimed at establishing effective governance structure and shaping power balance among shareholders, directors and management to better protect the investors' benefits (Ho & Wong, 2001). Simon et al. (2001) conducted research and found that effective corporate governance structure could ensure effective operation of the accountability mechanism and enhance the reliability and high quality of governance information and increase integrity and efficiency of the capital market so as to improve the confidence of investors. Leora and Inessa (2004) relied on governance level of 14 emerging companies to do analysis and discovered the relationship between corporate governance level and information asymmetry. In the research result of Lee and Shailer (2008), it was further shown that disclosure of corporate governance information could add the independence of board of directors and its committee to perfect the responsibility of management layer and board of directors and guarantee the integrity of financial statement and rise the confidence of ordinary investors. McGraw et al. (2010) thought that investor confidence was derived from investors' judgment of the future and was a subjective psychological state that investors were optimistic towards the investment prospect of enterprises and believed investment interests

in the future and had no worry about accidental damage caused by investment. Nabil et al. (2014) proposed effective corporate governance structure could guarantee the validity of accountability mechanism and improve the reliability and quality of financial information as well as integrity and efficiency of the capital market and further enhance investor confidence. Investor confidence also affects corporate development to some extent in the future. Research of Wise (2002) indicated that corporates were today faced with new paradigm of bankruptcy which was caused not by conventional financial problems but by loss of investor confidence. It was difficult for corporates to obtain more funds from equality financing to meet development requirement because of loss of investor confidence.

In the domestic literatures about the influence of corporate governance level on investor confidence, typical research made by Lei et al. (2012) suggested that investor confidence was the product of market factors and corporate factors and the empirical result showed that stronger investor confidence was associated with higher governance quality. Li et al. (2012) thought that based on theoretical analysis, high level corporate governance was beneficial for reducing the dissymmetry degree of information and helping investors to understand corporate value and lower investment risk through effective information disclosure. At the same time, Li et al. (2005) also held that corporate governance with high quality could improve corporate value and bring abundant return to investors. Higher corporate governance level could produce better consistency and stability for corporate operation strategy and better guarantee the investment in the future and make investors more confident (Lei et al., 2012). Wu et al. (2011) conducted research on corporate governance, investor emotion and excessive portfolio investment. It was shown in the result that listed companies of our country generally participated in portfolio investment and had the problem of excessive portfolio investment to some extent. The reason was investors in high spirit instead of imperfect corporate governance structure. Part of literatures took investor confidence as an intermediate target. For instance, Du et al. (2014) regarded investor confidence as an intermediate variable to explore the relationship among the ratio of independent directors, investor confidence and agricultural listed company value. The research result indicated that a part of the ratio of independent directors initially had influence on investor confidence and then produced positive driven effect on agricultural listed company value.

Throughout domestic and overseas relevant literatures, major problems discovered in the paper are as follows: (a) It has not performed research and established aggregative indicator from the whole perspective of corporate governance. In recent years, various variable indexes were

selected in domestic and overseas measurement method for corporate governance level to establish comprehensive indexes and do the measurement. However, the selection of variables only focuses on indexes in form like the composition of the corporate governance structure but neglects substantial indexes of corporate governance effect what leads to the huge difference between conclusion and reality. In the present study of influence of corporate governance on investor confidence, most of researches chose certain aspect of corporate governance to analyze or selected many variables from various layers to respectively to study its influence on investor confidence. In the paper, comprehensive assessment would be made on corporate governance level from various layers and aggregative indicator was selected to measure. (b) Evaluation of investor confidence is unreasonable. Measurement of overseas investor confidence mainly includes questionnaire method and alternative measurement method. Data obtained from a questionnaire method is not subjective enough, so it cannot really reflect the emotion of investors. Alternative measurement method usually chooses comprehensive index established by one or more substitute variables to carry out the measurement. In recent years, domestic researches usually apply multiple substitute variables to build comprehensive index, but research results are different because of different data selected and so they are not generally illustrative. (c) Influence of corporate governance level on investor confidence is not examined According to industrial classification and the influence of hysteresis effect is also not considered.

2. THEORETICAL ANALYSIS AND RESEARCH HYPOTHESIS

From the view of corporate governance theory, good corporate governance can make outstanding performance and add corporate value. By improving the financial condition of corporate and reducing risk, investor confidence will increase (Newell & Wilson, 2002). Research result of ISS quantitative model group showed that corporate with high governance level presented low risk, strong profitability and high share price. Stakeholder theory proposes that corporate governance should place stakeholder and directory at the same level, with the core of multi-participation and governance. According to this theory, effective way to solve benefit conflict can improve corporate governance level and better protect investor interests and enhance investor confidence. In the virtuous circle of the capital market, higher corporate governance level can strengthen fundraising capacity of corporate and confidence of investors (René, 2000). It was shown in the research of Leora and Inessa et al. (2004) that corporation can build a sound and independent board of directors by adding information disclosure to strengthen corporate

governance level and investor protection and consequently build investor confidence.

All above theoretical analysis and empirical research results suggest that effectiveness of the corporate governance structure, ownership structure, manager governance of board of directors and timeliness and reliability of financial information disclosure and protection of minority shareholders' benefits affect the corporate governance level and investor confidence.

In conclusion, the first research hypothesis of paper is proposed:

H1: In the case of other conditions unchanged, higher the corporate governance level is, stronger the investor confidence is.

Besides, the paper found that in the current study, most of literatures neglect to pay attention to lag effect of corporate governance level on investor confidence. Corporate governance level may have impact on corporate performance in the future and consequently on investor confidence. Moreover, China is a weak market where information cannot be provided to investors completely and timely, while present domestic researches mainly focus on the influence of current corporate governance on current investor confidence and its measurement is concentrated on the current study.

In our opinion, in spite of analyzing corporate governance condition of current year, investors may also take governance level of previous years as one of the factors when making investment decision. Whether will corporate governance level of previous years have lagged effect on investor confidence?

On this basis, the second research hypothesis of the paper is proposed:

H2: Corporate governance quality has positive lagged effect on investor confidence.

When investor makes decision on investment, his previous behavior will have certain influence on his current behavior. Variation of investor sentiment before and after may be relevant, so we think that investor confidence may have lagged effect.

The third research hypothesis of the paper is proposed on this account:

H3: Under the same condition of corporate governance quality, larger the investor confidence last time is, larger the investor confidence this time is.

In the paper, all data treatment and measurement is based on SPSS 22.0 system and Eviews7.0 system.

3. RESEARCH DESIGN

3.1 Sample Selection and Data Source

(a) Sample Selection: Share A of Shanghai Stock Exchange 2010-2014 was chosen as samples according to the following standard

(i) Corporate with relevant data missing during the research period was removed;

(ii) Finance and insurance corporation, ST corporate and PT corporation were removed;

(iii) Sample with P/B ratio of less than 0 was removed.

(b) Data Source

All data used in this paper was from CSMAR, RESSET and Wind.

3.2 Variable Design

3.2.1 Measurement of Corporate Governance Level

As for corporate governance level, many organizations at home and abroad have issued corporate governance evaluation system. Corporate governance service system (1998) of American Standard & Poor (S&P) is the first corporate governance evaluation system issued abroad. It was modified and then the corporate governance evaluation (score) system (2004) for global listed corporates was introduced (René, 2000). This evaluation system consists of ownership structure, board structure and operational procedure, right and mutual relation among financial stakeholders and financial transparency and information disclosure. Afterwards, lots of organizations like European Deminor (1999) issued corporate governance evaluation system that targeted at the world and comprehensive evaluation index of corporate governance was concluded through multilevel analysis. Research on corporate governance evaluation conducted by domestic authors is later than that by overseas authors. Pei Wuwei of Dapeng Securities Company Limited (2001), Haitong Securities Institute (2002), Hu Ruyin and Situ Danian of Research Department of Shanghai Stock Exchange (2002) took corporate governance characteristics of our country at current stage and corporate governance environment into account based on analysis on governance evaluation system of major foreign corporates and proposed corporate governance evaluation system framework and introduced listed company governance evaluation system and served relevant stakeholders of all parties in corporate. Corporate governance research center of Nankai university, as one of pioneer institutes issuing China listed company governance evaluation system (2003), has successively released China Corporate Governance Index (CCGINK) for several years and this evaluation system is generally accepted and applied.

Given that China listed company governance evaluation system proposed by corporate governance research center of Nankai university can fully reflect the corporate governance level with the view of substance of corporate governance, measure method of corporate governance level in the paper relied on the evaluation system and data information obtained by the public way and selected the following indexes from corporate governance structure, ownership structure, board governance, management layer governance, shareholder protection and information disclosure and principal component analysis was utilized to establish comprehensive evaluation indexes for corporate governance level.

Concrete indexes chosen in the paper are as follows: (a) share proportion of the largest shareholder; (b) stock holding degree of the second to the tenth largest shareholder; (c) *Z* index; (d) dummy variable of setting up president and general manager; (e) proportion of independent director to board of directors; (f) dummy variable of board meeting number; (g) level of managerial share ownership; (h) dummy variable related to dividend; (i) nature of ultimate controller (with or without dummy variable of state-owned holding); (j) dummy variable of timeliness of annual financial report disclosure. This principal component analysis will be performed once a year and comprehensive index of corporate governance level will be finally constructed.

3.2.2 Measurement on Investor Confidence

How to measure investor confidence? In the majority of assessments, on investor confidence made by domestic and overseas authors, indexes are selected to conduct quantitative measurement. Variable substitution is applied in part of researches to do the measurement. Single proxy is applied to do the measurement in some assessments. For example, Beaver (1968) used annual turnover rate of stock to measure investor sentiment. Bake and Stein (2004) proposed to use liquidity index to measure investor sentiment. Multiple substitution variables were applied in some researches to do the measurement. Baker and Wurgle (2007) selected turnover rate in the stock market, dividend, discount rate of closed-end fund, return of IPO in the first day of listing and circulation of ordinary share to carry out principal component analysis and establish comprehensive index of investor sentiment. Lei et al. (2012) and Du (2014) chose growth rate of main business income, P/B ratio and shareholding ratio of institutional investor to do principal component analysis on investor confidence. The other measurement method is the questionnaire survey. For instance, Professor Shiller et al. (1989) applied questionnaire survey to continuously and regularly release investor confidence indexes since 1989 and get general attention and application by institutes and individual investors. Yale University introduced investor confidence index in 2005 and measured investor confidence by questionnaire survey. In general, domestic and overseas corporate scandals have been frequently reported in recent years and consequently the corporate governance problem has been constantly paid wide attention and researched. Investors also take corporate governance level as one of the major investigation factors in the process of making an investment decision.

The paper thought that measurement on investor confidence should apply variable substitution to do quantitative measurement. In the paper, based on existing

research literatures, indexes were selected to conduct principal component analysis and it was found from result analysis that principal component analysis that multiple indexes were applied to do weighting was unavailable because of weak dependency among indexes. Thus, quantitative measurement with single index to substitute was applied in the paper. Return rate is related to the capital condition of aggregate market and banker control while it is not significantly associated with investor confidence.

Considering possible manipulative behaviors of bankers in the stock market, higher return rate does not mean large investor confidence. In addition, shareholding ratio of investors can reflect investor confidence of institutes but cannot completely reflect the overall investor confidence of the whole stock market. And measurement on confidence of medium and small investors is not quite representative. To sum up, the paper concluded that the P/B ratio is the common

valuation method in the stock market which can measure the internal value of enterprises and investment value of individual share, one of significant tools for investors to analyze, measure whether individual share is of investment value to make investment decision.

P/B ratio can wholly reflect the recognition of the market on certain share and further reflect the degree of investor confidence. Generally speaking, lower P/B ratio of stock may make stock of the company underestimated and consequently the possibility of increase in the share price is larger, investment value higher and investor confidence larger. Based on above analysis, P/B ratio was applied to the paper as the substitution index to measure investor confidence.

3.2.3 Control Variable

Given that other variables can also affect investor confidence except for corporate governance level, the paper set major control variables based on previous relevant literatures, as shown in Table 1.

Table 1
Definition Table of Explained Variable, Explaining Variable and Control Variable

Variable type	Name	Identification	Identification and calculation formula
Explained variables	Investor confidence	IC	Using P/B value ratio to do alternative measurement
Explaining variables	Company governance level	GOV	
Control variable	Size	Size	Natural logarithm of total assets
	LEV	Lev	Total liabilities/total assets
	Industrial dummy variable	IND_j	When corporate belongs to industry, j should be 1; otherwise, j should be 0.
	Annual dummy variable	$YEAR_k$	When variable belongs to annual k, it should be 1; otherwise, it should be 0.
	Nature of ultimate controller	Nature	State-owned business should be 1 and others should be 0.
	Return on assets	ROA	Operating profit of current year/asset at the end of year

3.3 Model Design

In the paper, Model (1) was established to examine H1 in the paper:

$$IC_{i,t}=\alpha_0+\alpha_1 \text{Gov}_{i,t}+\alpha_2 \text{lev}+\alpha_3 \text{size}+\alpha_4 \text{ROA}+\alpha_5 \text{year1}+\alpha_6 \text{year2}+\alpha_7 \text{year3}+\sum \text{industry}+\varepsilon . \quad (1)$$

If corporate governance level has significant influence on investor confidence, α_1 would be significant. Thus, H1 is true.

Model (2) was established to examine H2 in the paper:

$$IC_t=C_0+C_1 \text{GOV}_t+C_2\text{GOV}_t-1+C_3 \text{GOV}t-2+C_4 \text{lev}+C_5 \text{size}+C_6\text{ROA}+\sum \text{industry}+\varepsilon . \quad (2)$$

If previous governance level of company has significant lagged influence on investor confidence, coefficient would be significant. Thus, H2 is true.

Model (3) was established to examine H3 in the paper:

$$IC_t=\beta_0+\beta_1 IC_{t-1}+\beta_2 IC_{t-2}+\beta_3 \text{nature}+\beta_4 \text{lev}+\beta_5 \text{size}+\beta_6 \text{ROA}+\sum \text{industry}+\varepsilon . \quad (3)$$

If previous investor confidence has significant lagged influence on current investor confidence, β_1 and β_2 would be significant. Thus, H3 is true.

In Model (1), according to the current study, return on assets (ROA), LEV, company size, industry and year were taken as control variables for examining model.

In Models (2) and (3), in order to study the lagged influence of corporate level on investor confidence, ROA, LEV, size, industry, nature of ultimate controller were selected as control variables for examining model according to existing research of the paper.

4. EMPIRICAL ANALYSIS

4.1 Descriptive Statistics and Empirical Test

4.1.1 Descriptive Statistics

Table 2 is the descriptive statistics of major variables in Model (1) except for industrial and annual control variables. In Table 2, mean value (median) of investor confidence (IC) is 3.17 (2.27), maximum 118.98, minimum 0.53, standard deviation 5.50 that indicates that investor confidence of sample corporates is relatively different in different years. It can be seen from the data that lots of investors have lower confidence. It may be because there are corporate governance scandals frequently in recent years what damage the investor interests and the financial crisis in 2008 and global economic downturn lead to sluggish economic growth in China. Meanwhile, due to the influence of increasingly complicated financial environment and a series of problems of reform and

anti-corruption on the economy, Chinese stock market is sharply fluctuant and investor confidence is hit. At the same time, as Chinese economy comes into post-industrialism time, low speed increasing will become the new normal. In the short term, Chinese economy is basically not good and it further lowers investor confidence. As shown in the above table, there is large

gap among sample corporates in terms of corporate governance level. Mean value of GOV is -0.01, maximum 4.00, minimum -1.70, standard deviation 0.42 that indicates that investor confidence of sample corporates is relatively different in different years. In general, corporate governance level of sample corporates is low.

Table 2
Descriptive Statistics of Various Variables in Model (1)

Variable	Average	Median	Minimum	Maximum	Standard deviation	Observed value
IC	3.21	2.27	0.53	118.98	4.64	3315
GOV	7.63×10^{-5}	-0.01	-1.70	4.00	0.43	3315
Lev	0.53	0.53	0.03	0.95	0.19	3315
ROA	0.06	0.05	-0.30	0.63	0.06	3315
size	22.49	22.28	17.46	28.51	0.58	3315

Table 3 is the descriptive statistics of major variables in Model (2) except for industrial and annual control variables. It is shown that there is a large difference

among different corporates in different years in terms of governance level and the corporate governance level is steady totally.

Table 3
Descriptive Statistics of Various Variables in Model (2)

Variable	Average	Median	Minimum	Maximum	Standard deviation	Observed value
IC_t	3.29	2.40	0.61	47.50	3.75	663
GOV_t	0.00	0.02	-1.70	1.53	0.43	663
GOV_{t-1}	0.00	-0.03	-1.22	4.00	0.43	663
GOV_{t-2}	0.00	-0.01	-1.34	2.90	0.44	663
Lev	0.53	0.53	0.03	0.95	0.19	1989
ROA	0.06	0.05	-0.30	0.63	0.06	1989
Size	22.49	22.28	17.46	28.51	0.58	1989

Table 4 is the descriptive statistics of major variables in Model (3) except for industrial and annual control variables. It is shown from above result that variation of mean value of investor confidence in different corporates in different years is stable and it is related

to the continuous downturn of the stock market in recent years and insufficient confidence of investors on the stock market prospect. It shows that investor confidence is always low in recent 5 years with no big change.

Table 4
Descriptive Statistics of Various Variables in Model (3)

Variable	Average	Median	Minimum	Maximum	Standard deviation	Observed value
IC_t	3.29	2.40	0.61	47.50	3.75	663
IC_{t-1}	3.18	2.17	0.65	53.77	4.50	663
IC_{t-2}	3.17	2.20	0.53	118.98	5.50	663
lev	0.53	0.53	0.03	0.95	0.19	1989
ROA	0.06	0.05	-0.30	0.63	0.06	1989
size	22.49	22.28	17.46	28.51	0.58	1989

4.1.2 Data Stationarity and Effect Examination

In the paper, sample data was selected to do the modeling analysis on panel data. Firstly, explained variables were utilized to do the unit root test, including explained variable – investor confidence *IC*, explaining variable – GOV, control variable – size, LEV and ROA. Inspection result of IC, GOV and Size indicated that the original hypothesis was false and sequence was steady; after first difference of Lev and ROA, examination result

indicated that sequence was steady. Next, we conducted *F* examination and the examination result of three models indicated that the original hypothesis was false and mixed model should not be established. Finally, Hausman examination was performed for panel data of three models and the examination result was shown in Table 5. According to the analysis on the inspection result, it showed that fixed effect was better than random effect in three models, so we chose fixed effect to do parameter evaluation.

Table 5
Hausman Inspection Result

	Chi-sq statistics	*P* value	Fixed/random
Model 1	23.401	0.000***	Fixed
Model 2	5.45	0.091*	Fixed
Model 3	727.972	0.000***	Fixed

Note: "***", "**" and "*" respectively represent significance of 1%, 5% and 10%.

4.1.3 Correlation Analysis

Correlation analysis was conducted on explained variable *IC*, explaining variable GOV, control variables LEV, Size and ROA and the result was shown in Table 1. As various correlation coefficients were low, it meant that there was no problem of multicollinearity.

Table 6
Correlation Analysis Result of Major Variables

	IC	GOV	LEV	Size	ROA
IC	1.000	-0.129	0.063	-0.284	-0.015
GOV	-0.129	1.000	0.023	0.278	0.088
LEV	0.063	0.023	1.000	0.290	-0.225
Size	-0.284	0.278	0.290	1.000	0.093
ROA	-0.015	0.088	-0.225	0.093	1.000

Before multivariate regression analysis, in order to detect probable autocorrelation issue among variables, we conducted *D-W* inspection and discovered that *D-W* values of Models (1), (2) and (3) were respectively 2.15, 2.06 and 1.91, and DW was about 2. Therefore, there is no significant autocorrelation issue in random disturbance in term of the multiple-regression model.

4.2 Regression Result and Analysis of Model

From above inspection, parameter estimation effect types of model were determined to further do regression analysis on the model. Based on analysis, Model (1) was chosen as entity fixed effect model in the paper and the least square method was used to do regression.

Table 7
Regression Result of Model (1)

Variables	IC
Constant	2.156*** （11.69）
GOV	0.132*** （4.590）
Lev	-0.213*** （-4.735）
ROA	-1.498** （-2.486）
Size	0.121* （2.000）
Industry and year	Controlled
Adj.R^2	0.478
F value	830.368***
N	3315

Note. ***, ** and * are respectively significant of 1%, 5% and 10%. Values in brackets are corresponding *T* values. *P* value is in the bracket of coefficients of Hausman inspection.

Table 7 is the regression result of Model (1) that indicates the influence of corporate governance level on investor confidence. Coefficient of investor confidence and corporate governance level is 0.132 and is positively significant of 1%. It means that higher corporate governance quality can make investor confidence stronger. As corporate governance level is the comprehensive index from principal component analysis, when corporate governance structure, ownership structure, board governance and shareholder's equity reach high level, overall corporate governance level can be high. Reasonable ownership structure and governance structure in corporate can make a balance among stakeholders and guarantee the independent operational control position of management and protect minority shareholders' interests. Improvement of corporate governance level can meet the target of interests of external investors and enhance investor confidence.

Table 8
Industry-Oriented Typical Regression Result of Model (1)

Variables	IC_{zzy}	IC_{fdc}	IC_{pf}
Constant	58.83*** （12.97）	16.38 （0.73）	50.63*** (10.56)
GOV_t	0.19*** （5.54）	0.06 （0.20）	0.19*** （3.03）
Lev	8.57*** （19.51）	-2.66 （-0.93）	8.46*** (10.92)
ROA	-1.21** （-2.51）	-4.13 （-1.90）	-1.39** (-2.21)
Size	-2.50*** （-14.64）	-0.47 （-0.58）	-2.36*** (-10.35)
Adj.R^2	0.59	0.79	0.72
F value	1246.66	78.00	48.16
N	1014	174	144

Note. *** and ** are respectively significant of 1%, 5% and 10%. Figure in the bracket is *P* Value.

In order to better analyze the influence of corporate governance level in different industries on investor confidence, we also selected manufacturing industry, real estate and wholesale and retail sale trades with many samples to do contrastive analysis. Table 8 is the typical regression analysis result in different industries. It is shown in the result that corporate governance level of different industries is positively related to investor confidence but the significance level is different.

It is shown that corporate governance level of wholesale and retail sale trades and manufacturing industry has positively significant influence on investor confidence while corporate governance level of real estate is positively related to investor confidence but the influence is not significant. After analysis, we thought that real estate was largely affected by governmental macroeconomic regulation and control. In recent years, a series of regulatory policies and house purchase quota policy on housing issued by government may be the important influence factors for investor confidence. Therefore, investors in real estate are easier to be affected by policy rather than corporate.

Table 9
Regression Result of Model (2)

Variables	Regression coefficient		Standard error	T statistics	Prob.
C	39.03		3.677	10.615	0.000
PDL(-1)	0.095		0.262	0.363	0.000
PDL(-2)	0.077		0.328	0.236	0.717
Lev	8.238		1.223	6.735	0.813
ROA	6.726		4.079	1.649	0.100
Size	-1.800		0.179	-10.076	0.00
Nature	0.042		0.452	0.093	0.926
R^2	0.165		*F* Value		9.135
Adj.R^2	0.147		DW Statistics		2.057
		i	Regression coefficient	Standard error	T statistics
PGDP's lag distribution		0	0.017	0.426	0.042
		1	0.095	0.262	0.363
		2	0.173	0.414	0.417

Table 9 is regression result of Model (2). Eviews was applied to do PDL (Polynomial Distributed Lags) analysis and concrete model of calculation was shown as follows:

IC=39.03+0.017GOV+0.095GOV(t-)
   +0.173GOV(t-2)+8.232Lev+6.726ROA
   -1.8Size+0.042Nature+$\sum$industry+ε .   (4)

It is shown in the result that previous corporate governance level has positive correlation with current investor confidence but its influence is not significant. H2 is not testified. Through analysis, we thought that investor confidence referred to confidence on guarantee extent of future benefits but future benefits of corporate was more dependent on future governance condition, future performance and growth and development ability of corporate and had low correlation with past governance level of corporate. Corporate governance level constantly changes and previous level cannot fully reflect the future development capability of corporate because of reform promotion of various industries in recent years. Therefore, investors pay more attention to current corporate governance level and future development and profitability to determine their confidence degree.

Table 10
Regression Result of Model (3)

Variables	IC_t
Constant	7.495*** （3.915）
IC_{t-1}	0.426*** （14.904）
IC_{t-2}	0.176*** （7.613）
Lev	0.683 （1.135）
ROA	7.718*** （3.700）
Size	-0.271*** （-2.990）
Industry and year	Controlled
Adj.R^2	0.595
F value	58.240
N	663

Note. *** is significant level of 1%, 5% and 10%. Figure in the bracket is *T* Value.

Table 10 is regression result of Model (3). It is shown that previous investor confidence has influence on current investor confidence. The paper made analysis on two lagged stages and found out that coefficients of previous investor confidence and current investor confidence were respectively 0.426 and 0.176 and both of them were positively significant of 1%. According to quantitative analysis, we though that investor confidence had influence on previous investor confidence what further indicated that investor confidence was continuous and consistent to some extent and most investors were cautious.

4.3 Robustness Test

In order to testify the reliability of above result, the paper also made several robustness tests below: (a) using turnover rate to replace the substitution variable of investor confidence (P/B ratio) and conducting regression analysis on above models again; (b) testing sensitiveness of Model (1), (2) and (3) towards control variables and removing control variables in models to do regression analysis. In conclusion, these results of robustness regression were basically consistent with the original conclusion and further testified the reliability of above research result.

CONCLUSION AND SUGGESTION

Through the above analysis, we come to two conclusions as follows: Firstly, corporate governance level has positively significant correlation with investor confidence; corporate governance level of different industries has different influence on investor confidence. Secondly, investor confidence has lagged effect and previous investor confidence has positive influence on current investor confidence. However, above mentioned hypothesis "corporate governance level has positive lag effect on investor confidence" is not testified. The paper suggests that corporate governance has large impact on investor confidence and reason for investment is to gain future benefits, so one of influence factors for decision-

making is the level of confidence. Stock information obtained by investors is limited, so corporate governance level has become the primary basis for them to make decision and influences investor confidence.

In the introduction, the stock market investment has sheep-flock effect and investor confidence is related to stability and sound development of the stock market. However, lagged effect of investor confidence may cause continuous downturn of the stock market in recent years. Faced with the above problem, the paper thought that for a corporate, good corporate governance level can transmit favorable investment information to investors and build fine corporate image and enhance investor confidence and enlarge investment, and consequently corporate value will be influenced. In recent years, capital market and supervision department of listed companies in our country pay continuous attention to how to enhance and improve the corporate governance status of our listed companies. In the process of calculation of comprehensive indexes of corporate governance level, it found out that the following problems should be noticed in the improvement of corporate governance structure: The first one is to further perfect ownership structure and avoid "the single-large shareholder" to damage other stakeholders' interests. The second one is to add proportion of independent directors and avoid independent directors only being "ornament" in the corporate governance link. Independent director should fully take advantage of their expertise, rich experience and independence to really fulfill supervision duty of board. The third one is to improve and optimize salary incentive mechanism in different hierarchies of corporate to better mobilize the service awareness of staffs and effectively prevent self-serving behavior of management; the fourth one is to protect stakeholders' benefits of all parties as far as possible and timely transmit disclosed and transparent information related to corporate governance.

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