Governance and All Share Index in the Nigerian Capital Market

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ABSTRACT
This study investigated the nexus between governance and All Share Index of the Nigerian capital market for the period 1991-2021. The objectives of the study were to determine the extent to which regulatory quality, rule of law and control of corruption have affected the All Share Index of the Nigerian capital market. Data on these variables were collected from Central Bank of Nigeria statistical bulletin and the World Bank. These collected data were subjected to descriptive analysis, unit root test, Johansen co-integration analysis, Wald test, granger causality test and series of diagnostic tests. Majorly, it was revealed that there is no co-integration between governance and All Share Index; there is no directional causality between the variables; regulatory quality has a positive insignificant effect on All Share Index while rule of law and control of corruption have negative insignificant effects on All Share Index in Nigeria. It was concluded that there is no significant nexus between governance and All Share Index of the Nigerian capital market, which underlines the underdeveloped nature of the Nigeria capital market which is tied to so many factors and governance is one of them. On this backdrop, the study recommended that there should be a synergy between governments at all levels in order to help enthrone proper governance in Nigeria and to dethrone nepotism, favoritism and corruption, which are the hallmark of the Nigerian system. Also, as a way to further enhance governance quality and encourage investment in the Nigerian capital market, there is need for the Nigerian government to promote political stability and security as one of its core mandates.

KEYWORDS: Governance, All Share Index, Regulatory Quality, Rule of Law, Control of Corruption and Wald Test.

INTRODUCTION

The growth and development of an economy is tied to so many factors and variables. The level at which a country's financial system operates is a pointer to her extent of growth and development. This is because the financial system lubricates economic activities and determines the flow and direction of investable funds. A financial system as such is a conglomerate of financial markets, instruments, operators and institutions that interact within an economy to provide financial services such as resource mobilization and allocation, financial intermediation and others (Alaska & Bandu, 2021). These financial markets consist of institutions, mechanisms and structures through which financial resources are transferred from ultimate lenders to ultimate

borrowers, who may be individuals or corporate bodies or governments, for investment in economic activities. Today, so many financial markets exist but the most pronounced are the money market, capital market and the derivatives market. Money markets are markets for short-term highly liquid debt securities like treasury bills, treasury certificates and the like. The derivatives market is a market that trades not on an issues security but on the right to title on the underlying security or on the basis of future title to the security. The capital market, nonetheless, is a market for intermediate or long term debt and corporate stocks and securities (Nwezeaku, 2008).

Accordingly, the capital market consist of a network of specialized institutions which perform long term financial intermediary functions, culminating in the trading of medium and long term securities such as stocks, bonds, debentures etc. In Nigeria, these specialized institutions include merchant banks, stock broking firms, issuing houses, venture capital companies, development finance companies, unit trusts, the CBN (Central Bank of Nigeria), Securities and Exchange Commission (SEC), and the Nigeria Stock Exchange (NSE). Hence, the major participants of the Nigeria capital market are fund providers, fund users, intermediaries and regulatory agencies. The market in Nigeria consists of the primary and secondary markets, and its development dates back to 1946 when a ten-year plan Local Ordinance was promulgated and the first government securities were floated. Since then, the market has grown in leaps and bounds. For instance, the Nigeria Stock Exchange (NSE), which is the hallmark of Nigeria's capital market, grew from one trading floor at Lagos in 1961 to branches in almost all the states of the federation. From 19 listed securities in 1961, the number of listed securities as at 31st December 2022 was 277 (Ghazi & Hadizza, 2023). Similarly, the market has also grown in terms of her All Share Index, market capitalization, number of traded securities and value of transactions, and these are generally accepted measure of capital market performance (Hart & Ekong, 2018).

Nevertheless, the performance state of a stock market in every economy is amongst other things determined by government policies and the soundness of its regulatory framework (Asongu, 2012). Thus, quality of governance plays a vital role in the stability, liquidity, and efficiency of the stock market of any country. With the persistence of global financial scandals involving high profile corporations, investors' sensitivity to the operations of companies has heightened on the one hand. On the other hand, investors now probe more into country governance quality as opposed to corporate governance policies. This is against the backdrop that companies do not operate in a vacuum; rather, they are affected by the governance systems of their host environments (Boadi & Amegbe, 2017). Accordingly, the effectiveness of corporate governance framework at the company level is dependent on the overall structure and quality of country-level governance systems in force in the environment of operations of such companies. As such, governance systems connote the institutional arrangements that regulate the markets. These institutions consist of legal, political, economic, and regulatory establishments that provide order and cohesion for business activities to thrive (Hooper, Sim & Uppal, 2009). The equitability of the legal process, the extent of political stability, the level of corruption, transparency and accountability are key definitional ingredients of quality governance and their propensity to superintend the operations of the stock markets and their actors. Quality of governance

nonetheless can be ascertained using the following indicators: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption (Barbu & Boitan, 2020).

The foregoing lays credence to the fact that governance in its entirety is an underlying determinant of the developmental status of a capital market. It is then safe to say that governance and stock market performance are somewhat inseparable; thus suggesting that they both go side-by-side. This is because the quality of governance has important implications on the interactions between firms and government controlled institutions and the costs associated with such dealings. In addition, the ability of the judiciary to enforce contractual rights of shareholders impinges on the likelihood of managerial expropriation and ultimately the profitability of firms. Put differently, judicial factors directly limit the amount of corporate resources diverted by managers and allow shareholders to monitor managers at lower costs. Legal systems supportive of investor protections tend to increase the amount of funds risk-averse investors are willing to channel towards firms. In essence, legal systems supportive of investor protections tend to increase the amount of funds risk-averse investors are willing to channel towards firms (Kuzey, Ali, Amal & Merve, 2021). Little wonder in countries like Nigeria, there has been concerted efforts to establish and strengthen existing government owned and controlled institutions by way of budgetary allocations for manpower recruitment, training and law enforcements. These whole efforts are geared towards enhancing governance quality and boosting investors' confidence. However, the African continent, which Nigeria is a major player, is notorious for her poor governance records and this has been found to constituting stumbling blocks on her growth trajectory for decades. Nigeria has witnessed series of regime shifts from the extreme decree-based to constitutionally inclined system of governance. Amid these developments, several cases of mis-governance remain the common feature of Nigeria's socio-economic and political landscape (Ubi & Udah, 2014).

However, there are two noticeable competing hypotheses in the literature regarding the effect of governance quality on stock market performance. One argues that by attaining economics of scale, good governance quality causes a reduction in transaction and agency cost, and thus enhances increased stock returns for shareholder (Kuzey, Ali, Amal & Merve, 2021; Jabbouri & Almustafa, 2020; Hooper, Sim & Uppal, 2009). The other states that countries with weak governance quality have experienced higher stock returns compared to those countries that have stronger governance quality (Imran, Ejaz, Spulbar, Birau & Nethravathi; 2020; Asongu & Nwachukwu, 2016; Low, Kew & Tee, 2011). This has led to a huge debate on the empirical front on the effects of governance on capital market performance. Nevertheless, given the peculiarities of Nigeria as a typical developing and an African country, one may be prompted to ask the question: what is the actual relationship between governance and capital market performance in Nigeria?

REVIEW OF RELATED LITERATURE

Conceptual Review

Governance

Governance is an ambiguous concept that refers more to the ability and capability to govern, to manage closed societies. Governance has become a fashionable word today describing a whole host of approaches and techniques for improving coordination among the different levels of society (Vymětal, 2007). This concept has been variously defined over the years. For instance, Kaufmann, Kraay and Mastruzzi (2010) saw it as the traditions and institutions by which authority in a country is exercised. This includes a process by which governments are selected, monitored, and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. Other authors emphasize socio-political governance that is used for analytical and normative viewpoints for all "collective" social governance in any sphere of the public, private or civic sectors (Kooiman, 2003). Similarly, the European Commission (2003) refers to governance as the rules, processes, and behaviour by which interests are articulated, resources are managed, and power is exercised in society. The way public functions are carried out, public resources are managed and public regulatory powers are exercised is the major issue to be addressed in that context. According to the Commission, the real value of the concept of governance is that it provides a terminology that is more pragmatic than democracy, human rights, etc. thus, in spite of its open and broad character, governance is a meaningful and practical concept relating to the very basic aspects of the functioning of any society and political and social systems. It can be described as a basic measure of stability and performance of a society. According to the World Bank (2007), governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.

Given the nature of governance, it is difficult to measure it in its entirely, however, in a complementary manner, international organizations like the World Bank, as well as research centers, have proposed various measures and proxies of a country's good governance, by relying on public perception survey data gathered from people, companies or expert respondents in developed and developing countries. The result is represented by the development of several complementary indicators and indices, each of them focusing on a specific governance dimension. The World Bank nonetheless gave the following: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption as measures of governance (Barbu & Boitan, 2020).

Regulatory Quality

Regulatory quality measures the occurrence of market-unfriendly policies such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development (Hooper, Sim & Uppal, 2009). Thus, as an indicator of good governance, it depicts the perceptions of the ability of the

government to formulate and implement sound policies and regulations that permit and promote private sector development. Put differently, regulatory quality index measures the ability of government to formulate and implement sound policies and regulations that permit and promote private sector development (Kaufmann, Kraay & Mastruzzi, 2010). Regulatory Quality looks at the instances of market-unfavorable guidelines such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas. Low, Kew and Tee (2011) examined the link between country-level governance and global stock market returns and found that regulatory quality is positively and significantly related to stock market returns. Although regulatory quality usually encompasses all types of economic and financial regulations, some studies, for instance, Lakštutiene, Krušinskas and Rumšaite (2011) have relied only on a given regulatory framework, namely the deposit insurance mechanism and uncovered that it triggers positive impact on Baltic States' bank credit ratings and financial stability.

Rule of Law
Rule of Law summarize in broad terms the respect of citizens and the state for the institutions that govern their interactions. RL measures the effectiveness and predictability of the judiciary, and, more importantly, the enforceability of contracts and proprietary rights. This indicator is a proxy for the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions. The rule of law indicator can be considered as a measure of investor protection arising from the enforcement of equitable principles (Bittlingmayer, 1998). It can as well be said to be an indicator depicts the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. In other words, rule of law, as the fifth indicator of quality governance, which measures law and order, reflects the extent to which citizens of a country has confidence in the courts, the police, the level of contract administration and the tendency of crime and violence. Rule of law is an assessment of the law and order tradition in the country. It summarizes in broad terms the respect of citizens and the state for the institutions that govern their interactions. Rule of law considers the effectiveness and predictability of the judiciary, and, more importantly, the enforceability of contracts and proprietary rights. This indicator is a proxy for the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions. The Rule of law indicator can be considered as a measure of investor protection arising from the enforcement of equitable principles. Chiou, Lee and Lee (2010) using data on 4916 stocks from 37 countries, confirm equities found in countries practicing English common law often have higher risk premium than equities found in countries practicing civil law. The qualities of judicial system, legal protection of investors' rights, and the social/political environment in a state have significant association on return and risk. Various research studies have confirmed the association between performance of financial systems and comprehensive legal protection and an efficient legal system both at the macroeconomic and firm levels and notable among these studies are La Porta, Lopez-de-Silanes, Shleifer & Vishny (1998; 2000).

Control of Corruption
In the words of Boadi and Amegbe (2017), corruption is the extent to which public power is exercised for private interest. Corruption is not just about bribery. Instead, corruption extends beyond bribery to include other exercises of discretionary power in the public sector. Thus, CC measures perceptions of corruption, conventionally defined as the exercise of public power for private gain. The presence of corruption is often a manifestation of a lack of respect of both the corrupter (typically a private citizen or firm) and the corrupted (typically a public official or politician) for the rules that govern their interactions, and hence represents a failure of governance. That is, control of corruption (CC), as an indicator, captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Nonetheless, in the academic literature, corruption is often defined as the misuse of public office for private gains (Shleifer & Vishny, 1993; Klitgaard, 1991; Transparency International, 1995). The World Bank calls corruption ''the single greatest obstacle to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundation on which economic growth depends''. Corruption is a serious social problem that affects all facets of a society (Xu & Li, 2018). Lee and Ng (2002) documented the empirical relationship between the level of corruption within a country and the valuation of its corporations to shareholders. They found that firms from more corrupt countries trade at significantly lower market multiples, after controlling for other factors. They documented that corruption significantly decreases equity values after controlling for many other firms- and country-level control factors. Gelos and Wei (2005) showed that lower country transparency is associated with lower investment from international funds. They also found that during financial crises, international funds flee non-transparent countries by a greater amount than their transparent counterparts. Given the link between secrecy and corruption mentioned earlier, it seems that corrupt countries will receive less investment from foreign investors.

In essence, corruption control plays a very important role in the enhancement or demoralization of investors in any business activity in a country. There is a wide agreement between researchers that across international financial markets, corruption is found to be associated with higher borrowing costs, lower stock valuations, and worse corporate governance. This ultimately affects the transparency of international investments and thus low confidence in the financial system and stock markets. With this deterioration, the confidence will have a negative impact on the equity value of the firm, and with a decrease in the value of firms, that will bring down the stock market index. With the decrease in corruption, high activity in financial and capital markets can be achieved by bringing foreign investment directly into the stock market (Khan, Munir, Abbas & Umar, 2022).

All Share Index (ASI)
In finance, an index is a standardized way to track the performance of a group of stocks, assets, etc. It is a measure used to track the performance of equity or other assets. A basket of securities makes up the index used to track the performance of the basket. Put differently, an index is used to track a statistical measure of change in various security prices. According to Chen (2021), it

typically refers to a statistical measure of change in a security market. A financial index produces a numeric score based on inputs such as a variety of asset prices. Thus, indexes measure the performance of a basket of securities intended to replicate a certain area of the market (Chen, 2021). To further appreciate what an index is, Hadden and Haug (2017) gave the following as the features of an index:

i.   It measures the price performance of a basket of stocks/securities.

ii. It is used as a benchmark to track the performance of a specific set of securities and compare the returns generated by a mutual fund, portfolio manager, etc.

iii. Index ETF funds are used to invest in a specific list of securities tracked by the index. For example, the Nippon India ETF Nifty BeES ETF is used to track the performance of Nifty stocks and invest in the index.

iv. Indices can be broad-based, which track the entire market, or sectoral indices which track a particular sector. The index can also be based on the market cap of the stocks they track, for example, the Nifty Small Cap 100, Nifty Mid Cap 100, etc.

Nevertheless, an index could be constructed as a broad-based indicator that captures the entire market such as the Standard and Poor's 500 Index or Dow Jones Industrial Average (DJIA), or more specialized such as indexes that track a particular industry or segment such as the All Share Index (ASI) which tracks only a class of stocks. The All Share Index is an indicator that shows the average prices of stocks on the Nigeria Stock Exchange (NSE). Usually, it is used to determine the intensity of the Nigeria stock market generally. Indexes use base years for computational purposes and January 1, 1984 is the base year for Nigeria's All Share Index (Nzotta, 2005). This index is given as:

$$ \text{ASI} = \sum Pa.Qa / Pb.Qb \quad \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots.. 1 $$

Where:

P	=	Price of stocks
Q	=	Quantity of stocks
a	=	Current period
b	=	Base period

This index nonetheless is used in examining the previous high points and low points in the stock market. It is very important in predicting or determining the trends and reversals in the stock market. According, we have three movements with stocks which are: primary, secondary and minor movements. The primary movement is a long term movement of upwards of one year which determines a company's term trend in stock market prices. Secondary movement is a short term movement of 0 - 12 months duration that is expected to counter the primary trend or to correct the error in the primary trend. Minor movement are daily or hourly movements in stock market prices (Daggiza, 2019).

Theoretical Review

Efficient Market Hypothesis (EMH)
The efficient market hypothesis (EMH) is an idea partly developed in the 1960s by Eugene Fama. It is a very popular capital market theory that has come to stay. Explanations and perceptions of scholars on what an efficient market is, is universally accepted as a statement of proposition that prices react quickly and unambiguously to new information. Supporters of this model believe it is pointless to search for undervalued stocks or try to predict trends in the market through fundamental analysis or technical analysis (Lumby & Jones, 2013). In essence, it follows that it is impossible to beat the market because prices already incorporate and reflect all relevant information. The efficiency of a market cuts across informational, allocative and operational efficiencies. According to Smart, Megginson and Gitman (2014), informational efficiency refers to the tendency (or lack thereof) for prices in a market to rapidly and fully incorporate new and relevant information. Allocative efficiency means that markets channel resources to their most productive uses, while operational efficiency determines whether markets produce outputs at the lowest possible cost. In essence, the efficient market hypothesis (EMH) holds that a stock market is efficient if the market price of a company's shares (or other financial securities, such as bonds) rapidly and correctly reflects all relevant information as it becomes available (Lumby & Jones, 2013). According to Fama (1970), the efficient market hypothesis (EMH) has three variants and this is to help with the categorization of markets. These variants are: the weak form, the semi-strong form and the strong form.

The Weak Form
The first form of efficiency is the weakest of the three. The share prices in a capital market that satisfies weak form of efficiency, reflect all information in past share price. Also, share prices change irrespective of historical price fluctuations (Haugen, 2001). Akujuobi (2005) stated that the weak form simply states that past price information is unrelated to future prices, and that trends cannot be predicted and taken advantage of by investors. Thus, a market would be described as having weak-form efficiency if it is impossible to make abnormal profits by using past prices to make decisions about when to buy and sell securities (Sharpe, Alexander & Barley, 2001).

The Semi-Strong Form
A market is semi-strong form efficient if prices reflect all publicly available information including information such as published accounting statements for the firm, company announcements, brokers' reports, industry forecasts as well as historical price information. The distinction between semi-strong form efficiency and weak form efficiency is that semi-strong efficiency requires not only that the market be efficient with respect to historical price information, but that all of the information available to the public be reflected in price (Ross, Westerfield & Jaffe, 2002). Also, semi-strong form efficiency uses much more sophisticated information and reasoning than weak form efficiency.

The Strong Form
The strong-form efficiency states that all information, both private and public is immediately

reflected in security prices. It requires all known information to be incorporated in the current security price, whether publicly and generally available or not. A market therefore, is strong form efficient, if prices reflect all information, public or private (Kishore, 2014). In other terms, the strong form of EMH states that there are no investors with superior ability to buy and sell at just the right times (Elton, Gruber, Brown & Goetzmann, 2009). The reason for this is that an efficient market in this form incorporates all types of relevant information into the share prices, public and private. Furthermore, due to the well-adjusted share prices, not even an insider that possesses inside information can utilize this and gain an advantage (Kishore, 2014). However, Hamberg (2004) argued that an efficient market in the strong form does not equal a perfect market, because the risk of stock market crashes continues to exist in this form as well.

Capital Asset Pricing Model (CAPM)

This theory was developed by Sharpe (1964), Lintner (1965) and Mossin (1966) as a testable model for determining the value of individual securities or portfolio. The model is a significant departure from the efficient market model as it helps to calculate investment risk and what return on investment investors should expect (Ihejirika, 2016). The CAPM shows the relationship between expected return of a security and its avoidable risk. It provides a framework for the valuation of securities and it contends that the expected returns on any asset are a linear function of its systematic risk. This model can also be used to find the cost of a company's equity. Thus, the capital asset pricing model derives from the specifications inherent in the capital (security) market line. Here, the attention is focused on the efficient portfolios. The market portfolio is one with higher return than any other in its risk class and is thus associated with efficient portfolios. The CAPM as such states that the required rate of return on a security consists of a risk free rate of interest plus a risk premium that is proportional to the stocks sensitivity to the market movement i.e. its beta (Akujuobi, 2005). In other words, the CAPM is determined by three variables, which are the risk-free return, the market return, and the market sensitivity of assets.

Institutional Theory

According to Modugu and Dempere (2020), the foundations of institutional theory as it is currently understood took root between 1977 and 1983 amid a broader search for understanding the elements that support successful and sustained organizational performance. Thus, this is a socio-political theory that deals with the manner in which rules, norms, culture, policies and regulations are established and managed by a higher authority as authoritative guidelines for social behavior within an ecosystem. As such, the fundamental focus of the institutional theory is that the actions or inactions of individuals are structured by higher order authority above the individual level, which constrains or constitutes the interests and participation of actors (Clemens & Cook, 1999). In other words, institutional theory seeks to explain the processes and reasons for organizational behavior as well as the effect of organizational behavior patterns within a broader, inter-organizational context. The study of organizational institutions occurs across fields of research in sociology, business, and communication and informs public relations practitioners' understanding of corporate reputation and legitimacy. Institutions are defined as conventional, standardized patterns of behavior found within and across organizations and giving meaning to social exchange and order. These patterns of behavior include organizational and industry

standards, routines, and norms.

Therefore, institutional theory suggests that organizational behaviors are copied and reproduced, establishing taken-for-granted norms and, eventually, widespread standardized expectations of practice. Understanding how adhering to institutions, or relatively fixed and formal working rules, confers legitimacy on organizations thus enables researchers to conceptually differentiate institutions from an organization's reputation, or its perceived status. This entry discusses the development of institutional theory, recent research pertaining to the theory, and the theory's implications for corporate reputation (Guth, 2016).

Above all, the theories underpinning this study are the efficient market hypothesis and the institutional theory of governance. This is due to the fact that governance quality indicators are public information as given by the World Bank, and investors to a reasonable extent interrogate these indicators before making investment decisions in any country. Therefore, the expectation is that investors' perception of the ranking of these indicators will directly influence capital market investment decisions and by extension, All Share Index, which is a major capital market performance indicator. Also, the capital market does not exist in a vacuum. It does not exist without a clearly defined institutional and regulatory environment. These governance structures influence the confidence of investors as regards the efficiency (development status) of the market and thus, determine investors' level of participation and the eventual impact on the capital market.

Empirical Review

Almustafa (2022) carried out a study on governance and the capital market with major focus on how the quality of a country's governance system affects the relationship between the COVID-19 crisis and stock returns. Using data from the World Governance Indicators, the World Bank, and the John Hopkins University Corona virus Resource Centre (JHU-CRC) for 29 OECD markets from 23 January to 31 December 2020; the study used the OLS and system GMM estimations techniques for data analysis. Majorly, results showed that the estimated coefficient on the interaction term was negative and statistically different from zero at the 5% level of significance. The results also showed a strong negative association between COVID-19 and stock market returns across the sample.

Khan, Munir, Abbas and Umar (2022) examined the impact of governance on stock market performance in Pakistan. This study used five variables that included Karachi Stock Market Index (KSE), Gross Domestic Product (GDP), Governance Indicators Index (GI), Effective Exchange Rate (EER) and Inflation rate (INR), and Political Instability (PS), along with their theoretical and empirical explanations. The data for Karachi Stock Market Index (KSE) was obtained from the official PSX website and yahoo finance. This data was obtained on an annual basis from 1996 to 2018. Data for GI, GDP, INR, and PS were collected with an annual frequency from the World Development Indices for the same duration from the World Bank's official website. The study employed the ARDL technique for data estimation and analysis. The data were also exposed to descriptive and correlation analyses, unit root test, and granger

causality test. The study revealed that quality of governance as captured by voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, the rule of law, and control of corruption positively affect stock market performance.

Savaria, Rostamib, Shamsc and Jamalid (2022) studied the importance of rule of law and regulatory quality on stock returns in Iran and selected emerging countries for the period 2000-2021 by adopting system generalized method of moments. A multiple regression model was specified, stock market return was the dependent variable while regulatory quality and rule of law were the independent variables of the model. Economic variables affecting stock market performance were also included as control variables in the model and they included trade openness, inflation rate, crude oil price, interest rate, industrial production growth rate and exchange rate. Data on these variables were extracted from World Bank database, the Worldwide Governance Indicator (WGI). Basically, the results of the estimation showed that at a significance level of 5%, rule of law and regulatory quality have positive and significant effects on stock returns. Also, the effects of inflation, exchange rate and growth of industrial production were positive and significant. The effect of crude oil prices was negative and significant, and trade openness has a positive effect on stock market returns, but this effect was not statistically significant at the significant level of 5%.

Effendi, Khoirudin and Kurniawan (2022) examined the effect of corruption and public governance on the economic performance of Asia Pacific countries for the period 2004 - 2020. They utilized quantitative data and the data were obtained from the World Bank and Transparency International databases. The study applied quantitative analysis by regressing panel data as an approach. In performing panel data regression, three approaches were utilized, which were the common effect model, fixed effect model, and random effect model. All three only had differences in the correlation between the error component and the independent variables (corruption perception index, participation and accountability, regulatory quality, political stability, and population growth). The random effect model test was conducted to select the right model as an estimation tool for the panel data regression model. To determine which model was right between CEM, FEM and REM, Chow test, Hausman test, and Lagrange Multiplier test were used. The results showed that corruption perception index, regulatory quality, and political stability have positive effects on the economy respectively. It was different with population growth which has a negative effect on the economy. Meanwhile, participation and accountability did not have a significant effect on the economy.

Nketia, Kong, Korankye and Ampon-Wireko (2022) concentrated on the impact of institutional quality, income inequality and foreign aid on inclusive growth in 48 countries in Africa spanning 2002 to 2018. The AK model was employed as the study's fundamental model. The study further considered a model based on the AK model, with modifications of the growth model that reflects fixed effect. The study used all the six World Governance Indicators as the institutional quality indicators; Control of corruption, regulatory quality, rule of law, government effectiveness, political stability, and voice and accountability. For inequality, the study used the standardized world income inequality database. The study also used labour participation, government expenditure, and gross capital formation as control variables for the study. External instruments

were also used in the estimation and the instruments used were inflation, trade openness, and population; which were taken from World Development Indicators. The study employed the generalized method of moments (GMM) for dynamic panel model estimation. It was as such revealed that income inequality mostly has a negative influence on inclusive growth. All institutional quality indicators except government effectiveness positively influenced inclusive growth. Foreign aid does not help inclusive growth in Africa. On the contrary, foreign aid sometimes retards inclusive growth.

Fagbemi, Adeosun and Bello (2021) examined the possible long-run and short-run impact of regulatory quality on stock market performance in Nigeria for the period 1996 to 2019. Adopting a multiple regression model, market capitalization ratio and value trade ratio were used to represent stock market performance. The study adopted autoregressive distributed lag (ARDL) bounds test and co-integrating regression techniques. Findings revealed that regulatory quality positively and significantly influences the performance of the stock market, which strengthens the view that market-enhancing governance can engender an improvement in stock market performance.

Yakubu, Kapusuzoglu and Ceylan (2021) examined the nexus between institutional quality and stock market development in Ghana. The study employed quarterly data over the period 1995Q1 – 2015Q4 using a composite index of stock market development. These data were on stock market development, institutional quality, banking sector development, income level, foreign direct investment, and inflation. Data were collected from the World Bank and the International Country Risk Guide. The ARDL bounds testing method was adopted and results posited a significant short and long-run effect of institutional quality on stock market development. Controlling for macroeconomic factors, a long-term significant impact of foreign direct investment inflows, banking sector growth, and income level on the growth of Ghana's stock market was observed.

Modugu and Dempere (2020) examined the association between governance quality at country level and stock market performance in GCC countries for the period 2006 to 2017. Specifically, the study investigated the influence of control of corruption, government effectiveness, political stability and absence of violence, rule of law, regulatory quality, and voice and accountability on All Share Index of the stock markets of the six Gulf Cooperation Council (GCC) countries (Saudi Arabia, United Arabs Emirates, Bahrain, Kuwait, Oman and Qatar). The data used were collected from the World Bank Development Indicators and the World Bank. Adopting the Indirect Least Square (ILS) method of regression analysis, the findings showed that political stability and absence of violence and rule of law exhibit a significant positive impact on stock market performance, while regulatory quality and voice and accountability have a significant, but negative relationship with stock market performance.

Imran, Ejaz, Spulbar, Birau and Nethravathi (2020) measured the impact of governance quality on stock market performance in developed countries by utilizing annual stock returns and country level governance indicators for 25 developed countries from 1996 to 2018. V.A.(Voice), G.E. (Effectiveness), P.S. and avoidance of violence (Stability), R.Q. (Regulatory), R.L. (Law)

and control over corruption (Corruption Control) were the governance indicators used while the control variable were oil prices (Oil Prices), trading volume (Volume) and inflation (Inflation). The study adopted estimation technique to obtain sign and significance of betas, and correlation analysis to ascertain the strength of the relationship between variables. From the results, it was majorly revealed that stock market performance and governance indicators share a positive relationship.

Abu, Olalekan and Adekunle (2019) studied the impact of institutional factors on stock markets in Sub-Saharan African Countries. Thus, by investigating factors impacting on stock market capitalization, the study aimed at providing some answers on how to improve the efficiency of sub-Saharan African (SSA) stock markets. They used six most capitalized and oldest stock exchanges as representative sample for the period 1996 to 2016, and estimated with static and dynamic panel regression analysis of Pooled OLS (Ordinary Least Square), Fixed Effects, Random Effects and Generalized Methods of Moments (GMM) in which insightful outcomes emanates. The models specified used a balanced panel of six SSA countries. Findings provided evidence that institutional factors of governance effectiveness, regulatory quality, and voice and accountability have significant impact on market capitalization by theoretical priors and statistical levels of significance. Their findings from the sample demonstrated the importance of institutional factors on market capitalization of sub-Saharan African countries.

Boadi and Amegbe (2017) investigated the link between quality of governance and stock market performance within the context of international markets. The study employed the fixed and random effect models using 23 countries with complete relevant data for the period spanning from 1996 to 2014. Both fixed effect and random effect estimations were done for all the models, after which a Hausman specification test was conducted. The null hypothesis that individual effects are not correlated with any of the model's regressors was rejected. The study revealed that quality of governance as captured by voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption significantly affect stock market performance.

Manasseh, Mathew and Ogbuabor (2017) investigated the nexus between institutional quality and stock market development in Nigeria between 1985 and 2013. The Autoregressive Distributed Lag Model (ARDL) and ARDL bounds testing procedure were adopted for the estimation process. Using annual time series data, institutional quality was measured using corruption control, democratic accountability and bureaucratic quality, while stock market development was measured with market capitalization ratio. The study also accounted for the influence of the banking sector, (measured using ratio of credit to the private sector). They controlled for the influence of variables such as stock market liquidity and per capita income. The Results suggested that institutional quality and market development move together in the long run. The study also showed that corruption control and democratic accountability are key institutional measures that impact significantly on stock market development. Other variables such as stock market liquidity, bureaucratic quality and per capita income were also found to be important determinants of stock market development in Nigeria.

Asongu and Nwachukwu (2016) assessed the effect of political institutions on stock market performance in 14 African countries for which stock market data was available for the period 1990-2010. The estimation technique used was a Two-Stage-Least Squares Instrumental Variable methodology. The dependent variable, being stock market performance was represented by stock market capitalization, stock market value traded, stock market turnover and number of listed companies; while the independent variable (political institutions) was captured using channels of democracy, polity and autocracy. These independent variables were instrumented with legal-origins, religious-legacies, income-levels and press-freedom qualities. They equally adopted an Instrumental Variable (IV) estimation technique. Their findings showed that countries with democratic regimes enjoy higher levels of financial market development compared to their counterparts with autocratic inclinations.

Gap in Literature

This study stands out in the sense that it was structured in line with the efficient market hypothesis (EMH) and the institutional theory of governance; thereby promoting the importance of these two theories in terms of governance quality and All Share Index, which is a major capital market performance indicator. This study stands out as well in terms of its currency as it is likely to be one of the foremost in the current year in Nigeria.

METHODOLOGY

Quasi-experimental research design was adopted in this study. This is because of the need to establish the cause-effect relationship between governance and All Share Index of the Nigerian capital market. This study used only secondary data. These data, which were on regulatory quality, rule of law and control of corruption and All Share Index, were collected from the World Bank (Worldwide Governance Indicators) and Central Bank of Nigeria (CBN) statistical bulletin, 2021 edition.

Method of Data Analysis

Descriptive Technique
This was used to describe the original data collected for the study. This covered the following descriptive statistics: mean median, standard deviation, maximum value, minimum value, kurtosis, and skewness of the variables.

Unit Root Test
This test was performed on the time series data generated using Augmented Dickey Fuller (ADF) test criterion. Given that times series data tend to have stationarity problem, it was necessary to carry out this test. Thus, this test was conducted in order to determine the most suitable analytical tool for the study in order to avoid having misleading (spurious) results at the end of the day. *Decision Rule:* Accept H_0 (null hypothesis) and reject H_1 (alternative hypothesis) if the absolute value of ADF test statistic is less than the absolute critical value at 5% level; otherwise, reject H_0 and accept H_1.

Cointegration Test

According to Granger and Newbold (2012), to test for co-integration, we must ensure that the variables involved are stationary at first difference only. The essence of this test is to find out if there is co-integration among variables, to determine the number of co-integration equations and to define normalization of equations (Emanakuku, 2010). The test procedure adopted for the co-integration analysis was Johansen-Juselius (JJ) technique, which is used to find a possible correlation between time series processes in the long term. In other words, the choice of the Johansen-Juselius (JJ) technique for co-integration analysis was because it allows for more than one co-integrating relationship and it is subject to asymptotic properties (large sample size), since a small sample size will produce unreliable results (Engel and Granger, 1987). This technique utilizes two test statistics to determine the number of co-integrating vectors. These are trace and maximum eigenvalue test statistics. To test for co-integration, we check for the number of co-integrating equations as a guide and if there is at least one of such equations, it follows that is there is co-integration among the variables (Cardiff, 2013).

Wald Test

The Wald test also known as Wald Chi-Square test is a parametric statistical measure that is used to confirm whether a set of independent variables are collectively significant for a model or not (Abrigo & Love, 2015). It is also used for confirming whether each independent variable present in a model is significant or not. A variable is said to be significant if that variable adds some incremental value to the model. Variables which fail to add value to the model can be omitted without affecting the model in any meaningful way. Thus, the Wald test was used in this work for model estimation and testing of statistical significance at 5% level.

Granger Causality Test

According to Granger and Newbold (2012), granger causality test measures the impact, effect or influence of one variable on the other. Causality test shows the direction of effect and also measures the short and long-run economic problem(s) so as to enable policy makers know which of the economic policies to be implemented at one point or the other (Ehiedu, 2015). In simple terms, this is a bi-variable test that shows between two variables that have a relationship, the variable that is dictating the pace of the relationship. That is, which variable is granger-causing the other to move. This test will be used to determine causality between all possible pairs of listed series or group of series. The directions in this test are unidirectional, bi-directional; and non-directional. It is unidirectional if one variable is granger causes the other but bi-directional if both variables granger causes each other. Finally, it is non-directional if none of the variables granger causes each other. If it is unidirectional, it is said to be short term economic problem.. The hypothesis for this test is given as:

H_0: Variable X does not granger cause variable Y
H_1: Variable X granger causes variable Y

Model Specification

The model adopted for this study is functionally given as:

ALSI = F (REQ, ROL, COC)   …………………………………………. 1

Where:

ALSI = All Share Index
REQ   = Regulatory Quality
ROL   = Rule of Law
COC   = Control of Corruption

Equation 1, which is the functional model, can further be expressed as:

$$ALSI = \beta_0 + \beta_1 REQ + \beta_2 ROL + \beta_3 COC + \mu \qquad \text{……………………}.2$$

Where:

β_0	=	Constant term
β_1	=	Slope of REQ
β_2	=	Slope of ROL
β_3	=	Slope of COC
μ	=	Error term

A Priori Expectation

β_1, β_2 and $\beta_3 > 0$; this implies that we expected a positive relationship between regulatory quality, rule of law, control of corruption and All Share Index of the Nigerian capital market.

ANALYSIS AND INTERPRETATION OF RESULTS

Table 1: Descriptive Test Result

	ALSI	REQ	ROL	COC
Mean	24523.23	0.887308	1.121923	1.150000
Median	24757.12	0.870000	1.105000	1.160000
Maximum	50424.71	1.350000	1.430000	1.430000
Minimum	5264.190	0.660000	0.810000	0.890000
Std. Dev.	13095.79	0.171127	0.180156	0.117132
Skewness	0.126775	1.172661	0.041256	0.380747
Kurtosis	2.245409	4.032519	2.113602	3.346870
Jarque-Bera	0.686503	7.113847	0.858552	0.758542
Probability	0.709460	0.028526	0.650980	0.684360
Sum	637604.0	23.07000	29.17000	29.90000
Sum Sq. Dev.	4.29E+09	0.732112	0.811404	0.343000
Observations	26	26	26	26

Sources: E-Views Output

Table 1 above contains the descriptive characteristics of the data used in this study. It shows the mean, median, standard deviation, skewness and kurtosis of the said data. According to the table, the mean value of ALSI 24523.23, and varies from 5264.19 to 50424.71 with a standard deviation of 13095.79. Amongst the indexes of governance considered, control of corruption has the highest mean value (1.15), followed by rule of law (1.12) and regulatory quality (0.89). In addition, all the variables were positively skewed.

Table 2: Unit Root Test Result

Variables	ADF Statistic	Critical Values			P-Value	Remark
		1%	5%	10%		
ALSI	-4.097809	-3.689194	-2.971853	-2.625121	0.0037	I(1)
REQ	-5.614969	-3.737853	-2.991878	-2.635542	0.0001	I(1)
ROL	-4.242866	-3.788030	-3.012363	-2.646119	0.0037	I(1)
COC	-4.946667	-3.831511	-3.029970	-2.655194	0.0010	I(1)

Sources: Researcher's Desk

Adopting the Augmented Dickey Fuller criterion, table 4.4 revealed no presence of a unit root in any of the variables used in this study. In essence, all the variables were stable at 1%, 5% and 10% level of significance.

Table 3: Result of Cointegration Analysis

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.573962	38.84021	47.85613	0.2667
At most 1	0.453628	18.36278	29.79707	0.5394
At most 2	0.135786	3.855837	15.49471	0.9148
At most 3	0.014617	0.353391	3.841466	0.5522

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.573962	20.47743	27.58434	0.3090
At most 1	0.453628	14.50694	21.13162	0.3249
At most 2	0.135786	3.502446	14.26460	0.9078
At most 3	0.014617	0.353391	3.841466	0.5522

Unrestricted Cointegrating Coefficients (normalized by b'*S11*b=I):

ALSI	REQ	ROL	COC
-0.784185	-6.500509	-4.218472	3.984269
-0.782951	0.975061	3.324796	-16.82014
-1.543743	-0.112196	-0.417755	1.819383
-0.524686	4.599824	-9.378896	2.034268

Unrestricted Adjustment Coefficients (alpha):

D(ALSI)	-0.032494	-0.076977	0.085808	-0.004551
D(REQ)	0.119134	-0.046424	0.007461	0.003788
D(ROL)	0.028342	0.024244	0.003408	0.008177
D(COC)	0.038417	0.032797	0.010077	-0.000725

1 Cointegrating Equation(s):   Log likelihood   76.61124

Normalized cointegrating coefficients (standard error in parentheses)

ALSI	REQ	ROL	COC

1.000000	8.289513	5.379438	-5.080779
	(2.05949)	(2.67705)	(4.45864)

Sources: E-Views Output

Going by the result in table 3, it was observed that there is no cointegration in the variables. In other words, there is no long run relationship between governance (regulatory quality, rule of law and control of corruption) and All Share Index. This is because Trace and Max-eigenvalue tests indicated no cointegration at 5% (0.05) level of significance.

Table 4: Result of Wald Test

Wald Test:
Equation: Untitled

Test Statistic	Value	df	Probability
F-statistic	897.1032	(3, 22)	0.0000
Chi-square	2691.310	3	0.0000

Null Hypothesis: C(1)=0, C(2)=0, C(3)=0
Null Hypothesis Summary:

Normalized Restriction (= 0)	Value	Std. Err.
C(1)	10.28578	0.271295
C(2)	-0.007493	0.755207
C(3)	-1.848544	0.932930

Restrictions are linear in coefficients.

Sources: E-Views Output

Going by results in table 4, it was revealed that regulatory quality has a positive effect on All Share Index while rule of law and control of corruption have negative effects on the same dependent variable (ALSI). It also revealed that none of the considered governance variables was statistically significant. However, on a collective note, these variables (regulatory quality, rule of law and control of corruption) were statistically significant at 5% level of significance.

Table 5: Result of Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
REQ does not Granger Cause ALSI	24	0.10800	0.8982
ALSI does not Granger Cause REQ		0.55052	0.5856
ROL does not Granger Cause ALSI	24	0.40095	0.6752
ALSI does not Granger Cause ROL		1.39966	0.2710
COC does not Granger Cause ALSI	24	1.48724	0.2511
ALSI does not Granger Cause COC		2.48004	0.1104

Sources: E-Views Output

Granger causality test results revealed that there is no directional relationship between the variables at 5% level of significance. This is because all the probability values of F-statistic are

greater than 0.05.

Table 4.7: Result of Ramsey Reset Test

	Value	df	Probability
t-statistic	1.620498	21	0.1200
F-statistic	2.626013	(1, 21)	0.1200
Likelihood ratio	3.063473	1	0.0801

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.890628	1	0.890628
Restricted SSR	8.012909	22	0.364223
Unrestricted SSR	7.122280	21	0.339156

LR test summary:

	Value
Restricted LogL	-21.59085
Unrestricted LogL	-20.05911

Unrestricted Test Equation:
Dependent Variable: ALSI
Method: Least Squares
Date: 08/25/23   Time: 14:44
Sample: 1996 2021
Included observations: 26

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-184.0612	119.9307	-1.534729	0.1398
REQ	-1.112313	0.997958	-1.114589	0.2776
ROL	66.05642	41.91344	1.576020	0.1300
COC	46.75378	29.71423	1.573447	0.1306
FITTED^2	1.834878	1.132293	1.620498	0.1200

R-squared	0.406749	Mean dependent var	9.917721
Adjusted R-squared	0.293748	S.D. dependent var	0.692979
S.E. of regression	0.582371	Akaike info criterion	1.927624
Sum squared resid	7.122280	Schwarz criterion	2.169565
Log likelihood	-20.05911	Hannan-Quinn criter.	1.997294
F-statistic	3.599536	Durbin-Watson stat	0.527247
Prob(F-statistic)	0.021922		

Sources: E-Views Output

Given that the p-value (0.1200) of F-statistic (2.626013) is greater than 5% (0.05), it follows that our model was properly specified. In other words, we can say that the combination of the explanatory variables of our model explains the dependent variable.
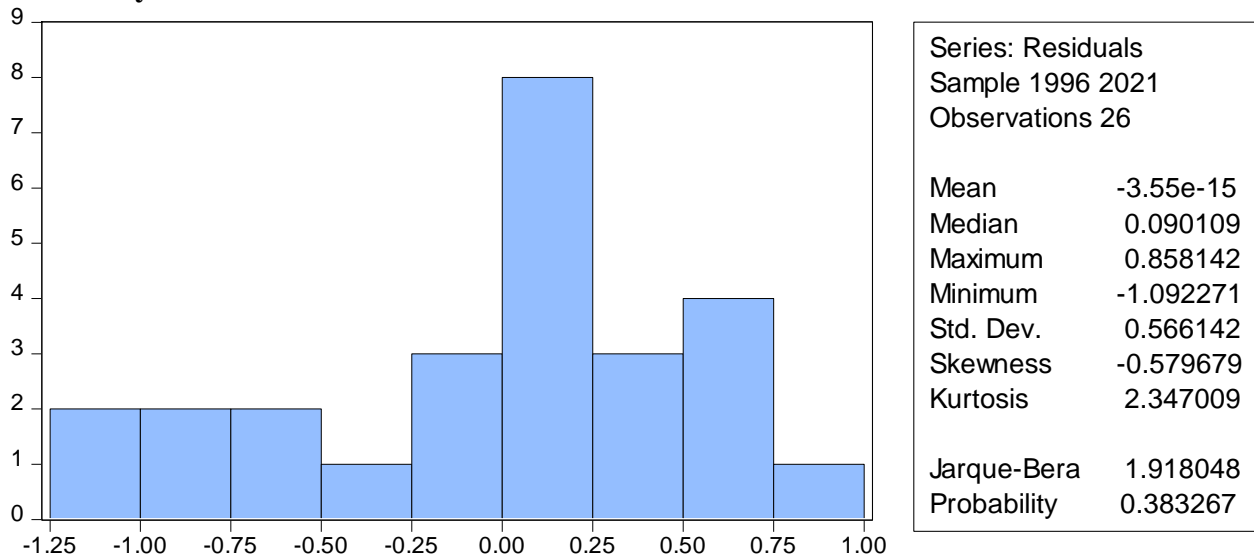
Table 8: Result of Multicollinearity Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.073602	5.254031	NA
REQ	0.570341	2.017952	1.267124
ROL	0.870351	2.248494	1.597446
COC	2.522053	5.049435	1.777052

Sources: E-Views Output

Since the centered values of VIF (Variance Inflation Factor) are less than 5, it follows that there is no evidence to suggest the presence of multicollinearity in our explanatory variables.

Normality Test

Series: Residuals		
Sample 1996 2021		
Observations 26		
Mean		-3.55e-15
Median		0.090109
Maximum		0.858142
Minimum		-1.092271
Std. Dev.		0.566142
Skewness		-0.579679
Kurtosis		2.347009
Jarque-Bera		1.918048
Probability		0.383267

Sources: E-Views Output

Normality test result revealed that the errors of our model are normally distributed. This is so because the probability value of Jarque-Bera statistic (0.383267) is greater than 0.05.

Discussion of Findings

Basically, this study revealed that regulatory quality, a key governance indicator, has a positive insignificant effect on All Share Index of the Nigerian capital market. This suggests that a rise in the index of regulatory quality leads to an increase in the All Share Index of the Nigerian market and vice versa. This no doubt aligns with our a priori expectation because an improvement in regulatory quality, which reflects perceptions of the ability of government to formulate and implement sound policies and regulations that permit and promote private sector development, would enhance the performance of the capital market, which should reflect in the All Share Index of the market (Asongu & Nchofoung, 2022). Second, we observed that rule of law, which according to the World Bank shows perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property

rights, the police, and the courts, as well as the likelihood of crime and violence; has a negative insignificant effect on the All Share Index of the Nigerian capital market. This runs contrary to our expectation because an improvement in the index of rule of law in a country should ordinarily boost the confidence of investors, which will reflect in the performance of the country's capital market (Khan, Munir, Abbas and Umar, 2022; Nketia, Kong, Korankye and Ampon-Wireko, 2022). However, the second part of the result, which is the insignificant nexus observed between rule of law and All Share Index may be attributed also to the underdeveloped nature of the Nigerian capital market which manifests in form of inadequate number of listed securities, unethical attitude exhibited by market operators and poor regulatory framework around the market. Thirdly and finally, we realized also that control of corruption, one of the three indicators of governance considered, also has a negative insignificant association with the All Share Index of the Nigerian capital market. We expected a positive association because an improvement in the index corruption control, which reflects the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests; is expected to under normal circumstances enhance the performance of the capital market of a country. In other words, the lesser the level of corruption in a country, the more investors will be attracted into the country and amongst other things, the capital market will be better for it (Savaria, Rostamib, Shamsc and Jamalid, 2022; Effendi, Khoirudin and Kurniawan, 2022). Nonetheless, the insignificant part of the association which was expected in a country like Nigeria can be attributed to the institutionalization of corruption in the country today. There is hardly any part of the country that is immune from it. Little wonder, the capital market of other developing countries in Africa, Asia and America are far ahead of Nigeria. Again, nepotism, favoritism and tribalism cannot be fully exonerated.

CONCLUSION AND RECOMMENDATIONS

Given that none of the governance related variables considered was statistically significant at 5% level of significance, it was concluded that there is no significant nexus between governance and All Share Index of the Nigerian capital market. This underlines the underdeveloped nature of the Nigeria capital market which is tied to so many factors and governance is one of them. Hence, it was recommended that:

1. There should be a synergy between governments at all levels in order to help enthrone proper governance in Nigeria and to dethrone nepotism, favoritism and corruption, which are the hallmark of the Nigerian system.

2. As a way to further enhance governance quality and encourage investment in the Nigerian capital market, there is need for the Nigerian government to promote political stability and security as one of its core mandates. This is because investment tends to flow away from environments where there is instability, uncertainty and insecurity.

3. There is urgent need to further strengthen existing law enforcement agencies and giving them clear cut mandates that will enable them enforce existing laws and as well punish

offenders in the process.

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