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From Boardrooms to Markets: Understanding the Influence of Governance, Structure on Stock Performance

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ABSTRACT

The research aims to explore the relationships between structure of stock market, internal governance within stock markets, external governance factors and stock market performance. We have collected secondary data of fifty-nine countries spanning from 1995 to 2021 have been studied. We have employed the Generalized Method of Moments (GMM) accounting for dynamics besides addressing potential endogeneity concerns. The impact of previous year stock market performance on current year performance is positive. Structure of stock markets, individual using internet and external governance indicators have positive and significant relation with stock market performance. Regulatory business environment, governance practices and easy access of knowledge to public improves the stock market performance. Internal governance has negative impact on stock market performance. The results of the study suggested that institutional quality, enhanced stability in politics and less corruption should be kept in prime focus by policy maker. Facilities like internet access make public more aware of stock market dynamics and improves the participation of public in stock markets. The previous year performance of market, result in an outlook which increase the expectations of investors for businesses and triggering further positivity in the market. This leads to anticipation regarding the trend that this behavior will continue, and it results in increasing returns. Findings of the research provide valuable insights for market regulators and helps policymakers to seek and to promote financial market stability for sustainability in economic growth.

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1. Introduction

Governance explains the institutional frameworks which regulate financial markets, comprising legal, supervisory bodies, and political systems that guarantee cohesion and order in business activities. The equitable aspects such as fairness of legal processes, stability in politics, degree of accountability shape quality of these institutions and their effectiveness in overseeing markets. The effective measures of governance results in performing organization. The attainment of goals of organization is due to identification of the structural dynamics of organization and tackling the governance measures. Stock markets are considered in fostering economic growth, channeling surplus savings into investments thus becoming important for economic growth of a country (Anigbogu & Nduka, 2014). They decrease costs, facilitating investments (Levine & Zervos, 1996). According to (Shen, 2000), stock price variations impact consumption and investment patterns, influencing economic performance. Stock markets help in mobilizing savings, while market liquidity augments economic activity (Levine, 1997). By raising capital flow at low costs, stock markets contribute to advancement in the economy of country (Claessens, Djankov, & Klingebiel, 2000). In developing countries, stock markets have a fundamental role in circulation of savings into investments, (Khan, 2004). Developing markets are attempting to restructure and modify financial systems by mobilizing resources and expand capital markets which promote availability of resources (Basu & Nag, 2013). Likewise, structure of organization operates like its anatomy, giving foundational framework enabling it to function. It influences the behavior of its members, with widespread effects on its operations (Dalton et al., 1980).

The performance of organization will only be comprehended by recognizing that structural dimensions like procedures related to decision making, coordination, specialization and structure processes are crucial in determining ability of organization to shape its aims, make changes, and to sustain at mark. Researchers have used various frameworks to calculate performance in relation to structure, using both quantitative metrics for evaluation of organizational structure on financial and operational results, and qualitative measures to evaluate internal dynamics and adaptability. These dimensions highlight how organizational structure influences communication flow, performance, and acceptance of external pressures (Dalton et al., 1980). Besides, structural importance of organizations, governance is essential for the system prevailing in stock markets. The financial system that operates according to legal system that governs is governance where effectiveness of any institution's foundation lies in its political, legal and supervisory systems (Hooper, Sim, & Uppal, 2009). In banking sector, governance helps in reduced conflicts between managers and shareholders (Daadaa, 2020). Operative laws, stability, control of corruption are included in quality of governance (Low, Kew, & Tee, 2011). Factors like classification, coordination influence the operation of firms and also further effects the performance (Low, Kew, & Tee, 2011). There are different phases of governance of a country of which politics is one of the leading characteristics. Political events impact the returns of stock markets. Political risk affects the national as well as international investors (Murtaza & Ali, 2015). Stock market performance appeals to both local and international investors, but factors like ineffective governance, weak oversight, corruption, and fraud can deter the trust of foreign investor (Low, Kew, & Tee, 2011). The factors, such as board decisions, management changes, and policies, also manipulate market performance (Osuagwu, 2009). Political risk is a key concern for investors at domestic and international level (Murtaza & Ali, 2015).

1.1. Problem Statement

In context of stock markets, the relation of structure of stock markets, internal governance of stock markets, indicators of external governance affecting stock market and performance of stock market are underexplored. It is imperative to undermine the research for structural frameworks of stock markets, internal governance procedures, external governance factors and performance of different stock markets across the world.

1.2. Significance of study

The passage through which surplus money traveled to deficit units is called stock market. In other words, stock markets are middleman for transferring money from savings of creditors to debtors. Stock markets promotes and facilitates economic growth with the help of this property (Anigbogu & Nduka, 2014). The savings are converted into investments through the stock market channel. One of the essentials for the economic growth are the traits of stock market (Anigbogu & Nduka, 2014). The cost of capital mobilization into investment is reduced by the stock market (Levine, 1997). According to (Levine, 1997), stock markets mobilize the savers for investment. By boom and recession, the stock prices rise or fall respectively (Osakwe, Ogbonna, & Obi-Nwosu, 2020). By considering the function, the importance of the stock market is evident and apparent. The economic activity of a country is affected by the stock market liquidity. The investors always prefer markets that are liquid because profitable projects require capital commitment. The risks and costs involved in putting money in projects are reduced by the liquid markets. The economy growth is triggered by the ease of investment due to liquid markets (Levine & Zervos, 1996).

The economy of the country is enhanced by increased capital at low cost with the help of stock markets (Claessens, Djankov, & Klingebiel, 2000). Keeping in view about the importance of stock markets, it is very imperative to understand the factors that influence of stock markets performance. The research will contribute to development of efficient system for operations of financial market.

1.3. Research questions

By exploring the literature, we came across many questions related to structure, governance and performance of stock markets. We came across questions like why some stock exchanges are performing better than other stock exchanges in the world. What are factors the affect stock market performance? How governance impacts the performance of stock markets? What is the difference between the governance within an institution and governance outside the institutions? By roaming through this number of questions we have developed the following research questions around which our study circulates.

- How an internal governance system affects the performance of the stock exchange markets?
- How stock markets structure affects the performance?
- How an external governance factor affects the performance of the stock exchange markets?

1.4. Objectives

This research investigates how the dynamics of organization structure and system of governance practices within stock markets can affect their performance. The study conjectures about the mechanisms within organization are crucial for operations and financial results. The correlation between governance systems and performance of markets are analyzed in this study. This study will put contribution in policy making and regulations that can improve and enhance the structure of governance and economic sustainability.

H_0^1: *The financial market performance has no relation with internal governance mechanisms.*
H_0^2: *The performance of financial markets is not linked to the structure of stock markets.*
H_0^3: *The external governance mechanism and the performance of stock markets are not linked.*

1.5. Organization of the study

We have explained the literature review related to our research area in section 2. In section 3 Theoretical frameworks is described. In section 4, we have explained the methodology and data of the study. Results are elaborated in section 5. In the last section we have explained conclusion with policy suggestions.

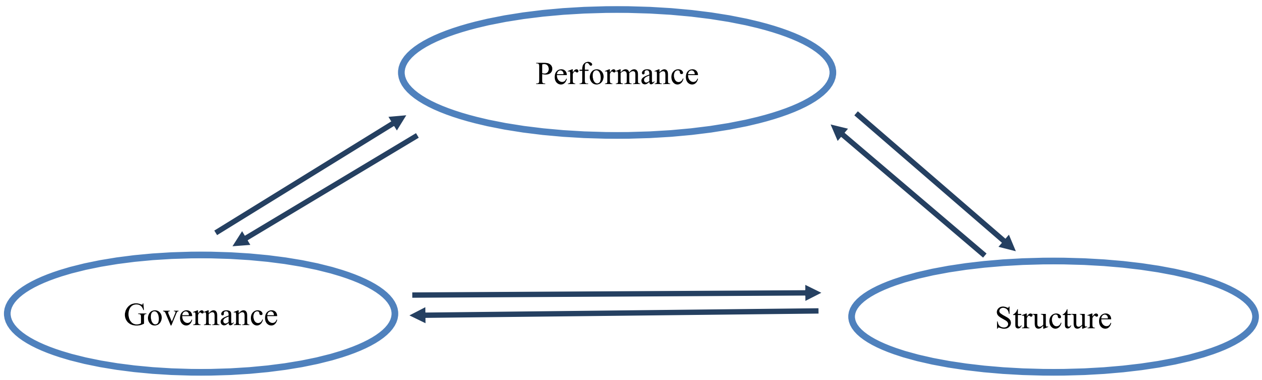
2. Literature Review

Studies underscore the factors that cause impact on performance of stock markets. The study by (Jayasundara, Rathnayake, & Fernando, 2019) using the data of Colombo Stock exchange analyzed by OLS from 2006 to 2016 found that interest rate and the industrial production index affect negatively. As the civil war ended in Sri Lanka, it has attracted foreign investments. In South Asian countries, the dynamics of governance and stock market performance are investigated by (Ahmady, Mehrpour and Nikooravesh, 2016). The study concluded that the governance have positive and significant relation on stock market development. Similar results are found by except for regulatory quality and accountability (Modugu and Dempere, 2020). The studies by (Imran et al. 2020) have analyzed the twenty-five countries for understanding the stock market returns and governance indicators. A country with good governance procedures and systems has effective implementation of rules and regulations and it enhances stock market performance. The institutional efficiency in a country reduces the agency costs and makes the financial projects profitable by increasing the investor confidence. (Setiawan, 2020) found that if the GDP of a country improves then the stock market indices also improve. Similarly stock market performance is negatively impacted on exchange rate and interest rate. The positive relation of growth of economy and stock market development are found in numerous studies. (Jumaah et al. 2023) explored how the quality of governance indicators affects the stock market performance. The study concluded that the accountability and stability in politics have positive impact on the stock market performance except the rule of law in the integrated market. Research was conducted on Indonesian stock market by (Amelia et al. 2021) concluded that the good governance practices within the financial market improves the stock market returns. The research by (Udo, Odey and Jacob, 2022) on macroeconomic variables affecting the stock market performance.in Nigeria gross domestic product, exchange rate and saving rate effect stock market performance positively while inflation effect stock market performance negatively.

In context of Pakistan research was conducted by (Khan et al. 2022) on stock market performance of Pakistan. The research concluded that the indicators of governance affect the stock market performance in such a way it increases the capitalization of stock market and improves the turnover ratios. The political instability reduces the business in stock markets by decreasing its size and increasing transaction costs (Obenpong Kwabi et al. 2024). The Indian stock market performance by application linear regression model was done by Garg and Gupta (2023). The study investigated the governance and stock market prices. The companies which have better governance practices have better stock performance in terms of prices. The research suggested that the regulators should work on strengthening the assessment and governance frameworks. The information disclosure and stock prices are investigated by Vietnam by Ha, Nguyen and Ho (2024) for 30 listed companies and found that there is positive relation of disclosure with the stock market prices.

The review of past studies has found diverse relation between governance and stock market performance. Several studies found positive impact of GDP, trade, exchange rate, interest rate on stock market. Some factors like inflation have negative impact on stock market. In case governance indicators the political stability, regulatory quality, control of corruption has positive impact on stock market performance. The voice and accountability and rule of law have mixed effect on stock market performance. Despite all these findings there is noticeable gap in research in which structure of stock markets is missing. From the perspective of theories like agency theory and stewardship the relation of internal governance factors with the stock market performance in review of literature is missing. The focus of agency theory is shareholders and managers. The stewardship focuses on the cooperation between parties. There is research gap in fields of structure of stock markets and its effect on the stock market performance. The aim of research is to explore the implication of these theories to check the relation of structure, governance and stock market performance. We have interlinked structure, governance and performance is shown by figure 1. The process of implementing strategies, policies and actions within an organization requires governance. It includes attitudes and behavior in the organization. The design of an organization which includes resource allocation, roles and hierarchy is structure of organization.

Figure 1: Interconnection between performance, governance, and structure



The structure of organization is design of hierarchy that contains the division of labor, departments, resource allocation which helps in attaining goals. There is alignment of strategies, processes, aims, operations, costs, management with the structuring of an organization. The scalability and adaptability of organization increase the confidence of investor. The practices that govern the rules, routines and processes can monitor the overall performance of organization are included in governance. This involves accountability, transparency and fairness which trigger the efficiency of decisions and management within an organization. On the other hand, bad governance leads to inefficient management and decisions that negatively affect the performance of organization. So, there is cyclical relationship of structure, governance and stock market performance. It involves a constant and regular revised approach regarding structure, governance and performance to attain success of stock market. The functioning of financial markets is the barometer of economic health of country. The stock prices also show the health of businesses and companies. The practices, routine, rules by which an organization is monitored and supervised is called governance (Asaduzzaman et al. 2016; Javed, Iqbal, & Hasan, 2006).

Performance of institutions with protection of investors rights are protected by the effective governance, practice of rule of law, transparent channels of accountability which leads to stability of financial market (Bovaird, Loeffler, & Martin, 2003; Cohen, Krishnamoorthy, & Wright, 2002; Darko, Aribi, & Uzonwanne, 2016; Imran et al., 2020). Alignment of shareholder interest with goals of companies is supervised by good governance which leads to stock market performance. There is difference in corporate governance practices in developing and developed countries Azeez (2015), and this governance circles around the community, social, organizational, national global channels (Mees & Smith, 2019). The elements like proficiency, codification, regulation, consistency, layout, design and customization are included in structure of organization Dalton et al. (1980) and Ahmady, Mehrpour and Nikooravesh (2016). These aspects of structure are the key factors by which the activities of organization are overseen and reviewed. The proper structure of organization leads to streamlined optimization of resources, coherent communication and rational decision processes which ultimately lead to attainment of organizational goals. As the governance practices alter the structure of organization which converges on the organizational performance. The long-term success of organization, risk management continuous growth, investor well-being and equilibrium maintenance is necessitated by this iterative channel. Organizational structure and governance practices influence factors like capitalization of, number of list companies, turnover and value traded (Asongu, 2012; Zafar, Qureshi, & Abbas, 2013). The sustainability of businesses in markets is the interplay of structure, governance which eventually results in good financial market performance.

3. Theoretical Framework

Contingency theory has been influential in the field of management, as it recognizes the importance of adapting management practices to different contexts. Additionally, some have argued that the theory may overemphasize the importance of external factors at the expense of internal factors such as culture and leadership (Fiedler, 1964), (Donaldson, 2001) and Burns and Stalker (1961). Three types of variables are defined by contingency theory (Luthans & Stewart, 1977) which includes environmental, resource and management. As stated by contingency theory the former stated variables are primary variables of system. The external and internal factors within an organization are different. Factors like federal legislation that affect outside organization and some factors affect the internal environment of organization which can be controlled by system prevailing within organization. The secondary variables include variables which are related to situation. It is an interlink of resources that are in the organization with the dealing of manager. Another secondary variable is performance. This performance is connected to how much progress is made to achieve the goals of organization by managers and keeping in view the interaction of environmental variables. In the last contingency theory explained tertiary variable, in which interaction of three variables resource, management and environment variables. Tertiary variable is the performance of whole system and organization.

4. Methodology and Data

Structure, governance, and stock market performance are focus of the study. The relationship among these variables is empirically examined through the subsequent regression. The model of the study is given as follows:

$$SMP_{it} = \alpha_0 + \alpha_1 BDI_{it} + \alpha_2 MCP_{it} + \alpha_3 CCR_{it} + \alpha_4 PSV_{it} + \alpha_5 GEF_{it} + \alpha_6 RGQ_{it} + \alpha_7 ROL_{it} + \alpha_8 VAC_{it} + \alpha_9 GDP_{it} + \alpha_{10} LLB_{it} + \alpha_{11} INET_{it} + €_{it} \quad (1)$$

Where, SMP is stock market performance measured through stock market returns. BDI is extent of Business disclosure index, MCP is market capitalization, CCR is control of corruption, PSV is political instability, GEF is government effectiveness, RGQ is regulatory quality, ROL is rule of law, VAC is voice and accountability, GDP is gross domestic product, BMS is Liquid Liabilities % of GDP and $INET$ is individual using internet. By adding dynamic effects in the model:

$$SMP_{it} = \beta_0 + \beta_1 SMP_{it-1} + \beta_2 BDI_{it} + \beta_3 MCP_{it} + \beta_4 CCR_{it} + \beta_5 PSV_{it} + \beta_6 GEF_{it} + \beta_7 RGQ_{it} + \beta_8 ROL_{it} + \beta_9 VAC_{it} + \beta_{10} GDP_{it} + \beta_{11} LLB_{it} + \beta_{12} INET_{it} + \mu_{it} \quad (2)$$

Where, SMR_{it-1} is lag of dependent variable, the subscript i denotes the i^{th} country $(i = 1,2, \dots ,59)$ and the subscript t denotes that t^{th} year$(t = 1,2, \dots ,26)$. We have examined fifty-nine stock markets spanning from 1995 to 2021. Governance variables are divided into internal and external categories. Business extent of disclosure index is used proxied for internal governance. External governance includes Voice and Accountability, Political Stability, Regulatory Quality, Rule of Law, Control of Corruption, and Government Effectiveness. Stock market structure is proxied by market capitalization to GDP (%), and Stock market performance is proxied by financial market index. We sourced data from World Development indicators (WDI) about external governance, internal governance, structure and stock market performance. To ensure the robustness of our findings, we incorporated liquid liabilities (% of GDP), Gross Domestic Product (GDP), individuals using internet (%) as our control variables. Individuals using internet (%) is the number of individuals using internet. The description of variables and descriptive statistics is given in Table 1.

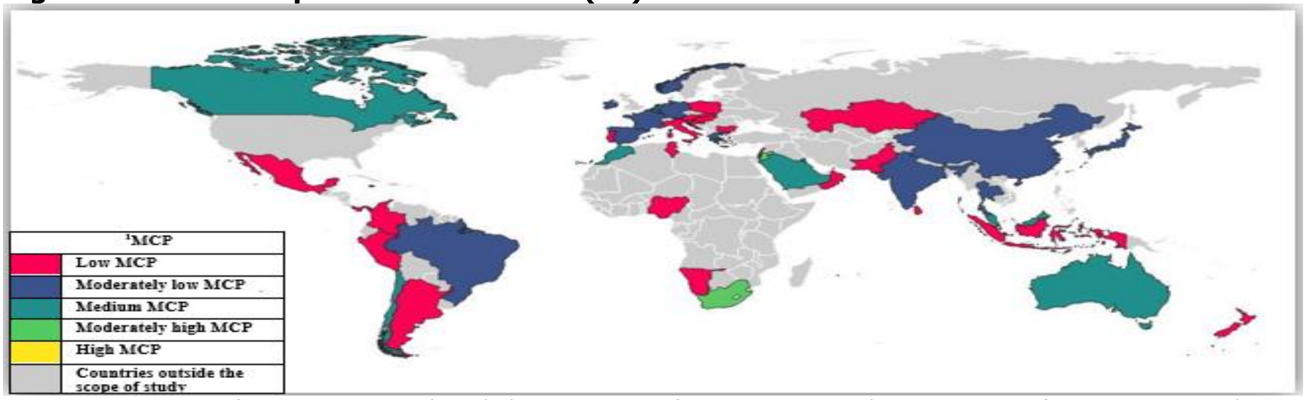
Table 1: Descriptive Analysis of variables

Variable		Obs.	Mean	S.D.	Min	Max
SMP	Index to measure the performance of stock markets	2018	0.4943	5.9300	0.00001	224.22
BDI	It is index of financial information. It ranges from 0 to 10.	1364	6.5909	2.2332	1	10
MCP	The values of stocks traded % of GDP.	1937	65.1450	110.942	0.0081	1777
LLB	Broad money % of GDP	1593	0.9257	0.9625	0.0841	9.27
INET	Internet users of population (%)	1593	42.521	32.4715	-0.4060	100
GDP	Additions of gross value added by all resident producers with product taxes and subtract subsidies.	1593	11.308	0.7612	9.5249	13.33
CCR	Aggregate indicator ranges from -2.5 to 2.5. It is extent to which public power is exercised for private gain.	1870	61.8212	27.4572	0.4739	100
GEF	Aggregate indicator of public services. It ranges from -2.5 to 2.5.	1870	66.6200	23.5998	1.9047	100
PSV	Aggregate indicator of likelihood of political instability. It ranges from -2.5 to 2.5	1870	54.8021	28.9736	0.4739	100
RGQ	Aggregate indicator of government regulations. It ranges from -2.5 to 2.5	1869	66.3890	24.3364	0.4761	100
VAC	Aggregate indicator for freedom of expression. It ranges from -2.5 to 2.5	1868	63.3879	26.2614	0.4694	100
ROL	Aggregate indicator to abide by law. It ranges from -2.5 to 2.5	1870	59.9421	28.6046	2.3474	100

The Figure 2 depicts the market capitalization of countries. Slovakia has lowest market capitalization. The reason could be due to small economy size of Slovakia. It has a small corporate sector therefore it is less attractive for investors. The favorable business environment in Hong Kong has put it on highest market capitalization. Hong Kong is hub of financial market; it boosts the corporate growth which again attracts investment. Figure 3 shows the stock market return of countries. Slovenia has highest stock market return due to its diversified and stable economy. This encourages the investor to participate more, and they get good returns. Bulgaria has lowest stock market return which depicts the challenges Bulgaria might be facing in businesses.

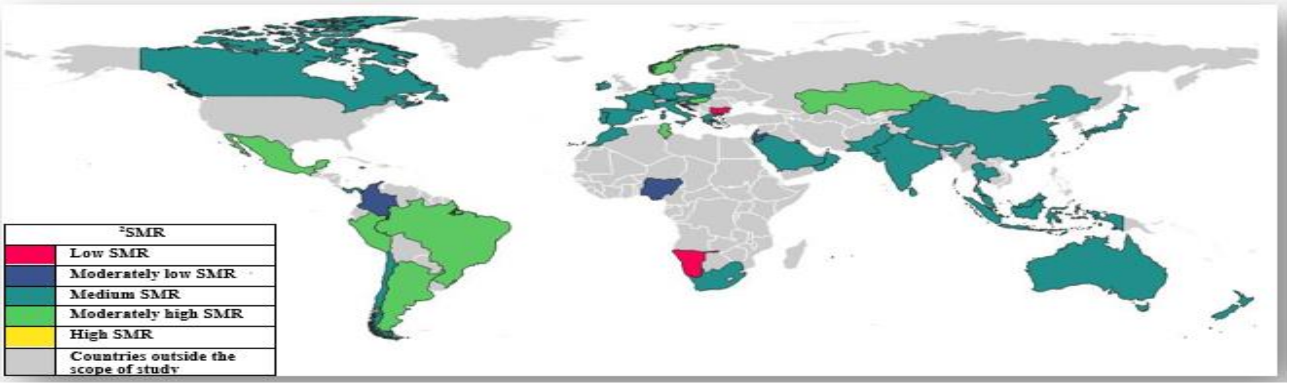
Figure 4 shows the internal governance of countries. The difference in regulatory environments, governance practices and transparencies lead Thailand, China, Bulgaria, Malaysia, New Zealand and Singapore to highest business disclosure index. While Hungary is at lowest business disclosure index. The reason could be that the framework for investor protection is less developed, and enforcement of regulations is weaker in Hungary. Figure 5 depicts the New Zealand is highest in external governance while Nigeria is lowest in external governance. New Zealand has enforced strong corporate governance standards while Weak enforcement of governance laws and systems are practiced in Nigeria. It struggles to cope with corruption, political instability and exploitation.

Figure 2: Market capitalization to GDP (%) of countries



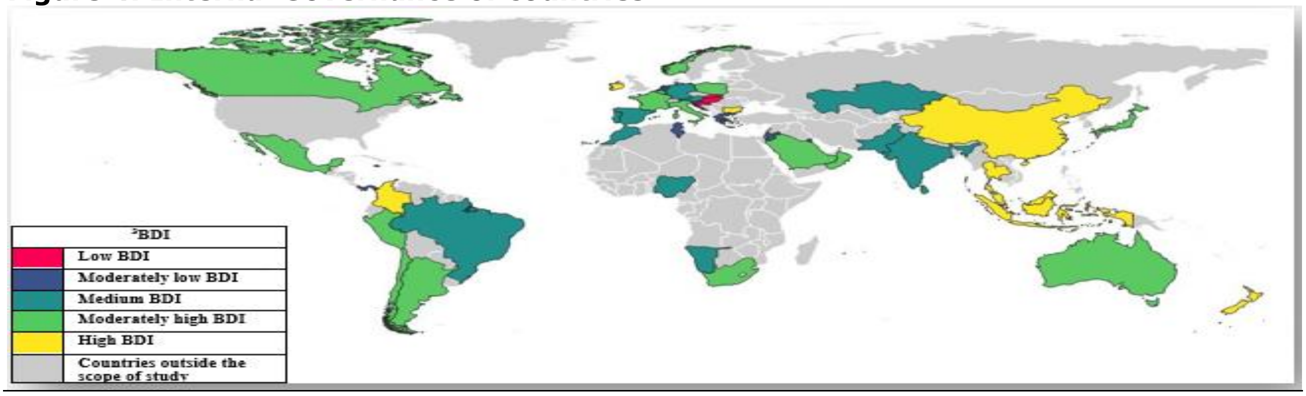
Note: Low MCP ranges from 0.04-0.41, Moderately low MCP ranges from 0.41-0.83, Medium MCP ranges from 0.83-1.44, High MCP ranges from 1.44-3.87

Figure 3: Stock market return of countries



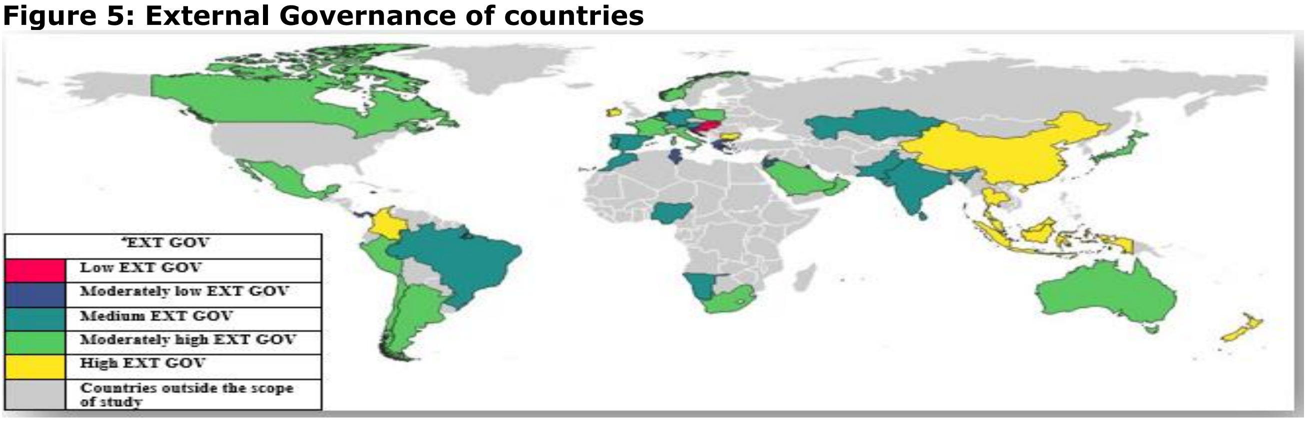
Note: Low SMR ranges from -0.45- -0.26, Moderately low SMR ranges from -0.26- -0.05, Medium SMR ranges from -0.05-0.12, Moderately high SMR ranges from 0.12-0.26, High SMR ranges from 0.26-0.84

Figure 4: Internal Governance of countries



Note: Low BDI ranges from 2-3, Moderately low BDI ranges from 3-4.3, Medium BDI ranges from 4.3-6.5, Moderately high BDI ranges from 6.5-8, High BDI ranges from 8-10

Figure 5: External Governance of countries



Note: Low EXT GOV ranges from -1.12- -0.44, Moderately low EXT GOV ranges from -0.44-0.14, Medium EXT GOV ranges from 0.14-0.75, Moderately high EXT GOV ranges from 0.75-1.3, High EXT GOV ranges from 1.3-1.76

5. Results

Research questions, hypothesis and aims of study are guidance to select the estimation technique. Endogeneity issues and time dynamics give the need to employ dynamic models. We have applied Arellano bond test to tackle the endogeneity issue (Hansen, 1982). The results are given in table 2. The detailed financial statements and openness of risks in reports have negative impact on performance of stock markets. The underlying issues and instability of businesses are interpreted by investors from studying the financial reports might make them risk averse. The concerns of critical data and make investors more cautions. It leads to decrease of confidence in financial health of businesses. (Khanifah et al., 2020) found that corporate governance disclosure in Islamic banks positively related to operating performance. However, the study observed that disclosures and financial performance metrics have no significant relationship (Khanifah et al., 2020). (Wang & Chang, 2008; Jiao, 2011; Schoenfeld, 2017) found that positive association of disclosure information with performance of stock market. (Jirasakuldech et al., 2011) found negative association of disclosure of information with stock market performance. We have found positive association of external governance indicators with the stock market performance. The regulatory and legal business environment is produced by the effective control of corruption. The timely information with accuracy depicts the transparency in the operations of business. Stock market prices improve due to fair and predictable businesses in the dynamic trade world.

Table 2: Results of Arellano Bond Model

Variables	Regression – I	Regression – II	Regression – III	Regression – IV	Regression – V	Regression – VI	Regression – VII
SMP_{t-1}	0.1043 (13.77)***	0.1039 (14.44)***	0.1114 (15.19)***	0.1097 (14.28)***	0.1011 (15.12)***	0.1117 (15.10)***	0.1026 (13.19)***
MCP	0.0017 (2.65)***	0.0022 (3.53)***	0.0019 (3.22)***	0.0019 (3.07)***	0.0016 (2.37)*	0.0020 (3.36)***	0.0020 (3.07)***
BDI	-0.0066 (-9.98)***	-0.0067 (-6.16)***	-0.0072 (-9.14)***	-0.0072 (-8.46)***	-0.0074 (-8.49)***	-0.0070 (-9.47)***	-0.0075 (-8.00)***
LLB	0.0032 (1.71)*	0.0039 (1.95)*	0.0041 (2.20)**	0.0034 (1.72)*	0.0036 (1.97)**	0.0049 (2.61)***	0.0037 (1.85)*
INET	0.0005 (9.92)***	0.0005 (10.72)***	0.0005 (8.92)***	0.0005 (9.31)***	0.0005 (9.96)***	0.0005 (9.16)***	0.0005 (10.27)***
GDP	0.0970 (21.19)***	0.0959 (23.27)***	0.0991 (19.28)***	0.0973 (19.63)***	0.0965 (19.08)***	0.0987 (19.62)***	0.0968 (19.35)***
CCR	0.179 (6.22)***	---	---	---	---	---	---
GEF	---	0.0186 (9.25)***	---	---	---	---	---
PSV	---	---	0.0010 (0.67)	---	---	---	---
RGQ	---	---	---	0.0076 (3.78)***	---	---	---
ROL	---	---	---	---	0.0076 (3.78)***	---	---
VAC	---	---	---	---	---	0.0129 (5.94)***	---
GOV	---	---	---	---	---	---	0.0118 (8.01)***
No. of observations	1475	1475	1475	1475	1475	1475	1475
Wald χ^2	6456.43	5495.60	8875.47	4622.86	11664.65	5783.73	2885.25
Sargan test	0.3295	0.2738	0.3140	0.2907	0.3109	0.3521	0.3167
Arellano–Bond test	0.4448	0.5273	0.5577	0.5319	0.6064	0.5997	0.5763

Note: Authors' own work. *, **, *** denote significance at 1%, 5% and 10% level of significance, respectively

Political unrest in a country deteriorates the business atmosphere by increasing risk related to investment. The shift in the leadership alters the governmental policies which in turn creates the political unrest. The investors feel turbulence and are reluctant to invest their money in the country which results political instability. In our research we have found positive relation of political stability with the stock market. The business man feels secure and confident to invest his money. The positive behavior of investors triggers the stock prices and ultimately stock markets performance. The freedom of citizens and stakeholders to participate in the decision making process often occur by the transparent institutions. The countries where the citizens are free to express their views about the policies usually contribute towards the sustainability. We have found that the voice and accountability has positive relation with the stock market performance. Investors believe that the investment is protected by the governance practices and their participation also improves. Strong governance with strict regulations leads to less corruption. Business environment where there is oversight and management, investors perceive low risk.

Based on renowned articles and references the comprehensive analysis is given as; the stock market performance is positively impacted by stability in politics and law based governance. (Modugu & Dempere, 2020) presence of rule of law tends to enhance investor confidence, thereby improving market performance. Contrary negative results are found by (Low et al., 2011) except Voice and accountability has no significant association with stock market performance. Political stability had a dampening impact on stock market performance found by (Ajide, 2014). Stock market performance is improved by political stability, absence of violence and rule of law (Modugu and Dempere, 2020). Corruption and stock market performance are related in Nigeria is found by (Omodero & Dandago, 2018). Higher regulatory quality and greater control of corruption might be associated with increased oversight and restrictions, potentially leading to reduced market flexibility (Modugu & Dempere, 2020). Improved control of corruption can lead to a more stable and predictable investment environment, thus positively influencing market returns (Boadi & Amegbe, 2017; Khan, 2023).

Strengthening market volatility, development and liquidity can attract foreign investors and contribute to efficient stock market performance, especially in developing countries. This is crucial for market development and liquidity (Lee, 2020). The role of strong institutions in fostering market growth is highlighted. These factors have a positive association with stock market development. This divergence underscores the complexity of governance factors in influencing market dynamics (Eldomiaty et al., 2020). In the long run, institutional quality has a significant impact on stock market development. However in the short run, this impact can vary indicating the need for a nuanced understanding of temporal effects (Muhammad & Muhammad, 2023). These governance factors affect international portfolio investments positively, with voice and accountability being particularly influential. This suggests that global investors pay close attention to these governance indicators (Kaya & Aksoy, 2020). In Africa, a strong governance climate in explaining the growth of the financial market is significant, indicating that strengthening legal and institutional frameworks can significantly influence financial development in the region (Appiah-Kubi et al., 2023).

The results showed that structure of stock markets and stock market performance are positively and significantly related. Based on the available literature, there seems to be limited direct research focusing explicitly on this specific metric and its impact on stock market performance. Here are some insights from related studies: One study examining the structure of markets found that market share, a different metric, the performance of companies positively affects the Indonesian Stock Exchange. However, this study focused on a specific industry (cigarette companies) and used different indicators of market structure, such as market share and concentration ratio (Pramono, 2022). Another study suggested an inversed U-shaped relationship of stock market structure, as indicated by different metrics, and stock market performance. This correlation was found to be more pronounced in conglomerates with stronger managerial power and less financial distress (Li et al., 2022). From these findings, it can be inferred that while market capitalization (% of GDP) aspect of stock market structure, its direct impact on stock market performance may not be straightforward and could depend on various other factors, including industry-specific dynamics, managerial power, and financial health of the firms.

GDP had a significant positive effect in the results, reflecting a healthy, growing economy. According to (Kisman & Restiyanita, 2015) and (Ho, 2019; Bui, 2023) as the economic growth of the country gets higher the stock market performance also gets higher. It boosts the investors for more investment which results in more demand of stocks and returns of stocks. We have found positive relation of money supply with the stock market performance. Likewise, (Rakhal, 2018) found positive relation of money supply and stock market performance. Individuals using internet have positive effect on stock market performance. Results are found by (Talpsepp et al., 2020; Zhang et al., 2023) are likewise. For a comprehensive understanding, it would be beneficial to explore similar studies that focus on these variables in different economic contexts. For instance, the work by (Irfana et al., 2021;

Kanakriyah, 2020) about the Fama and French three-factor model provide insights into how different macroeconomic variables can affect dynamics of stock market in various settings.

The acceptance of null hypothesis of Sargan test is that the model that we have specified and use of instrumental variables are correct. This supports the theoretical framework proposed by scholars like (Gompers et al., 2003), who demonstrate the link between corporate governance and equity returns, suggesting that results can contribute to practices of governance and implications to cater the efficiencies in market and protection of investor interests. The complex interplay between corporate governance mechanisms and market outcomes, emphasizing the need for rigorous econometric methods to disentangle these relationships are explored by (Fama and Jensen, 1983) and (Shleifer and Vishny, 1997), which explore the complex interplay between corporate governance mechanisms and market outcomes, emphasizing the need for rigorous econometric methods to disentangle these relationships. According to results, the null hypothesis of Arellano bond test is accepted. It means that the error terms in the model are independent overtime which proves the validation of Arellano bond estimator in this model.

6. Discussion

We have found that there is positive relation of stock market capitalization with performance of stock markets. Likewise, positive results are created by (Dev & Shakeel, 2013; Herath, 2020; Dewan et al., 2014; Kamran et al., 2018). Contradictory results are found by (Peprah & Borteye, 2022) and proxied stock market size by market capitalization of stock market. The study found there is a moderate negative relationship between market size and economic growth. We have proxied internal governance with extent of business disclosure index and our research found that business disclosure index and stock market performance are negatively related. Contrary to our findings (Shrivastav & Kalsie, 2017) found that more disclosure of information improves the governance mechanism and results in higher performance. (Ha et al., 2024) research found that there is relation of disclosure with the stock market prices is positive. We found GDP and the stock market performance are positively related. Similarly, (Ho, 2019; Bui, 2023) found likewise results of economic growth with stock market performance. We have found positive association between money supply with the performance of stock markets. Similarly, (Rakhal, 2018) found positive relation of money supply and stock market performance. Individuals using internet have positive effect on stock market performance. Similar results are found by (Talpsepp et al., 2020; Zhang et al., 2023). We have found that there is positive relation of control of corruption, government effectiveness, political stability, and regulatory quality, rule of law and voice and accountability with stock market performance. On contrary, negative results are found by (Low et al., 2011) and Voice and accountability has no significant association with stock market performance. The relation of corruption and stock market performance are positively related in Nigeria (OMODERO et al., 2018). Control of corruption and government effectiveness has a positive effect on stock market performance. Political stability had a dampening impact on stock market performance (Ajide, 2014). Political stability, absence of violence and rule of law in a country positively impacts stock market performance (Modugu and Dempere, 2020).

7. Conclusion

The paper aimed to identify the relation of stock market structure, internal governance within stock market, external governance indicators with stock market performance. For this purpose, in this we have employed Arellano bond estimation on 59 stock markets spanning from 1995 to 2021. We have incorporated two forms of governance i.e. internal governance and external governance. Business Extent of Disclosure index is used for internal governance. While we have taken control of corruption, government effectiveness, political stability, regulatory quality, rule of law and voice and accountability for external governance indicators. We have found that the internal governance may be restrictive and inefficient may lead to hinderers of stock market performance. We have found that the favorable business environments are stabilized by governance indicators. The robustness of economic development is shown by GDP. It supports and facilitates the business of country. Financial literacy helps the investor by giving know how of trending stocks. Furthermore, the liquidity of economy is also positively related with the stock market performance. The overall analysis showed that internal governance may not impact the stock market performance positively while the other factors are positively affecting the stock markets. The relationships found in our study foster the performing stock markets.

7.1. Policy suggestions

A regulatory framework should integrate effective corporate governance practices that include board autonomy, transparent CEO-board chair roles, and vigorous controls that run internally. Such practices are critical for efficient stock market operations; facilitate economic growth and confidence of investor. The current features multifaceted factors affecting returns of stock market, with inflation having a key role by influencing purchasing power, interest rates, corporate profits, and investor behavior. The strong governance frameworks and effective disclosure policies are critical to ensure efficiency, transparency and investor confidence in financial markets. The healthy investment environment of stock markets is fostered by protecting shareholder rights. The understanding environment related to investment is essential for achieving the financial outcomes. The resilient, efficient and transparency in system helps in collaboration of companies and investors which support sustained economic growth and stability. Our study explains versatile dimensions of factors influencing stock market returns, highlighting that performance are formed not only by the broader economic environment but also by sectorial and corporate activities. To safeguard portfolios, investors must adeptly manage inflation risks through strategic approach to investment, considering assets like real estate, inflation-linked bonds, and commodities as potential hedges. By adopting a cautiously informed investment approach along with awareness to market dynamics and regulatory changes, investors can make judicious choices, optimizing financial outcomes amidst volatility. Adjusting strategies by monitoring economic indicators helps in maintaining resilience under uncertain conditions. In end, efficient disclosure strategies, vigorous standards of governance bases, and association among governing entities, firms, and shareholders are keys to make certain transparency, efficiency, and long-term market stability.

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