Evaluating Governance Quality towards Achieving a Sustainable Financial Market: A Static Linear Panel Data Approach

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Abstract
This study evaluates the relationship between governance indicators and stock market performance in ASEAN-5 countries. Good governance quality is crucial for instilling investors' confidence and influencing the performance of stock markets. Six governance indicators from the World Governance database - control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability, were regressed against annual stock returns. Using a static linear panel data approach over ten years of study, the Pooled OLS model was identified as the most appropriate. Our findings indicate that only the rule of law significantly impacts stock market performance in the ASEAN-5 region. This suggests an effective legal system is important in boosting investor confidence and market stability. Furthermore, a strong legal framework is crucial for sustainable business conduct, which positively affects financial market performance. Investors and portfolio managers can benefit from this research by prioritising investment in countries with good governance quality to achieve higher capital gains. This research also offers valuable insights for policymakers to strengthen any laws and legal framework, adopt governance best practices, and ensure compliance with governance standards.
Keywords : Governance Indicators, Stock Return, ASEAN-5, Static Panel Data, Pooled OLS, Law

Introduction
        The establishment of Sustainable Development Goals (SDGs) as part of the 2030 Agenda for Sustainable Development has created a significant global effort for sustainability. The SDGs, which encompass 17 integrated and interlinked goals, emphasize the important sustainable practices across different sectors (United Nations, 2015). Organizations in both the private and public sectors are increasingly aligning their practices to support the achievement of the SDGs, with the realisation that the financial market is a crucial source of capital for investments aimed at sustainable development (Biermann et al., 2022; Saxena et al., 2021). However, it is also important to balance economic growth with social responsibility and address new challenges, such as financial risks to achieve SDG (Jurkowska-Zeidler &

Janovec, 2024). In essence, sustainable finance incorporates environmental and social issues into banking, investment, and insurance activities to drive economies towards sustainability (Niamh, 2024). This has highlighted the growing recognition of sustainable finance as a vital component in achieving long-term development goals. Overall, sustainable finance fosters economic growth while at the same time promoting environmental and social objectives, making it a key mechanism for a more sustainable future.

Traditionally, business entities would prioritised profit maximisation over social and environmental considerations due to profit being important for any business's survival (Khan, 2019). However, due to evolving societal concerns, organisations have to adapt their business strategies by incorporating environmental, social, and governance (ESG) factors in their decision-making while satisfying shareholders' wealth (Haessler, 2020). These ESG elements have become increasingly prevalent, as businesses recognised the importance of addressing each factor to become relevant and sustainable in their field (Mikhaylov, 2024). The shift towards a more holistic approach has been driven by growing stakeholders pressure, regulatory changes, and a recognition of the long-term sustainable practices. By addressing all three ESG elements, companies can demonstrate their commitment to sustainability, enhance their competitiveness, and create long-term value for their shareholders and society.

The commitment to ESG principles is not limited to the private sector, but governments and regulatory authorities also play a crucial role in promoting and enforcing ESG standards. Governments are increasingly integrating ESG criteria into their policies and regulations to foster sustainable economic development and ensure that both public and private sector entities adhere to high standards of environmental, and social responsibility, and governance. When the government adhered to ESG principles people, society and the environment will be protected, ESG also influences business and investment attraction, and finally, ESG affects the government's credit rating and borrowing costs (Orenstein & Cooke, 2022). This comprehensive approach helps create a cohesive framework where sustainability is prioritised at all levels of economic activity, thereby contributing to broader social benefits.

Despite the recognised importance of ESG, there is a limited understanding of its impact on financial market performance within the ASEAN region. It is crucial to comprehend the governance-financial performance nexus among ASEAN-5 countries as each country possesses unique characteristics in terms of its economic structure, regulatory system, and level of country development. Existing studies primarily focus on developed markets, creating a significant gap in the literature regarding the governance-financial market nexus in Southeast Asian countries. This lack of research leaves the study of the governance impacts of ASEAN region underexplored. This gap is critical to address, as Southeast Asia is expected to become an important destination for foreign direct investment inflows due to its strategic location, good infrastructure, expanding consumer markets, and increasing integration into global supply chain (Biswas, 2024). These elements collectively enhance the region's attractiveness to multinational corporations seeking to capitalise on Southeast Asia's dynamic economic landscape.

The following sections of this paper are structured as follows; section two reviews the existing literature of governance-related studies, section three explains the data and

methodology used in this study; section four presents detailed results and discussion, section five ends with a relevant conclusion and recommendation.

Literature Review

The concept of governance has evolved over time with many scholars contributing different definitions and theoretical perspectives. According to Heinrich et al. (2001), governance refers to the regimes of laws, administrative rules, judicial rulings, and practices that constrain, prescribe, and enable government activity. These activities are the creation and provision of publicly funded goods and services. Peters (2011) described that government play an important role in establishing policy direction, setting up societal priorities, ensuring accountability, and maintaining policy coherence. And, in fact, the World Bank (2024) delineated governance as the traditions and institutions in a country by which authority is exercised. This includes the process by which government is selected and replaced, the effectiveness of policies implementation by the government and the interaction of people and government in the context of social and economics. In essence, the concept of good governance has no standard definition as it is interpreted differently across various contexts, organizations and regions.

To further explore the various effects of governance on financial markets, it is essential to evaluate a range of studies highlighting governance quality across different countries and regions. A country with high governance quality ensures transparency thus fostering investors' confidence. This has been proved by Khan et al. (2022), who found that better governance quality leads to higher investor confidence and lower market volatility in Pakistan. Shin & Kim (2019), also indicated that effective governance mechanisms have positively affected investor confidence in Korean firms through independent boards and foreign ownership which boosts earnings acquisition. Additionally, governance quality affects the idiosyncratic risk of stock returns, with poorly governed countries experiencing higher volatility and negative returns (Lehnert, 2019). However, Lakshmi et al. (2021), and Boadi & Amegbe (2017), highlighted that in a certain context, high governance quality does not reduce market volatility or even increase investors' confidence due to different structures.

Imran et al. (2020), further emphasized that developed countries with good governance frameworks achieve better stock returns. This is due to high governance quality facilitating formulation and implementation of economic policies thus contributing to good economic growth. By utilising a spatial econometric study, Mahran (2023) even quantified that a 1% increase in governance leads to a 1% increase in economic growth. While, Lopes et al. (2023), specify that good governance, particularly regulatory quality consistently shows a positive impact on economic growth especially in emerging markets. Aytekin (2022) also postulated that factors like political stability, absence of corruption, and rule of law contribute positively to higher GDP per capita in countries. However, some studies suggest that the relationship between governance quality and economic performance may not always be straightforward. For instance, countries with high governance scores do face economic downturns due to external factors such as global economic conditions or political instability which is beyond governance quality (Almustafa, 2022).

Ultimately good governance does support a sustainable financial market. This can be seen in the series of global crises where countries with better governance frameworks experienced

lesser negative impacts on financial markets (see Trang & Hang, 2023, Boadi & Amegbe, 2017; Ijewereme, 2020; Jarmuzek & Lybek, 2018; Kraipornsak, 2018; Noja et al., 2019). Kusumasari et al. (2023), indicated that good governance principles are the key to combat COVID-19 pandemic in high, upper-middle, and lower-middle-income countries. The authors added that most countries that manage crises effectively are those which possess good governance quality. Additionally, Didier (2021), discovered that to become resilient, to prevent and react effectively to global shocks is the core element of good governance that requires an integrated endeavour from every institutional system. Despite all these, some studies reveal that even well-governed markets can suffer major setbacks during the unprecedented global crisis as factors like international interdependencies and different economic structures play crucial roles in determining the resilience of a country (Mai et al., 2023).

Given the previous literature, it is evident that good governance is crucial for every nation. Even United Nation (2015), has outlined that good governance is a key component in achieving sustainable development. However, there is a noticeable gap in studies examining the relationship between governance quality and financial performance, particularly in the ASEAN region. Therefore, the following hypotheses developed:

Hypothesis 1: Governance quality has a significant impact on financial market performance in the ASEAN-5 region.
Hypothesis 2: Specific components of governance (control of corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability) have differential effects on the financial markets in the ASEAN region.

Data and Methodology
This section provides a detailed description of the data sources and methodologies used to test the hypotheses as selecting appropriate data and utilising the correct analytical tools are important to ensure the reliability and validity of the research findings.

Data
This study analyses annual stock market data from five ASEAN countries namely Malaysia, Indonesia, Singapore, Thailand, and the Philippines over nine years from 2014 to 2022. These countries were selected because they are founding members of ASEAN and represent the most mature and established markets within the region, which now comprises ten nations. The maturity of these markets is crucial for obtaining a complete dataset necessary for addressing the research objectives.

Table 1
Description, method, and sources of variables

Variables	Measurement	Definition	Sources	Expected Signs
Stock return (dependent variable)	%	Stock return is the percentage change in the value of a stock over one year. It is calculated by taking the stock price at the end of the year (P_1), subtracting the stock price at the beginning of the year (P_0), and then dividing the result by the stock price at the beginning of the year (P_0).	Eikon Datastream	
GDP	US $	GDP is the total monetary value of all goods and services produced within a country's borders in a specific period.	World Development Indicators Website	+
Inflation	%	Inflation measured by the consumer price index, represents the annual percentage change in the cost for the average consumer to purchase a fixed or periodically adjusted basket of goods and services.	World Development Indicators Website	-
Corruption	Ratio	Control of Corruption captures the perception of the officials use their power for personal benefits, whether through small- or large-scale corruption, and the extent the country are influenced by elites and private interests.	Worldwide Governance Indicators Website	+
Effectiveness	Ratio	Government effectiveness captures perceptions of the quality of public services, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	Worldwide Governance Indicators Website	+
Political	Ratio	Political Stability and Absence of Violence/Terrorism assesses the perceived likelihood of political instability and politically motivated violence, including terrorism.	Worldwide Governance Indicators Website	+
Regulatory	Ratio	Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that promote country's development.	Worldwide Governance Indicators Website	+
Law	Ratio	Rule of law measures confidence in and adherence to societal rules,	Worldwide Governance	+

		particularly on contract enforcement, property rights, the police, courts, and the likelihood of crime and violence.	Indicators Website
Voice	Ratio	Voice and Accountability assesses the extent to which citizens able to participate in selecting their government, freedom of expression, and free media.	Worldwide + Governance Indicators Website

Source: The World Bank Group Website

For this analysis, annual stock market data were extracted from Eikon Datastream which are then calculated into the annual stock market as the dependent variable. The influence of governance quality on the stock market performance of these ASEAN-5 countries was examined through various governance indicators, which encompass control over corruption, government effectiveness, political stability, regulatory quality, rule of law, and voice and accountability. These indicators imply the structures through which authority is exercised in a country. This concept entails the mechanisms through which governments are elected, monitored, and replaced; the ability of the government to develop and enforce effective policies; and the degree to which both citizens and the state uphold the norms and institutions that regulate economic and social interactions within society. Additionally, control variables including Gross Domestic Product (GDP) and inflation were obtained from the World Development Indicators (WDI). The details of these governance indicators and other variables are well-defined in Table 1. Definitions for the variables used in this study, including GDP and inflation, were obtained from the World Bank (2024).

Research Methodology
Panel data analysis is highly relevant for finance and economic studies due to its ability to assess trends by incorporating both cross-sectional and time dimensions of data (Aman et al., 2023). It overcomes the limitations of country-by-country analysis, which often leads to biased estimates, and cross-section analysis, which neglects the time dimension (Marinov, 2021). Thus, panel data analysis is useful for studying relationships, trends, and effects in finance and economics (Khan et al., 2022; Munandar, 2017; Su & Zhou, 2022). In fact, Law (2018) indicates that panel data analysis aids in addressing real-world economic challenges through feasible solutions from esoteric fantasies in finance.

Additionally, panel data analysis is conducted using techniques like fixed effects and random effects estimators, which enables the variables to change over time within groups (Costa & Sarmento, 2021). It is also said that panel data analysis is preferred compared to individual time series as it controls for unobserved heterogeneity (Yıldırım, 2021). Thus, panel data analysis provides fewer collinearity problems among variables, more efficient estimation, more information and more variability of data (Aljandali & Motasam, 2018).

This paper aims to evaluate the influence of governance quality on stock returns within the ASEAN-5 countries. To accomplish this objective, the study employs panel data analysis to determine the significance, magnitude, and direction of the beta coefficients. Accordingly, the following regression equation will be applied to investigate these relationships:

$$Returns_{i,t} = \quad \alpha_1 + \beta_1 Corruption_{i,t} + \beta_2 Effectiveness_{i,t} + \beta_3 Political_{i,t} + \beta_4 Regulatory_{i,t} +$$
$$\beta_5 Law_{i,t} + \beta_6 Accountability_{i,t} + \beta_7 GDP_{i,t} + \beta_8 Inflation_{i,t} \qquad\qquad (1)$$

The variable *Returns* denote the stock returns from the ASEAN-5 stock market over the specified study period. These returns are calculated using the formula $Returns_{i,t} = \dfrac{P_1 - P_0}{P_0} x100$ where P_0 represents the stock price at the beginning of the year (year 0), and P_1 is the stock price at the end of the year (year 1). For the analysis of governance indicators, this study incorporates six governance variables sourced from the World Bank database, consistent with the methodology used in Imran et al. (2020). These variables serve as independent predictors in the model, and these include *Corruption* measured by Control of Corruption, *Effectiveness* captured through the Government Effectiveness indicator, *Political* represents the Political Stability and Absence of Violence/Terrorism, *Regulatory* refers to Regulatory Quality, *Law* stands for Rule of Law indicator, and *Accountability* for Voice and Accountability. The regression model also includes macroeconomic variables namely GDP and Inflation as they are expected to influence stock market performance and provide additional explanatory power to the governance indicators.

Empirical Results
Empirical results form the critical part of each empirical research paper. Accordingly, this section presents the empirical findings of the study, beginning with descriptive statistics, followed by regression analysis, and the robustness check.

Descriptive Statistics
Based on the descriptive statistics in Table 2, the number of observations is 50 for all variables. The average annual stock return (Return) for the ASEAN-5 countries is 3.844% with a standard deviation of 12.573 indicating large fluctuations over the period of study. The range of stock returns spans from a minimum of -20.314% to a maximum of 38.531%, showing substantial losses and gains within the dataset. These circumstances align with the previous literature indicating that the stock market in ASEAN varies due to both internal and external factors (Mishra & Mishra, 2020; Sehgal et al., 2017; Thomas et al., 2019). Furthermore, even with the introduction of trade agreements and regional coalition, ASEAN-5 countries are still not fully integrated thus reflecting a diversification benefit within ASEAN region (Ishikawa, 2021; Robiyanto et al., 2023).

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
stock return	50	3.844	12.573	-20.314	38.531
corruption	50	.173	1.01	-.66	2.14
effectiveness	50	.713	.839	-.326	2.285
political	50	-.133	.891	-1.379	1.599
regulatory	50	.604	.826	-.158	2.252
law	50	.278	.843	-.667	1.838
accountability	50	-.208	.367	-1.045	.185
GDP	50	478.6	251.4	270.5	1,122.0
inflation	50	2.73	2.262	-3.901	8.882

Note: GDP in constant 2015 billion USD

As for the Governance Indicators, all datasets are in ratios within the range of -2.50 to +2.50. On average, the control of corruption (*Corruption*) indicator is slightly positive, suggesting moderate levels of corruption control. However, the deviation is relatively high, indicating differences in corruption control among the ASEAN-5 countries. These findings align with Seah et al. (2024)*,* who reported that the ASEAN countries has recorded mixed progress with some countries showing improvements in legal frameworks and enforcement, while others face increased levels of state capture and bureaucratic corruption. The average government effectiveness (*Effectiveness*) score is 0.713, suggesting generally positive perceptions of governmental effectiveness across the countries under study. The mean value of political stability and absence of violence/terrorism (*Political*) score is slightly negative, indicating some instability. Additionally, the indicator has substantial differences as the range varies from a minimum of -1.379 and a maximum of 1.599. The deviation supports the findings from Pratiwi et al. (2019), who emphasised that among ASEAN countries, the Philippines and Thailand have higher risks of terrorism as compared to Indonesia. This highlighted that political stability, and the threat of terrorism is varied among ASEAN countries.

The mean value for the *Regulatory* quality indicator is 0.604 with a moderate variation of 0.826. These have suggested a generally positive regulatory environment within the ASEAN region. As for the rule of law *(Law)*, the indicator averages at 0.278, suggesting a generally positive legal framework. Even though there is considerable variation of 0.843, the range shows varying levels of quality of enforcement of law among ASEAN-5 countries. These findings support a study by Kurita (2023) who indicates that even though all ASEAN countries have established competition law regimes, the degree of implementation differs, with the authorities and lack of enforcement resources being crucial factors. Another governance indicator is *Accountability* whose scores are slightly negative but less varying compared to other indicators. The average *GDP* is USD 478.6 billion and *GDP* ranges widely, reflecting differences in economic size. There is considerable variation in inflation rates with the average *Inflation* rate is 2.73%. The descriptive statistics reveal significant variability in stock returns, governance indicators, and macroeconomic variables across the ASEAN-5 countries over the study period. which is critical for understanding the influence of governance quality on stock market performance.

Regression Analysis

The descriptive statistics above reveal the existence of variability in the data, highlighting the diverse economic and governance situation within the ASEAN-5 countries. This heterogeneity implies that these nations are not homogeneous but possess unique characteristics. To address the heterogeneity issues effectively, we have employed panel data analysis, which is well-suited to manage these differences across countries. This approach enables us to perform an accurate and appropriate evaluation of the impact of various governance indicators on the stock return, thereby achieving the objective of this study.

Table 3 shows the one- and two-way models where the first only considers individual-specific effects (cross-sectional or time effects). The latter accounts for both individual-specific and time-specific effects, providing a more comprehensive analysis by controlling for variations over time and across entities. By examining the aforementioned tables, we can observe the significant impact of controlling for one effect (country-specific or time-specific) versus both effects (two-way, country-specific and time-specific) on the regression results. For instance, the variables inflation and political stability show differing coefficients and significance levels depending on whether one-way or two-way models are used. This highlights the importance of controlling for variations over time and across entities to obtain more accurate estimates.

To determine the most suitable model between the two-way Pooled Ordinary Least Square (POLS), Fixed Effect Model (FEM), and Random Effect Model (REM), a selection test was conducted. The results of the selection test are summarised in Table 4. Based on the Poolability F-test, individual-specific effects are not significant, indicating a preference for POLS (no fixed effects). Similarly, the BP LM Test suggests that random effects are not significant, further indicating that no random effects are present. Thus, POLS is concluded to be the preferred model based on these tests.

Even though, we initially believe that ASEAN-5 countries consist of different levels of development with four developed countries and one developed country that would significantly influence the relationship between governance quality and stock market performance, the statistical test shows otherwise. In other words, the heterogeneity between entities (countries) does not significantly affect the relationship between the dependent variable (stock market return) and the explanatory variables (governance quality). This implies that governance quality has uniform effects on stock market performance, regardless of the country's level of development be it developing or developed countries.

Table 3
Panel Data Regression Estimates

Variable	One-way			Two-way		
	POLS	FEM	REM	POLS	FEM	REM
GDP	0.668	-32.587	0.668	6.343	5.534	6.343
	(5.624)	(17.726)*	(5.624)	(3.354)*	(42.369)	(3.354)*
Inflation	2.465	2.361	2.465	-0.137	-0.504	-0.137
	(0.907)***	(0.927)**	(0.907)***	(0.706)	(0.783)	(0.706)
Corruption	0.395	-0.955	0.395	-1.224	-2.723	-1.224
	(5.045)	(5.999)	(5.045)	(2.969)	(3.785)	(2.969)
Effectiveness	11.603	18.573	11.603	6.6	8.756	6.6
	(9.708)	(11.167)	(9.708)	(6.566)	(9.237)	(6.566)
Political	-6.4	-7.062	-6.4	-3.472	-3.259	-3.472
	(2.954)**	(3.546)*	(2.954)**	(1.827)*	(2.728)	(1.827)*
Regulatory	-10.796	-12.402	-10.796	-4.133	-7.127	-4.133
	(7.397)	(9.256)	(7.397)	(4.799)	(7.585)	(4.799)
Law	4.378	-0.975	4.378	2.497	3.035	2.497
	(3.814)	(5.417)	(3.814)	(2.255)	(3.828)	(2.255)
Accountability	1.752	4.059	1.752	1.92	2.793	1.92
	(3.148)	(5.21)	(3.148)	(1.872)	(4.079)	(1.872)
Constant	-24.014	864.503	-24.014	-143.20	-123.278	-143.20
	(149.866)	(475.751)*	(149.866)	(88.637)	(1126.73)	(88.637)
R^2	0.242	0.300	0.242	0.827	0.80	0.827
F-test (year dummies)	-	-	-	**12.02*****	**9.97*****	**108.15*****

*** $p<.01$, ** $p<.05$, * $p<.1$

Table 4
Model Selection Results

Test	Statistics	p-value	Results
Poolability F-test	F(4,28) = 0.60	0.6629	Preference for POLS (no fixed effects)
BP LM Test	chi2(1) = 0.00	1.0000	Preference for POLS (no random effects)

Apart from the selection test, it is essential to conduct diagnostic tests to assess its validity before drawing any inferences. There are various diagnostic statistics available, but for this micro (short) panel data analysis, the most important diagnostic tests are the heteroscedasticity and autocorrelation tests. Based on Table 5, the p-value for the Breusch-Pagan/Cook-Weisberg test is 0.0362, which is less than the common significance level of 0.05. Thus, there is a heteroscedasticity problem as we reject the null hypothesis. In contrast, the Wooldridge test for autocorrelation has a p-value of 0.3301, which is greater than the common significance level of 0.05. This implies that we do not have enough evidence to reject

the null hypothesis of no autocorrelation. Therefore, we conclude that there is no significant autocorrelation in the error terms, suggesting that the error terms are independent over time.

Table 5
Diagnostic Test Results

Test	Statistics	p-value	Results
Breusch-Pagan / Cook-Weisberg Test	chi2(1) = 4.39	0.0362	Heteroscedasticity presents
Wooldridge Test for Autocorrelation	F(1, 4) = 1.227	0.3301	No significant autocorrelation

Eng (2024) indicates that panel data structure is rich in information, but with those opportunities, it comes with problems too. As we can see in this study, although the selection test (refer Table 4) conclude that POLS is the most appropriate model for this study, diagnostic tests indicate the presence of a heteroscedasticity. Thus, we need to solve this problem with some adjustments to ensure the model's reliability. A common approach usually practice in literature is by adopting robust standard errors in the model. This is similar to classical linear regression where White or Newey-west robust variance-covariance matrix is used to solve presence of heteroscedasticity and/or autocorrelation problem (Ibrahim & Arundina, 2022).

The following table (Table 6) is the panel regression model with the adoption of robust standard error on the right side and standard error on the left side. As two-way POLS has been selected as the most appropriate model, this study will discuss the results based on the most suitable model. According to the findings, only two variables are significant in influencing ASEAN-5 stock return namely GDP and law. The GDP variable shows a positive and statistically significant coefficient at a 5% level (coefficient is 6.3427 with a t-value of 4.02) while the law variable which is also positive and statistically significant in the POLS models significant at a 10% confidence interval (coefficient is 2.4968 and a t-value of 1.61). The other explanatory variables like inflation, corruption, effectiveness, political stability, regulatory quality, and accountability are not significant. Obviously two-way POLS model brings better findings as the R^2 value is 0.827 in comparison to only 0.242 if using one-way model. This indicates that the two-way POLS model with robust standard error explains 82.70% of the variability in financial market performance. Whilst the F-tests for the two-way models are statistically significant, thus suggesting the inclusion of year dummies is appropriate and improves the model fit. F-test also validates the overall significance of the regression model in the context of this study.

The findings of this research indicate that governance quality of a country is statistically significant in influencing the performance of stock market in ASEAN-5 countries. This finding supports our first hypothesis of the relationship between governance and financial market performance, suggesting that improvements in governance quality can lead to better financial market outcomes. This highlights the importance of good governance structure in these countries. Such findings are consistent with previous literature which emphasizes that strong governance framework lead to market stability and increases investors' confidence (Khan et al., 2022; Lakshmi et al., 2021; Mahran, 2023; Shin & Kim, 2019; Ziolo et al., 2021). Furthermore, an effective governance structure enhances market resilience in responding to unforeseen crises, as evidenced by Almustafa (2022). This resilience is crucial for maintaining stability and confidence during economic disruptions,

ensuring that markets can recover and continue to function effectively despite unexpected challenges.

We also identify that different governance indicators have varying impacts on financial performance, thus supporting our second hypothesis. The findings highlight that among the governance-related variables, the law and legal aspects play a significant role in influencing financial market performance in the ASEAN-5 region. These findings align with several studies demonstrating the role of law and regulations in financial market performance in both developed and developing countries including research by Aytekin (2022), Imran et al. (2020), Kraipornsak (2018), and Noja et al. (2019). This is because strong governance ensures transparency, reduces corruption, and increases investor trust thus, reflecting the importance of an effective legal system to boost investors' confidence and market stability (Khan et al., 2022). The significance of the rule of law towards market performance indicates the importance of fairness, integrity, and effectiveness of the legal system and its institutions which is also crucial for sustainable business conduct (OECD, 2023). A well-regulated market also tends to attract more foreign direct investment and perform better during economic crises (UNCTAD, 2023).

Table 6
Panel Data Regression Estimates (Robust Standard Error)

Variable	One-way			Two-way		
	POLS	FEM	REM	POLS	FEM	REM
GDP	0.668	-32.587	0.668	6.343	5.534	6.343
	(2.832)	(10.268)**	(2.832)	(1.579)**	(11.691)	(1.579)***
Inflation	2.465	2.361	2.465	-0.137	-0.504	-0.137
	(0.511)***	(0.423)***	(0.511)***	(0.907)	(0.998)	(0.907)
Corruption	0.395	-0.955	0.395	-1.224	-2.723	-1.224
	(5.057)	(3.121)	(5.057)	(0.918)	(1.722)	(0.918)
Effectiveness	11.603	18.573	11.603	6.6	8.756	6.6
	(3.039)**	(4.23)**	(3.039)***	(5.378)	(3.397)*	(5.378)
Political	-6.4	-7.062	-6.4	-3.472	-3.259	-3.472
	(4.454)	(5.093)	(4.454)	(1.998)	(2.33)	(1.998)*
Regulatory	-10.796	-12.402	-10.796	-4.133	-7.127	-4.133
	(6.669)	(3.546)**	(6.669)	(3.67)	(2.555)**	(3.67)
Law	4.378	-0.975	4.378	2.497	3.035	2.497
	(1.556)**	(1.978)	(1.556)***	(1.015)*	(0.904)**	(1.015)**
Accountability	1.752	4.059	1.752	1.92	2.793	1.92
	(0.918)	(0.76)***	(0.918)*	(1.194)	(1.084)*	(1.194)
Constant	-24.014	864.503	-24.014	-143.20	-123.278	-143.20
	(74.025)	(278.743)**	(74.025)	(47.322)	(308.783)	(47.322)
R^2	0.242	0.300	0.242	0.827	0.80	0.827
F-test (year dummies)	-	-	-	**12.29****	**4.00**	**49.17*****

*** $p<.01$, ** $p<.05$, * $p<.1$

Conclusion

This study aimed to investigate the impact of governance quality on financial market performance in ASEAN-5 countries. The findings indicate that governance quality significantly influences the performance of the stock market in the ASEAN region. However, among the six governance indicators, only the rule of law plays a critical role. This supports our hypothesis that good governance leads to better financial market performance. Further studies should address several limitations, including limited datasets and shorter periods of study while exploring other factors that may influence the relationship between good governance and financial market performance. For a more thorough understanding, comparative study on the governance–financial performance relationship during the crisis and non-crisis periods should be conducted. This approach will demonstrate how effective governance can lessen the impact of an economic downturn while enhancing performance during the period of market stability.

This research offers theoretical and contextual contributions to the existing body of knowledge. Theoretically, it extends the understanding of how governance quality especially the rule of laws impacts stock market returns. While many previous researchers focus on the nexus between governance and financial performance in developed countries, this study bridges the gap by examining governance quality on stock market performance in ASEAN-5 countries. This study also goes beyond the traditional research of governance quality by linking it with the financial market performance. Contextually, these findings are pivotal to policymakers and investors, as they emphasise the need for effective enforcement of laws and governance practices to attract investors and ensure sustainability through various economic cycles. This insight is particularly timely as Southeast Asian countries continue to evolve as key players in the global economy. This research also provides practical implications, suggesting improvement in governance framework particularly an effective legal system that leads to favourable stock market performance.

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