UNIVERSITY OF CAPE COAST

COUNTRY LEVEL GOVERNANCE QUALITY AND STOCK MARKET PERFORMANCE OF GHANA

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EFFECT OF COUNTRY LEVEL GOVERNNANCE QUALITY ON STOCK MARKET PERFORMANCE OF GHANA

BY MOHAMMED ABDULAI

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DECLARATION

Candidate's Declaration

This dissertation is the result of my own unique research, and no part of it has ever been submitted for another degree at this university or elsewhere.

Candidate's Signature …….. Date ……..

Name: Mohammed Abdulai

Supervisor's Declaration

I hereby certify that the dissertation preparation and presentation were supervised in accordance with the University of Cape Coast's criteria for dissertation supervision.

Supervisor's Signature …… Date ……

Name: Dr. Mohammed Zangina Isshaq

ABSTRACT

This study examined the influence of country level governance indicators on the performance of the Ghana Stock Exchange (GSE) by controlling the effect of inflation and trading volume. The study used an explanatory research design and a quantitative research approach. Relying on Institutional Theory (IT) and the Efficient Market Hypothesis (EMH), using Econometric Views (E-views) and descriptive statistics (mean, standard deviation, skewness, and kurtosis) as well as an ordinary least square regression. The primary findings were that economic stability, state - level performance, legal system, and corrupt practices control all had a significant impact on stock market returns. The conclusion was that politically stable atmosphere and the freedom of the media and citizens to have a say in governance and holding leaders' accountable yields positive results on stock market returns. The propensity of the government of Ghana to control corruption and ensure sound implementation of rules of governance feeds positively into the performance of the stock market of Ghana. It is therefore recommended based on the findings of the study that; the government of Ghana should intensify the fight against corruption in all aspect of society by strengthening rules that give autonomy to anti-corruption bodies to appropriately discharge their functions without fear, favour or political interference as the study recommends.

KEY WORDS

Control of corruption

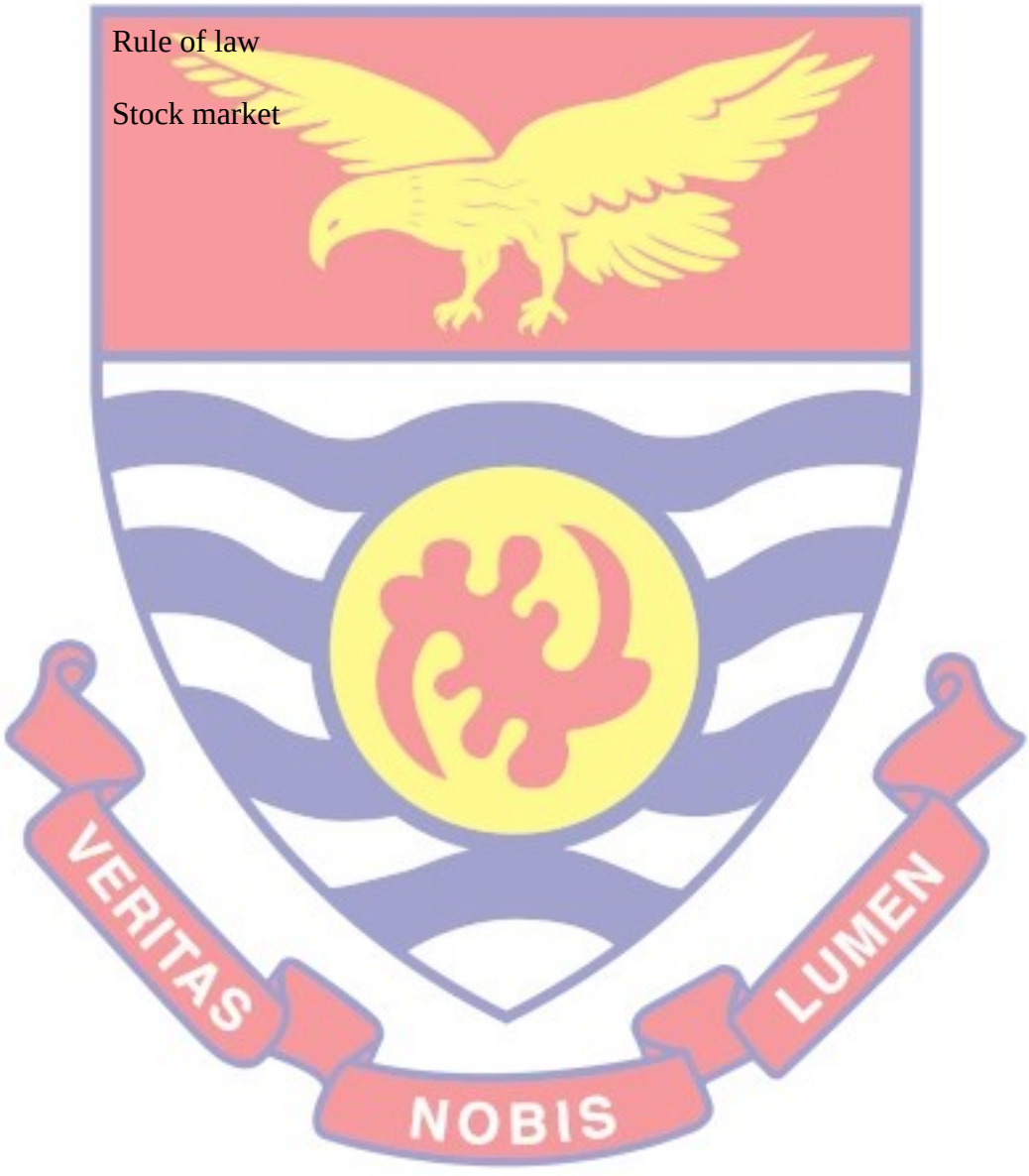
Governance

Government effectiveness

Regulatory quality

Rule of law

Stock market



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DEDICATION

To

My wife, Raiya Ali; Daughter, Ummy Maryam;and family and friends

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

LIST OF ACRONYMS

BoG	Bank of Ghana
CC	Control of Corruption
GE	Government Effectiveness
GSE	Ghana Stock Exchange
INF	Inflation
PS	Political Stability
RL	Rule of Law
RQ	Regulatory Quality
TV	Trade Volume
VA	Voice and Accountability

CHAPTER ONE

INTRODUCTION

Quality governance is one of the key indicators that investors in general look out for in the process of choosing their investment destination (Modugu & Dempere, 2020). This is because quality governance contributes towards shaping the financial markets of economies and further contributes to enhancing the outcome of financial markets (Boadi & Amegbe, 2017). The stock market suffices as a medium for serving the needs both domestic and foreign investors and can therefore be used to judge the overall investment climate of an economy (Zulfiqar, Abdullah, Ramona & Periyapatna, 2020). The efficient market hypothesis stresses that the value of stocks is based on all available information; implying that information as to the quality of governance in an economy could have implication on the performance of stock markets.

Background of the Study

The ultimate goal of every investor is to make most returns out of every investment at a controlled level of risk. The continuous occurrence of financial crises in financial markets and the recurrent corporate financial scandals around the world have made investors more cautious when making investment choices. One important decision required of investors when making investment decisions with respect where and in what venture they invest. This is particularly true in the case of international investors. Most international investors consider America and Europe as their investment destination as opposed to the Middle East economies and other developing economies (Modugu & Dempere, 2020). The study in Zaremba (2019) has

provided evidence to explain that developed economies have higher governance quality indicators relative to developing economies. The question therefore is: does governance quality explain the investment destination of investors? While the answer may be in the affirmative (Khan, 2019), there is moreto explore in terms of the responsibility of governance quality in relation to the performanceof stock market.

Governance quality is a measure of how well public institutions in an economy manage public affairs and resources in such a way as to create advantage and opportunity for the citizens and dwellers in the economy (Achioyamen & Johansson, 2020). Modugu and Dempere (2020) asserts that governance quality considers the effectiveness of the process followedby the regulatory, legal, economic and political bodies in making good decisions and implementing them to benefits members of society. Thus, investors look for politically stable environment with functional and effective legal systems so as to have their interest in investment protected (Khan, 2019). The study of Boadi and Amegbe (2017) has further revealed that companies and stock markets are all affected by the environmental forces of which some are economic, political, and legal among others. In view of this, the quality of the governance can impact the performance of companies and that of the stock market.

In measuring quality governance, Abongeh, Tunyi and Ntim (2016) had argued that the six governance indicators are ideal to use. These indicators are, regulatory quality, control of corruption, political stability, governance effectiveness, rule of law and voice and accountability (World Bank, 2020). According to Abongeh, Tunyi and Ntim (2016), voice and

accountability and political stability jointly describe the manner in which individuals elected to manage public institutions are selected, the strength and ability they possess and how well they manage public institutions. Governance effectiveness and regulatory quality focus on the aptness of public institutions to make functional and effective rules and to amend them when necessary (Ojeka, Adegboye, Adegboye, Umukoro, Dahunsi & Ozordi, 2019).

Also, rule of law and corruption control provide snapshot of the tie-in between public institutions and citizens of an economy in terms of how public institutions and citizens exert influence on one another (Ojeka, et al., 2019). With the unique classification of the governance indicators, what effect does each category have on the Ghanaian stock market's returns? Categorization governance indicators is of relevance because it provides opportunity to view the various aspect of the governance and the influence of each category on important markets such as the stock exchange.

Considering the governance system of Ghana, the country returned fully to democratic rules and has been guided by constitution of the people since 1992. The Ghana Stock Exchange had been incorporated two years early and had been noted for outstanding performance (Abongeh, Tunyi & Ntim, 2016). In the spirit of the stable political atmosphere since the beginning of the Fourth Republic of Ghana, the country has continued to operate under the principle of rule of law. There is however, questions in respect of the productiveness of the governance system and better regulations amidst persistent corruption scandals. The key question which had in part served as motivation for this study is: do the governance indicators have the propensity

of influencing the Ghana's stock market returns? The question is answered by this study as the link between the six governance indicators and returns of the stock market of Ghana is established.

In an attempt to link governance to stock market performance, three important and comprehensive studies exist. Firstly, in a study of 50 developed and developing nations, Hooper (2009) discovered a link between global governance parameters and stock market excess gains. Secondly, in forty-eight nations, Low (2014) discovered that global governance metrics have a negative influence on stock market excess gains. Low (2014) discovered that World Governance Indicators have a negative significant effect on nascent returns on stock market, but that this effect is minimal for advanced nations. In comparison to developed stock markets, Ejaz (2020) argues that nascent stock markets offer more appealing portfolio diversification prospects. These conflicting findings necessitate further research to assess the influence of governance quality on stock market gains, notably in Ghana.

Statement of the Problem

The stock market is one of the markets that are heavily regulated in most economies. The motivation for regulating the stock market is linked to the protection of the investment of investors, to sustain investors' trust and confidence and to safeguard the functioning of the financial sector and its development. To attract investors and companies to operate on the stock market, it has to be promising by showing good performance in terms of the returns it generates.

Researchers have therefore focused more attention on the primary factors that impact stock market gains in many economies including Ghana as

explained by the efficient market hypothesis stresses. Some studies looked at the macroeconomic factors that impact the stock market performance (Ho, 2019; Owiredu, Oppong & Asomaning) while others considered the firm-specific or institutional factors that influence performance of the stock market (Matadeen, 2019). Also, there are empirical studies related to governance and stock market performance (Hooper, 2009; Low; 2014; Ejaz, 2020). However, the conclusions from these studies are mixed.

Another motivation for this study stems from the fact that studies that employ governance indicators to explain stock market performance in context outside Ghana failed to recognize the distinction among the governance indicators (Abongeh, Tunyi & Ntim, 2016). (Ojeka, Adegboye, Adegboye, Umukoro, Dahunsi & Ozordi, 2019; Ojeka, et al., 2019). With the unique classification of the governance indicators, no evidence exists to show the effect of each category on Ghana's gains on the stock market? Again, previous studies on stock market performance have focused mainly on non-governance factors such as, valuation ratios (Maroney et al., 2019; Groot & Verschoor, 2020), population demographics (Bakshi & Chen, 2018; Harvey, 2017), exchange rates (Erb et al., 2019) and inflation rates (Umukoro, Dahunsi & Ozordi, 2019) as playing a contributory role on stock market performance. As a result this study therefore employed the governance indicators as measures of governance quality to look into the influence it has on the returns of the GSE by focusing on institutional theory and efficient market hypothesis.

Purpose of the Study

The study purposes to delve into the effect of governance quality on

the returns of GSE.

Research Objectives

The study sought to achieve the following objectives:

1. Examine the effect of voice and accountability and political stability on the returns on stock markets in Ghana.
2. Assess the effect of government effectiveness and regulatory quality on the returns on stock markets in Ghana.
3. Analyze the effect of rule of law and control of corruption on the returns on stock markets in Ghana.

Research Questions

1. What is the effect of voice and accountability and political stability on stock market returns in Ghana?
2. What is the effect of government effectiveness and regulatory quality on stock market returns in Ghana?
3. What is the effect of rule of law and control of corruption on stock market returns in Ghana?

Significance of the study

The debate on governance quality and stock market performance by providing knowledge regarding how each category of the governance quality influence stock market returns advancement will enhanced by the findings of this paper. The findings of the research will be crucial for policymakers and interested parties in designing and implementing policies that will attract more foreign investors into the country thereby improving on trade and generating more revenue for government. Again, the findings of this study will also enable policymakers to implement policies that will help improve the African

Continental Free Trade Area (AFCTA) as a way of promoting free trade among member countries.

Delimitation of the Study

The study concentrated on Ghana as its unit of analysis and by that the yardstick used as the surrogate for governance quality is country level governance. The study also focused on the stock market of Ghana by assessing its returns.

Limitation

Due to unavailability of time, the study could not explore deep into the current changes in the stock market by administering questionnaires and conducting interviews. Also, due to financial constraint and borders issues, the study could not be extended to the AFCTA countries to fathom the influence of effective governance on stock returns.

Organisation of the Study

The study is composed of five chapters. Chapter one detailed the introduction which further presented the background, problem statement, research purpose, objective, research questions, hypotheses, significance, and delimitation. Review of literature was the focus of the second chapter. Here, the theme areas of the study were presented in terms of theoretical, conceptual and empirical review. The third chapter presented the research methods by highlighting the research design, approach, area of study, data source, presentation and analysis of data, and the model specification. Chapter four also looks at how findings of the study was presented and the discussion of the results found. The summary of the study, conclusion of the study as well as the recommendations for further study were presented in the fifth chapter.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter dealt with the literature review by addressing the thematic areas in relation to quality governance and returns (performance) of stock market. Thus, the chapter discusses the theoretical foundation, empirical and conceptual review.

Theoretical Review

In analysing the tie-in between quality governance and stock market returns, the study employed the Institutional Theory (IT) and the Efficient Market Hypothesis (EMH) to elicit the relationship.

Institutional Theory

The institutional theory is accredited to the work of William Richard Scott in 1995. The institutional theory is a social and political theory that focused on the processes of forming rules, structures and norms to provide authoritative guidelines to influence social behaviour (Bello, 2014). It focused on how social and political norms and ideals, rules and regulations are formed, implemented and control recognised dominance so as to guide the conduct of affairs within social environment (Chavali, Alam & Rosario, 2020). According to Modugu and Dempere (2020) institutions are structures formed to apply resources to perform specific mandates while staying within the confines of societal rules and norms to provide meaningful life to all elements within society.

The central tenet of the institutional theory lies in the fact that individuals' behaviour in the social setting, their actions and inactions, and

how they relate to one another in business and personal level is guided by authority placed above the individuals (Bello, 2014). The authority enacts rules and regulations to constrain the actions of individuals and also to set the parameters in which social members are to operate. According to Modugu and Dempere (2020), the institutional theory contributes to explaining outcomes which social elements can generate in their dealing with one another.

The institutional theory has direct bearing on the tie-in between governance quality and performance of the stock market. Thus, institutional theory clearly portrays the quality of the governance system in an economy and how it affects the lives of individuals and institutions. For example, the quality of regulations made by regulatory bodies, the degree of political stability, the degree to which institutions are able to control the tendencies of corruption, the efficiency and applicability of the rule of law, and the degree to which society members can voice issues out and demand accountability have import in the way authoritative institutions such as the judiciary, legislature and the political system are designed. There is therefore a clear fit between the existence of the stock market and the institutional and regulatory environment (Modugu & Dempere, 2020).

In general, the governance structure of an economy has the propensity to influence the behaviour or confidence of investors and consequently influence the degree to which they participate in the stock market. Thus, quality governance system is expected to boost the confidence of investors and stimulate the business environment for growth which can have positive effect on the stock market.

Efficient Market Hypothesis

Efficient market hypothesis is accredited to the works of Fama and Samuelson in the 1960s. The concept of efficient market hypothesis depicts the idea that the prices of stocks fully reflect the available market information, and that investors cannot make abnormal profit by using any market information. In the study of Fama (1965) on efficient markets, he argued that the value of stock contains information available to the market; therefore, if the market is efficient stock prices will always reflect market information to the extent that there will be no under or over valuation of stocks.

Efficient market hypothesis is usually studied from three perspectives: strong form efficient market, semi-strong efficient market and weak efficient market (Lehkonen & Heimonen, 2015). With a weak efficient market, all historical information is replicated in price of the stock, making it nearly unfeasible for investors to beat the market by using historical data. Semi-strong efficient market deals with the idea that stock prices are incorporated in them all available public information such that no investor can take advantage of public information to make excess returns. The strong form of efficient market hypothesis incorporates information to public and private (insider information) in valuing stocks. Applying the efficient market hypothesis, this study argues that the governance indicators constitute public information which is available and accessible to investors and firms. The assumption is that the quality of the governance indicators for an economy is directly reflected in the valuation of stock prices which implies that returns of securities' market is a function of governance system quality.

The System of Governance

The term governance refers to the system by which a country, organization or people are controlled; and the medium through which those who exert control are held accountable. At the company level, governance defines the relationships that co-exist among stockholders, managers, directors, employees and other corporate stakeholders. In a broader sense, governance provides the basic framework for managing an entity or an economy and the means through which the policies are set, implemented and coordinated to achieve goals. From the World Bank's view, governance is compartmentalized and studied in six spheres. These divisions of the governance system is termed as the governance indicators which comprises rule of law, political stability, governance effectiveness, control of corruption, voice and accountability, regulatory quality and absence of violence (World Bank, 2020).

According to the World Bank (2020), citizens' perceptions of their ability to take part in state elections, freedom of speech, affiliation, and the press, are represented by voice and accountability. Political stability and the lack of violence or terrorism is a metric that assesses how likely political instability such as terrorism, are to occur in a nations' governance system. The uniqueness of public services, the uniqueness of the civil service and its sense of autonomy from political influences, the uniqueness of policy formulation and execution, and the legitimacy of the government's commitment to such policies are all factors that influence governance effectiveness (World Bank, 2020).

The citizenry's perception of the state's ability to create and execute

sound rules and regulations that permit and encourage capital formation is also measured by regulatory quality. Citizens' assessments of how much they believe and respect general societal laws, including property rights, legal clarity, the police and the courts, or the risk of crime and violence, are represented by the rule of law. According to the World Bank (2020), "control of corruption" is described as "discernment of the level to which state authority is utilized for personal purposes, including trivial and grandiose types of corruption, as well as "state takeover" by oligarchs and moneyed interests.

Empirical Review

The study empirically reviewed literature in relation to the relationship between the governance indicators and the performance of stock markets.

Voice and Accountability, Political Stability and Stock Market Performance

Imran, Ejaz, Spulbar, Birau and Nethravathi (2020) define the combination of voice and accountability and political stability as having a similar principle in such a way that they explain the manner in which public and civil servants are chosen to administer state functions the ability of such selected individuals to effectively manage and control the institutions they serve. According to Imran et al (2020), government officials and state institutions are able to formulate and implement sound governance policies only when they are empowered to do so. Voice and accountability therefore refer to the degree to which both political and civil liberties and rights are upheld and the extent to which the media is integrated into the governance system to hold government institutions and officials accountable.

Political stability on the other hand describes the general political atmosphere of an economy. Political stability is an important ingredient and precondition for growth and development to occur. For example, the study of Imran et al (2020) assert that quality governance is only attained when there is stability in the political environment. In economies where the freedom of the media is respected and state institutions and public offers are held accountable, there is higher tendencies for development and growth which enhance which eventually minimise the threats of violence over unequal distribution of national resources (Asongu & Nwachukwu, 2018).

Compared to the findings of Asongu and Nwachukwu (2018), Imran et al (2020) elucidated the link between quality governance and performance of the stock market among 25 developed economies. The study brought to light that good governance in the form of enhanced empowerment of the media and citizenry through the recognition of their freedom and liberties to speak freely contributes to fostering common understanding about the economic outcome sought by members of society. This further contributes to minimizing political tensions and terrorism which was observed as outcome of suppressed freedom of speech.

The study further revealed that higher voice and accountability and stability in the political environment are associated with the performance of stock markets. The argument was that politically stable environment reduces risk to investors, an empowered citizen and media to voice out concerns of the deployment of resources and on implementation of rules further provide investors with confidence boost the investment made in the economy. This subsequently influences the performance of firms which in turn enhance the

overallperformance of the stock market.

The results shown in the studies cited above agree with the evidence produced in the study of Firooz, Asgar and Younus (2019) whose study on governance quality and stock price performance revealed that political stability positively drives stock price performance for all economies. Voice and accountability were also observed to positively influence stock price performance for developed economies. Concerning developing economies, both voice and accountability and political stability was found to positively impact stock price index. The study of Soong, Hooy and Abdul (2021) further confirmed significant positive relationship between political stability, voice and accountability and stock performance for developing economies. In view of empirical review of the aforementioned studies, the study expected a relationship between political stability, and voice and accountability and stock price index.

Government Effectiveness, Regulatory Quality and Stock Market Performance

Governance effectiveness and regulatory quality describe government capability to make policies, to set rule and regulations; and the degree to which such rules and policies are implemented to achieve policy targets and goals. In a snapshot government effectiveness focuses on government or public institutions and assesses the adroitness of bureaucrats, the degree of bureaucracy, and the rate at which the work of the civil servants is devoid of political interference. Example of regulatory quality includes sound regulations in the banking and financial sector, regulations in the general business environment.

The study of Frotagheh and Kardan (2018) delved into the nexus between governance indicators and listed firms on the Tehran Stock Market's performance. The country level governance indicator was used while firm performance was measured using returns on assets, sales growth, income growth, and returns on equity. The study collected data from the year 1996 to 2016 and the estimation method employed was multiple regression analysis. Frotagheh and Kardan (2018) revealed that government effectiveness has significant negative effect on income growth and sales growth of listed firms but regulatory quality does not have any significant impact on income growth while sales growth was significantly and positively affected by regulatory quality. When firm performance was evaluated on the basis of returns on assets, the study revealed that regulatory quality and government effectiveness had significant negative influence on returns on assets. Following the findings of the study of Frotagheh and Kardan (2018), it can be stated that the effectiveness of governance of firms and the degree of quality of regulations can positively or negativelyaffect the performance indicators of firms.

The study of Firooz, Asgar and Younus (2019) largely compares with the result obtained in the study of Frotagheh and Kardan (2018) whose result largely showed negative relationship between government effectiveness and firm performance. With the study of Firooz, Asgar and Younus (2019), the focus was to build the relationship between institutional quality and the performance of the stock price index for fifty-three developing and developed economies. Firooz, Asgar and Younus (2019) found that government effectiveness and stock price index is negative related while regulatory quality and stock price index are positively related for all economies.

The relationship between government effectiveness and stock price index for developed economies remained negative but there was no significant relationship between regulatory quality and stock price index. For developing economies, the relationship government effectiveness and stock price index was not significant but regulatory quality surprisingly influenced stock price index negatively. These findings seem to agree with the conclusion drawn in the study of Narayan, Sharma and Thuraisamy (2015) who argued that government effectiveness and regulatory quality for developing economies are less effective hence they usually do not tend cause much improvement in stock prices.

Soong, Hooy and Abdul (2021) research findings revealed a positive relationship between listed firm performance (returns on assets and returns on equity) and quality governance indicators (regulatory quality and government effectiveness). This present study therefore expects either positive or negative nexus between government effectiveness, regulatory quality and performance of the stock market of Ghana.

Rule of Law, Control of Corruption and Stock Market Performance

Regarding the effect of rule of law and control of corruption on the performance of stock markets, the study of Firooz, Asgar and Younus (2019) examined the influence of global governance quality on the stock price index. The regression result revealed that rule of law does not influence stock price index of all economies, but control of corruption has significant positive effect on stock price index. The result did not change in the case of developed economies and same result was obtained for developing economies.

The study of Frotagheh and Kardan (2018) who delved into the

alliance between governance indicators and firm performance found that both rule of law and control of corruption do not have noteworthy influence on growth in incomes and sales of firms even though the relationships were positive. When performance was measured by the returns on assets of firms, control of corruption and firm performance was positively related but rule of law and firm performance was negatively related. Rule of law and control of corruption did not also have any significant influence on returns on equity. These findings imply that the effect of rule of law and control of corruption on performance is determined by howperformance is measured (Hosny, 2017).

Furthermore, the study of Ming and Jais (2020) assessed the tie-in between macroeconomic variables, governance quality and the stock market performance of developing economies by employing data from 2008 to 2016. Theresult of the study revealed that control of corruption in public institutions and adherence to rules (rule of law) have positive impact on the efficiency of the stock market which ultimately enhances the performance of the stock market. The study of Imran, Ejaz, Spulbar, Birau and Nethravathi (2020) further confirmed that quality of governance through effectively controlling the tendencies of corruption and effectively enhancing rule of law in an economic system improves the performance of institutions such as the stock market. This present study therefore expects positive alliance between control of corruption, rule of law and stock market performance of Ghana.

Conceptual Framework

Figure 1 shows the main variables that constitute the various themes of the study. The main dependent variable is stock market performance assessed by the returns of GSE (that is, the returns of the composite Index). The independent variables are the six governance indicators as shown in Figure 1 and the control variables are inflation, trading volumes and exchange rate.

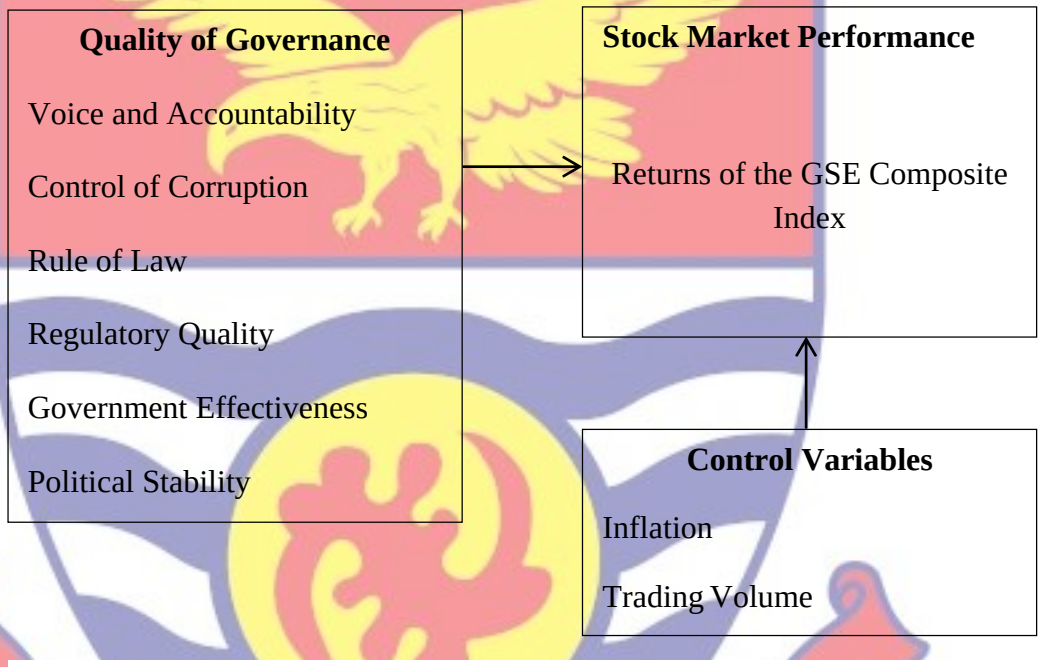

Figure 1: Conceptual Framework

Source: Author's Construct (2021)

Figure 1, depicts the linkage between quality of governance and stock market performance. Which gives a pictorial view of the objectives of the study. The study also controlled for the effect of inflation and trading due to their effect on stock market performance.

Chapter Summary

The second chapter discussed the literature review in light of the alliance between governance quality and performance of the stock market. Key concept such as the system of governance, trends in governance indicators in Ghana, and the stock market performance was reviewed. This

chapter also discussed the theoretical and empirical reviews as well as conceptual framework that describe the thematic aspect of the research.

CHAPTER THREE

RESEARCH METHODS

Introduction

The research methodologies used to analyse the research objectives, which explore at the relationship between quality governance and stock market performance in Ghana, are covered in this chapter. As a result, this chapter covers the research design, approach, and study area, as well as variable measurement and model specification.

Research Philosophy

Research paradigm of a study explains how knowledge is developed and the nature that knowledge takes. Guba (1990) explained Research Paradigm as "sets of beliefs that guide action". He further stated that they are assumptions which are conceded before the start of the study. Brooke (2013) posited that Research Paradigm is rooted in all educational research. Adjei, (2015) postulated that what guides every researcher through the entire research are certain beliefs, values and a view of the world making up the research paradigm. Burrell and Morgan (1979) also indicated that subjects of research are approached by all social scientist through implicit or explicit presumptions about how the social world is and how the social world may be investigated or investigated (paradigm). As a result, research paradigm has an essential influence on every decision to be taken in the research process (Kivunja & Kuyini, 2017). Chilisa and Kawulich (2012) indicated that understanding of what knowledge is and what truth differs from one researcher to the other. As defined by Saunders, Lewis, and Thornhill (2016) the term research paradigm also referred to a research philosophy is a system of beliefs and assumptions

about the development of knowledge. A researcher's types of beliefs based on these factors will mostly lead to adopting a strong qualitative, quantitative, or mixed-methods approach in their study (Creswell & Creswell, 2018). Saunders et al (2016) listed five major philosophies that have shaped social science research over the years: positivism, critical realism, interpretivism, postmodernism and pragmatism.

This study adopted the positivist approach. Pring (2000) made it known that positivism research paradigm was proposed by a French philosopher known as Auguste Comte. He explained into more details that Auguste Comte proposed the positivism research paradigm, but what he said about observation, experiment and cause-effect relationship are attributed to Francis Bacon. Because Bacon was the started the concept of experiment, observation, and cause-effect relationship which are the pillars of the positivism paradigm (Crotty, 1998). The positivist research paradigm is of the view that social sciences research can replicate scientific or natural sciences research methods. That is, positivist social science duplicates steps followed by natural scientists to control and comprehend the natural world.

According to Saunders et al (2016), positivism is the philosophical system that holds topics that can be scientifically tested and hence generalise the findings. Therefore, positivists emphasis on the research procedures that would lead to the generation of facts which are not influenced by human interpretation. The research is supposed to use existing theory to develop hypotheses. The hypotheses would be used to test and confirm, wholly or partly, or disproved, leading to the further development of theory which then may be tested by further research (Creswell, 2009; Saunders et al, 2016).

According to Saunders et al. (2016), and Sekaran and Bougie (2016), positivism offer objective reality and has the goal of universal truth that deals with human practices in the field of management sciences. The main purpose of positivism research paradigm methodology is to explain cause and effect relationships. It is an appropriate guide for this study given that based on the theories of the institutional theory and efficient market hypothesis, hypotheses will be tested and relationships established.

Research Design

Research design represents the comprehensive plan and layout that a study goes along with to address a particular problem. There are different forms of research designs including descriptive, exploratory and explanatory designs. The explanatory design is used in this research to look into the tie-in between governance quality and performance of the stock market in Ghana. According to Aziz (2018), the explanatory design is employed to address problems that seek to employ set of variables to make predictions about another variable or set of variables.

The study of Bailey (2018) further indicated that the explanatory design is most appropriate to use when the objective is to use different indicators to explain the behaviour or changes in another variables. As stated by Hearn, Phylaktis and Piesse (2017), the explanatory design has the strength of enabling researchers to measure relationships, effect size of variable(s) on other variable, and the behaviour of variables in relation to economic and social indicators. Furthermore, the explanatory design has the strength of allowing economic actors to make policies that are based on relationships between variables. The explanatory design is also related to high degree of

reliability as it allows similar quantitative variables to be objectively measured and assessed in terms of their relationships with other variables of interest (Peres, Ameer & Xu, 2018).

This study therefore chose the explanatory design as the strategy due to the above-mentioned strengths which ultimately align with the purpose of assessing the relationship between governance quality and stock market performance. The explanatory design therefore ensures the relationship between the governance indicators and stock market performance is measured in an objective manner. The main weakness of the explanatory design is that the relationship that is revealed by the use of explanatory design may be due to the randomness of variables that are uncontrolled during the estimation phase of an experiment. This weakness is overcome by controlling for variables that empirically can influence the relationship being observed.

Research Approach

The research approach adopted in a study is very significant to select an appropriate study method to get more valid statistical results at the end of the study. The research approach for any study can be any of these three approaches such as quantitative, qualitative, or mixed-method. Scholars argue that human behavior, like physical phenomenon, the natural social sciences can be quantified in attributes (Deci, & Ryan, 2003). Plonsky (2017) postulated that the epistemological underpinning of a quantitative motif holds that there exist definable and quantifiable social facts. The study, therefore, employed the quantitative research approach based on the nature of the study purpose under consideration and the nature of the primary data to be collected and analyzed. According to Mugenda & Mugenda (2003) and Plonsky (2017),

the approach allows the collection of quantitative data from a sizeable population economically and allows the researcher to use various forms of data.

Quantitative methods are frequently described as deductive, in the sense that inferences from tests of statistical hypotheses lead to general inferences about characteristics of a population. This approach was used because it makes it easy for the numerical study of facts to be gathered through surveys, and questionnaires (Babbie, 2010). Quantitative research involves collecting and analyzing numerical data and applying statistical text (Sarantakos, 2013). Quantitative methods are also frequently characterized as assuming that there is a single "truth" that exists, independent of human perception (Lincoln & Guba, 1985). It was also found that the findings from quantitative research can be predictive, explanatory, and confirming (Williams, 2011).

Model Specification

The ordinary least square regression model is used for the estimation. The stock returns are specified as given in equation 1

$$R_t = f(VA, PS, INF, TV, GE, CC, RL, RQ, ER) \quad \ldots\ldots\ldots\ldots\ldots\ldots 1$$

This model is further expanded stemming from the purpose of the study as specified in equation 2 below;

$$R_t = \beta_0 + \beta_1 VA + \beta_2 PS + \beta_3 CC + \beta_4 GE + \beta_5 RL + \beta_6 RQ + \beta_7 INF + \beta_8 TV + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad 2$$

Where VA represents voice and accountability, PS denotes political stability, CC is control of corruptions, GE is governance effectiveness, RL is rule of law, RQ denotes regulatory quality, INF represents inflation and TV

denotes trade volume. To guarantee the validity and robustness of the regression models, the research examines the various assumptions underlying the least square regression model to ensure that each model passes the assumptions. The key assumptions that are tested include goodness of fit test, multicollinearity, dynamic stability test, and serial correlation. The objectives of the study are processed using Econometric Views (E-views) and descriptive statistics (mean, standard deviation, skewness, and kurtosis) as well as ordinary least square regression model are used to analyse the results.

Measurement of Variables

The study examines the effect of country level governance quality on stock market performance of Ghana. The country level governance variables are adapted from the World Bank Database and return on Ghana stock exchange as well as the select control variables were gleaned from Ghana stock exchange and Bank of Ghana respectively. The study measures country level governance based on six indicators; regulatory quality, voice and accountability, political stability, government effectiveness, rule of law and control of corruption.

Table 1 provides summary of the variable's measurement and source.

Table 1: Measurement of Variables

Variable	Indicator	Measurement	Source
Dependent Variable	Returns of GSE	Percentage change in the GSE CompositeIndex	www.gse.com.gh
Independent Variable	Rule of Law (RoL)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
	Government Effectiveness (GE)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
	Control Of Corruption (CoC)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
	Political Stability (PS)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
	Voice and Accountability (VA)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
	Regulatory Quality (RQ)	World Estimate	World Bank's Worldwide Governance Indicators Dataset
Control Variable	Inflation	Year on Year Annual Inflation	www.bog.gov.gh
	Trading Volume	Trading volume of stocks	www.gse.com.gh

Source: Author's Compilation (2022)

The main variables used in this study were governance indicators which comprise regulatory quality, voice and accountability, political stability, government effectiveness, rule of law and control of corruption. The dependent variable was returns of Ghana stock exchange with trading volume and inflation as control variables. Data was collected from 1996 to 2019 and

all data were collected from secondary source as shown in Table 1.

Data Source

The data used for this study was extracted from three different reliable sources. The governance quality data was fished out from world development indicators (World Bank, 2021), the inflation variable measured as Year on Year. Annual Inflation was extracted from Bank of Ghana data. Again, trade volume was also extracted from Ghana stock market data. These sources are reliable and have been widely used for empirical research. Therefore, they make the data employed in the study valid.

Data Processing and Analysis

Analysis of data is a process of editing, cleaning, transforming, and modeling data with the goal of highlighting useful information, suggestion, conclusions, and supporting decision making (Rampino & Colombo, 2012). Leedy and Ormrod, (2010) opined that distinct analysis of data brings information into an immediately comprehensible, compact form, such that the reader can see what is happening at a glance and draw conclusions. The application of reasoning to understand the data that have been gathered (Zickmund et al, 2013). The secondary data from the various sources were merged and imported into E-views. Hence, the objectives of the study are processed using Econometric Views (E-views) and descriptive statistics (mean, standard deviation, skewness, and kurtosis) and the multiple regression models are used to analyse the results.

Chapter Summary

This chapter highlighted on the research methods plied in evaluating the research goals which look at the tie-in between quality governance and the

performance of Ghana's stock market. This chapter therefore projected the research design, approach, and study area, measurement of variables, and model specification. The explanatory design's flaw is that it isn't utilized to produce conclusive proof, but rather to aid in better understanding the situation. Furthermore, the explanatory design might occasionally result in information and judgments that are irrelevant.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This chapter set forth the findings and discussions on the relationship between the country level governance indicators of Ghana and Ghana's Stock Exchange returns. The presentation of the results includes the descriptive statistics and the least square regression model. The research questions sought to answer various objectives stated in the study at a significant level of 5%.

Descriptive Statistics

The results presented included descriptive statistics on the six country-level governance indicators and returns of the stock market in Ghana. The indicators used to measure the descriptive component of the result were mean values, standard deviation, skewness and kurtosis coefficients. Thus, the result in Table 2 presents the descriptive statistics on regulatory quality (RQ), rule of law (RL), control of corruption (CC), governance effectiveness (GE) voice and accountability (VA), and political stability (PS) as indicators of governance indicators. Other variables included stock returns (R), trading volume (TV), and inflation (INF).

Considering the results in Table 2, the average value for control of corruption (mean = -0.151), political stability (mean = -0.021), regulatory quality (mean = -0.099), and governance effectiveness (mean = -0.097) were all less than zero. The negative mean values for the CC, PS, RQ, and GE imply that Ghana, on the average, has weak systems for controlling corruption, weak political stability system, weak regulatory quality, and weak governance effectiveness. However, the mean values for rule of law (mean =

0.005) and voice and accountability (mean = 0.347) were greater than zero implying that Ghana has strong voice and accountability system and rule of law. Furthermore, the mean returns for Ghana Stock Exchange were found to be 25.8% with average trading volume of 273,287 million and annual inflation of 29.2%.

Table 2: Descriptive Statistics

Variable	Mean	Std. Deviation	Skewness	Kurtosis
CC	-0.151	0.127	-0.5229	1.956
RL	0.005	0.120	-0.881	3.144
PS	-0.021	0.134	-0.759	3.272
RQ	-0.099	0.155	-0.689	2.626
GE	-0.097	0.112	0.134	2.275
VA	0.347	0.274	-0.127	1.539
R	0.258	0.009172	0.987	3.297
TV	273,287	69,437.7	4.813	25.099
INF	0.192	0.12532	1.490	5.326

Source: Field data (2022)

The result in Table 2 also showed standard deviation values which were less than 1 for the governance indicators variables but more than 9% for returns for the stock market; over 69,000 for the trading volume and more than 12% for annual inflation. This suggests that there is some level of significant dispersion of the actual data values around the means of the variables. This level of dispersion was evident from the skewness and kurtosis values. However, stock return (R) which is the dependent variable is close to be normally distributed given the skewness value of 0.987 and Kurtosis of 3.297.

Unit Root Analysis

The use of regression analysis for time series data requires the variables to be stationary so as to guard against obtaining spurious result. The study therefore tested level of stationarity in the variables using the Augmented Dickey Fuller (ADF) under the null hypothesis that the variables are not stationary. The result of the unit root analysis tested at 5% alpha level is provided in Table 3.

Table 3: Unit Root Test

Variable	t-Statistic	p-value	Level of Stationarity
CC	-3.676604	0.0111	I(1)
GE	-3.244760	0.0278	I(0)
PS	-3.406164	0.0209	I(1)
RL	-3.904109	0.0068	I(1)
RQ	-6.296006	0.0000	I(1)
VA	-4.328255	0.0022	I(1)
R	-4.467589	0.0017	I(0)
INF	-3.565411	0.0131	I(0)
TV	-3.122846	0.0367	I(0)

Source: Field data (2022)

The results produced in Table 3 showed that control of corruption (CC) with p-value of 0.0111, political stability (PS) with p-value of 0.0209, rule of law (RL) with p-value of 0.0068, regulatory quality (RG) with p-value of 0.0000 and voice and accountability (VA) with p-value of 0.0022 were not stationary at level but rather after first difference. Government effectiveness (GE) with p- value of 0.0278 was however stationary at level. Furthermore, stock returns (R) with p-value = 0.0017, inflation with p-value = 0.0131, and trading volume (TV) with p-value of 0.0367 were all stationary at level. The

levels of stationary obtained in Table 3 imply that all the variables cannot be captured in the regression model at their original values because it will lead to spurious regression. In other words, variables that were stationary at level were captured at levels while those with I (1) stationarity were captured at their first difference in the regression models.

Results of the Study

The results of the study are presented in the order of the objectives. Therefore, Table 4 captures the all the objectives

Table 4: Effect of Governance Quality Indicators on Stock Returns

Variable	1	2	3
D(PS)	0.897**		54.75
	(0.016)		
D(VA)	0.680**		39.08
	(0.017)		
INF	-3.817**	-0.063***	-0.071***
	(0.044)	(0.016)	(0.020)
TV	0.342**	0.711***	0.213***
	(0.025)	(0.043)	(0.027)
GE		12.372**	
		(4.793)	
D(RQ)		2.988	
		(3.062)	
D(RL)			10.323**
			(3.230)
D(CC)			4.737***
			(0.574)
C	-6.783**	-0.378	-0.445
	(0.373)	(0.249)	(0.272)
R^2	0.999	0.820	0.856
Adj. R^2	0.999	0.729	0.785
F-statistic	2695.873	9.080	11.924
Probability	0.000	0.005	0.002
Durbin Watson	1.652	2.116	3.036

Source: Field data (2022)

*Note: *** denotes 1% and ** denotes 5%. The Parentheses are the standard errors. Model 1 represents the effect of D(PS) and D(VA) on stock returns, model 2 represents the effect of GE and D(RQ) on stock returns and model 3 represents the effect of D(RL) and D(CC)on stock returns.*

Effect of Voice and Accountability and Political Stability on Stock Market Returns

The first study objective examines the influence of political stability (PS) and voice and accountability (VA) on the returns of the GSE under the null hypothesis that VA and PS do not significantly affect stock market

returns. From the result showed in Table 4, returns (R) of the stock market of Ghana was the dependent variable with VA and PS being the independent variables and inflation (INF) and trading volume (TV) being the control variables. Based on the stationarity test result, political stability and voice and accountability were differenced to make sure that all variables in the model were at their stationary form.

Based on the result in Table 4, all the variables (PS, VA, INF and TV) were significant at 5% alpha level. The main independent variables; political stability and voice and accountability have positive effect on returns of the stock market of Ghana. However, due to the difference level of data usedfor VA and PS, the result rather reflects that it is the changes in political stability and voice and accountability that drive higher returns.

Political stability indicated a positive and statistically significant 5% level showing that a rise in the change of political stability will cause stock returns to increase by 0.897 units. The results on voice and accountability also showed a positive and statistically significant at 5% level. Thus, a unit increase in the change of voice and accountability will increase the level of stock returns in Ghana by 0.680 units. Regarding the control variables, trading volume has a positive and statistically significant at 5% level. This implies that a rise in trade volume will cause stock returns to rise by 0.342 units. Furthermore, inflation has a negative and significant at 5% level. Thus, a unit increase in inflation reduces stock returns by 3.82 units.

The result shown in Table 4 contained the diagnostics on multi-collinearity using the variance inflation factor (VIF); coefficient of determination using the R^2; goodness of fit using the F-statistic; and

autocorrelation using the Durbin-Watson statistic. As a precursor, a VIF of less than 5 is a good indication that the independent variables are not correlated. From the result in Table 4, allthe independent variables had VIF of less than 5. Thus, the study concluded that no strong correlation exists among the independent variables.

Furthermore, an R^2 of 0.999 implies that nearly 100% of the behaviour of stock returns is predicted by the independent variables of the model in equation (4). The F-statistic had a test value of 2695.87 with a p-value of 0.0000 < 0.05. Thus, the significance ofthe F-statistic implies that there is a good fit between the independent and the dependent variables. Also, the Durbin-Watson statistic of 1.65 is a good indication that weak autocorrelation exists in the regression model.

Based on the fact that voice and accountability and political stability influence stock returns, the study argues that the manner in which public and civil servants are chosen to administer state functions and institutions (example, the capital market) and the ability of such selected individuals to effectively manage and control the institutions they serve positively influence investment on the stockmarket and this enhances its performance (returns). This is so because government officials and state institutions are able to formulate and implement sound governance policies only when they are empowered giving them the required liberty to operate (Imran et al., 2020).

The result also showed that the general political stability is a crucial ingredient and precondition for development and enhancing the stock performance in Ghana. This study agrees with Imran et al(2020) who asserted that there are higher tendencies for development, growth and the performance

of the capital market of economies where there is strong political stability and strong media freedom that help to put officials in check to achieve desired outcomes. Moreover, the positive relationship between political stability, voice accountability and stock returns found in this study compares with the results of Asongu and Nwachukwu (2018) who revealed that higher voice and accountability and stability in the political environment are associated with higher performance of stock markets. The argument here is that politically stable environment reduces risk to investors, and empowers citizen and media to voice out concerns of the deployment of resources and on implementation of rules that are beneficial to the stock market. This subsequently influences the performance of firms which simultaneously enhance the overall stock market performance.

This study further agrees with other evidence in literature which shows that governance quality and stock price performance revealed that political stability positively drives stock price performance for all economies (Firooz, Asgar & Younus, 2019). Other evidence which this study support includes that of Soong, Hooy and Abdul (2021) who confirmed significant positive relationship between political stability, voice and accountability and stock performance for developing economies. Based on the literature and the evidence found in this present study, the study rejects the null hypothesis that there is no relationship between voice and accountability, political stability and stock market performance (returns) in Ghana.

Effect of Government Effectiveness and Regulatory Quality on Stock Market Returns

The second study objective examined the influence of government

effectiveness (GE) and regulatory quality (RQ) on the returns of the Ghana Stock Exchange. This objective was tested under the null hypothesis that government effectiveness and regulatory quality do not significantly affect stock market returns in Ghana. From the result showed in Table 4, returns (R) of the stock market of Ghana was the dependent variable with government effectiveness (GE) and regulatory quality (RQ) being the independent variables; and inflation (INF) and trading volume (TV) being the control variables. Based on the stationarity testresult, regulatory quality was taken at the first difference (the level at which it is stationary) while government effectiveness was taken at level as it was stationary at I (0).

Based on the result in model 2 in Table 4, government effectiveness and regulatory quality had positive influence on stock returns. However, government effectiveness exerted significant positive effect on stock returns while regulatory quality did not significantly influence stock returns. The result on government effectiveness a positive and significant 5% level. The result clearly shows that an increase in government effectiveness will increase stock returns by 12.37 units.

The result on trading volume also has a positive and significant at 1% level. Thus, an increase in trading volume will increase the level of stock returns in Ghana by 0.711 units. As it was expected, inflation had negative relationship with stock returns at 1% level. Thus, an increase in inflation reduces stock returns by 0.063 units. The result shown in model 2 in Table 4 contained the diagnostics on multi-collinearity using the variance inflation factor (VIF); coefficient of determination using the R^2; goodness of fit using the F- statistic; and autocorrelation using the Durbin-Watson statistic. As a

precursor, a VIF of less than 5 is a good indication that the independent variables are not correlated. From the result in model 2 in Table 4, all the independent variables had VIF of less than 5. Thus, the study concluded that no significant correlation exists among the independent variables. Furthermore, an R^2 of 0.820 implies that 82.0% of the behaviour of stock returns is caused by the independent variables of the model in equation (5). The F-statistic had a test value of 9.08 with a p-value of 0.005 < 0.05. The significance of the F-statistic implies that there is a good fit between stock returns and the independent variables. Also, the Durbin-Watson statistic of 2.116 is a good indication that no autocorrelation exists in the regression model.

With respect to the findings that governance effectiveness positively affectstock returns, implies that the government's capability to make policies, set rules and regulations; and the degree to which such rules and policies are implemented to achieve policy targets and goals influence the stock market performance of Ghana. As it was noted in the study of Frotagheh and Kardan (2018) and being confirmed by the findings of this study, government effectiveness the competence of civil servants, functional institutional structures, and limited political interferences in the work of state institutions (capital market) improves stock performance.

Furthermore, the insignificant positive relationship between regulatory quality and stock returns found in this study was also witnessed in the study of Frotagheh and Kardan (2018) who reported that regulatory quality does not have any significant effect on listed firms' performance. The results of this present study on government effectiveness, regulatory quality and stock

returns largely can be compared and contrasted with the evidence found in the study of Firooz, Asgar and Younus (2019) whose study examined the relationship between government effectiveness and firm performance. While this present study observed significant positively relationship between government effectiveness and stock returns but no significant relationship between regulatory quality and stock returns, Firooz, Asgar and Younus (2019) on the other hand showed that government effectiveness and stock price index are negatively related while regulatory quality and stock price index were significantly positive for developed and developing economies combined.

One area where the result of this study synchronises with that of Firooz, Asgar and Younus (2019) is regarding the insignificant relationship between regulatory quality and stock price index. The insignificant relationship between regulatory quality and stock returns has been put forward by the study of Narayan, Sharma and Thuraisamy (2015) who argued that regulatory quality for developing economies is less effective hence they usually do not tendcause much improvement in stock prices and performance.

Thus, the result of this study failed to reject the null hypothesis that regulatory quality does not influence stock market performance. However, the result of the study rejected the null hypothesis on government effectiveness and stock market performance. In summary, the study found that positive significant relationship between government effectiveness and stock performance but no significant relationship between regulatory quality and stock market performance.

Effect of Rule of Law and Control of Corruption on Stock Market Returns

The third objective examined the influence of control of corruption (CC) and rule of law (RL) on returns of the Ghana Stock Exchange. This objective was tested under the null hypothesis that control of corruption and rule of law does not significantly impact stock market returns in Ghana. From the result showed in Table 6, returns (R) of the stock market of Ghana was the dependent variable with control of corruption (CC) and rule of law (RL) being the independent variables; and inflation (INF) and trading volume (TV) being the control variables. From Table 6, rule of law and control of corruption were differenced since the variables were stationary after first differencing.

Based on the result in model 3 Table 4, corruption control practices and rule of law have positive influence on stock returns implying that stock returns responded favourably to improvement in rule of law and effective control of corruption. According to the result shown in Table 4, changes in rule of law (RL) has a positive and significant at 5% level. The result clearly showsthat improvement in rule of law by one unit increase in stock returns by 10.323 units. Similarly, control of corruption has a positive and significant at 1% level. Thus, an improvement in controlling corruption by one-unit increases returns of the stock market by 4.737 units.

With respect to the control variables, trading volume has a positive and a significant relationship with stock returns at 1% level. Thus, a unit increase in trading volume tends to increase the level of stock returns in Ghana by 0.213 units. Inflation on the other hand had negative relationship with stock returns at 1% level of significance. Thus, a unit increase in inflation reduces

stock returns by 0.071 units. The result shown in model 3 in table 4 contained the diagnostics on multi-collinearity using the variance inflation factor (VIF); coefficient of determination using the R^2 goodness of fit using the F-statistic; and autocorrelation using the Durbin-Watson statistic. As a precursor, a VIF of less than 5 is a good indication that the independent variables are not correlated. From the result in model Table 4, all the independent variables had VIF of less than 5. Thus, the study concluded that no significant correlation exists among the independent variables. Furthermore, an R^2 of 0.856 implies that 85.6% of the behaviour of stock returns is predicted by the independent variables of the model in equation (6). The F-statistic had a test value of 11.924 with a p-value of $0.002 < 0.05$. The significance of the F-statistic implies that there is a good fit between stock returns and the independent variables. Also, the Durbin-Watson statistic of 2.036 is a good indication that no autocorrelation exists in the regression model.

Regarding the positive relationship between rule of law, control of corruption and stock market performance, the results agree with the findings in Firooz, Asgar and Younus (2019) who found that control of corruption has significant positive effect on stock price index for developing economies. Similarly, the result of this study agrees with the evidence presented in Frotagheh and Kardan (2018) who found that both rule of law and control of corruption positively influence the growth in incomes and sales of firms even.

There is also agreement between the findings of this study and the result obtained in the study of Ming and Jais (2020) who revealed that control of corruption in public institutions and adherence to rules (rule of law) positively influences the efficiency of the stock market which ultimately

enhances the performance of the stock market. The findings of this study can also be compared with the result of Imran, Ejaz, Spulbar, Birau and Nethravathi (2020) who confirmed that quality of governance through effectively controlling the tendencies of corruption and effectively enhancing rule of law in an economic system improves the performance of institutions such as the stock market.

The reasons for the significant relationship between rule of law, control of corruption and stock market performance stems from the fact that rule of law encourages new investors to invest in the stock market as functional rule of law implies equity and justice in the capital market. Similarly, sustainable and improved rule of law implies efficiency of the judicial system where rights of investors are respected by the courts and all investors have their interest and investment protected.

In Ghana, the World Bank (2020) has attributed the stability of the stock market to the growth in the rule of law that has persisted since the inception of the fourth republic. Similarly, the ability to control corruption increases the confidence on investors and firms in general (Firooz, Asgar & Younus, 2019). This encourages them to investor in the stock market which improves the volumes of transactions and enhances the performance of the overall market

The ability to control corruption implies that transactions on the stock market are executed without biases and rules are duly adhered to in trading on the floor of the exchange. It further implies that the capital market is efficient to the extent that rights of all investors are respected and protected by the council of the stock exchange (Ming & Jais, 2020). Based on the positive

relationship between control of corruption, rule of law and stock market performance, this study therefore rejected the null hypothesis that control of corruption and rule of law does not influence stock market performance.

Robustness Check: Effect of governance on stock returns

For robustness of the results, the study looked into the effect of governance on stock returns. The results indicated that governance and stock returns was positive and statistically significant at 5% level. This implies that a unit increase in governance will cause a 0.49 units increase in stock returns. In line with expectation and the disaggregated results in **table 5,** effective governance is a key factor that influences stock returns in Ghana.

Also, inflation and stock returns have a negative relation. The empirical findings shows that an increase in inflation will result in 0.004 units reduction stock returns. The findings are however consistent with the disaggregated findings of governance indicators in table 5.

Table 5: Effect of governance on stock returns

Variables	Coefficient	Standard Error	P-Value
Governance	.0489	.0153	0.026
INF	-.0037	.0050	0.467
TV	0.0017	0.0007	0.037
_cons	.2193992	.1374	0.133
R^2	0.812		
Adj. R^2	0.787		
F-statistic	9.28		
Probability	0.0000		
Durbin Watson	1.123		
VIF	1.34		

Source: Field data (2022)

Diagnostic test was also estimated to ascertain the fitness of the model for predictions. The results showed that showed the model was free from multicollinearity (VIF= 1.34), no serial correlation (DW =1.12), high R^2 and adjusted R^2 (0.81 and 0.79 respectively). The total fitness of the model accounted by the F-statistic was 9.28 (P-Value= 0.0000). From the results from the diagnostic tests, it is however clear that the model is fit for predictions or inferences.

Chapter Summary

This chapter employed the least square linear regression model to look into the relationship among the country level governance indicators and the stock market performance. The study performed stationary test and found that government effectiveness, stock returns, trading volume and inflation were stationary at level while voice and accountability, control of corruption, rule of law, political stability and regulatory quality were also stationary after first differencing. The result of the study revealed that voice and accountability, political stability, government effectiveness, rule of law, control of corruption,and trading volume significantly influence stock returns positively while inflation significantly reduces stock returns. The study however found that the relationship between regulatory quality and stock returns was positive but insignificant relationship. The results of the study supported prior literature in the context developing economies

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter primarily looks at the summary of the study from a holistic view point. It summarises the objectives, theories, research methodology, results and key findings obtained. Furthermore, the main conclusions drawn in the study and their related recommendations are also presented in this chapter.

Summary of the Study

The general purpose of the study was to assess the effect of country level governance indicators on the performance of the GSE. The main motivation for the study was that the country level governance indicators portray the quality of governance and depicts the overall soundness of a country's governance system; hence the governance indicators are a reflection of important structures of the economy including the stock market. By linking the six country level governance indicators (government effectiveness, rule of law, control of corruption, voice and accountability, political stability, and regulatory quality) to stock performance (stock returns), the intention was to theoretically and empirically test whether the quality of governance system in Ghana has influence on the stock market performance. This objective was tested after controlling for the effect of inflation and trading volume.

Thus, from the theoretical point of view, the institutional theory and the efficient market hypothesis to were employed to elicit the relationship between governance indicators and stock market performance. The study

employed the least square regression model to analyse the objectives after testing for the stationarity level of the variables.

Summary of Findings

The key findings obtained from the study showed the following:

(a) Regarding the relationship between voice and accountability, political stability and stock market returns, the study found that a significant positive relationship exist between them.

(b) With respect the relationship between government effectiveness, regulatory quality and stock market performance, the study found that a significant positive relationship exists between government effectiveness and stock returns but the relationship between regulatory quality and stock returns was not significant.

(c) In terms of the relationship between rule of law, control of corruption and stock market performance, the study found that the relationship is positive and**significant.**

Conclusion

On the basis of the findings of the study, the study concluded that government indicators influence the performance of the stock market in Ghana. Specifically, the effectiveness of governance with respect to the system of selecting civil servants to manage the capital market and the autonomy they have to work without political interference improves the performance of the stock market. Coupled with the aforementioned, the adherence and respect for rule of law, and the politically stable atmosphere of Ghana which has been strongly propagated by democratic values enhance the performance of Ghana's stock market.

In a similar vein, the country's ability to control corruption in its governance system and in the space of the stock market project positive influence on the stock market by increasing its performance. These findings were in line with literature as it is also believed that investors direct their investments in markets that they believe will produce stable business atmosphere devoid of political suppression of their will. The findings of this study also reveal that investors in the stock market are more concerned about a country's ability to protect their investment through strong adherence to rule of law that also defines the rules of engagement in the stock market. That notwithstanding, the ability of the country to fight corruption at all sectors of the economy enhances the performance of the firms in the stock market.

In conclusion, the findings of this study relates to both literature and theory. That is, contemporary literature such as Firooz, Asgar and Younus (2019) and Frotagheh and Kardan (2018) have all asserted that quality governance positively influence stock market performance. The evidence found in this studyis supported by the institutional theory which elicit among others that the degree to which institutions are able to control the tendencies of corruption, the efficiency and applicability of the rule of law, and the extent to which society members can voice issues out and demand accountability have influence on the way authoritative institutions such as the judiciary, legislature and the political system are designed.

Simply put, the governance structure of an economy has the propensity to influence the behaviour or confidence of investors and consequently influence the degree to which they participate to influence the performance of the stock market. The result of the study also gives

credence to the efficient market hypothesis in that the governance indicators constitute public information which are available and accessible to investors and firms. The assumption is that the quality of the governance indicators for an economy is directly reflected in the valuation of stock prices which implies that returns of securities' market is a function of the quality of the governance system.

Thus, politically stable atmosphere and the freedom of the media and citizens to have a say in governance and holding leaders accountable yielded positive results on stock market returns; and the ability of the government of Ghana to control corruption and ensure sound implementation of rules of governance feeds positively into the performance of the stock market of Ghana.

Recommendations of the Study

Based on the key findings and conclusion of the study, these recommendations were suggested for policy direction. The government of Ghana should intensify the fight against corruption in all aspect of society by strengthening rules that give autonomy to anti-corruption bodies to appropriately discharge their functions without fear, favour or political interference.

Suggestions for Further Studies

This research explored the relationship between country-level governance factors and stock market performance. While the evidence of the relationship is important, this study advocates that future studies should give thought to governance indicators from the firm level. For example, how does the control of corruption at the firm level, organisational politics, rules, and

management effectiveness of listed firms influence the performance of the overall stock market? Evidence on these questions will contribute towards designing policies to develop the stock market from both the macro and the micro perspectives.

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