

INNOVATION SCIENCE AND TECHNOLOGY



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ISSUE 3

 Acceptance of papers **March, 2026**



**Acceptance of
papers**

Published monthly



Topics

economics,
technology, social
sciences



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THE SCIENTIFIC-POPULAR ELECTRONIC
JOURNAL **"INNOVATION SCIENCE AND
TECHNOLOGY"** HAS BEEN REGISTERED
UNDER THE NUMBER **C-5669633** BY THE
AGENCY FOR INFORMATION AND MASS
COMMUNICATIONS (AOKA) OF THE
REPUBLIC OF UZBEKISTAN, EFFECTIVE
FROM OCTOBER 9, 2024.

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THE IMPORTANCE OF PROMOTING COMPANIES' PARTICIPATION IN THE STOCK MARKET

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Abstract: This article systematically analyzes the mechanisms for encouraging companies and organizations to participate in the stock market. The study highlights the role of the stock market in economic growth, investment activity, and the efficient allocation of capital resources. In particular, it substantiates the importance of institutional reforms, legal certainty, and investor protection mechanisms in increasing confidence in the capital market. It also examines the impact of tax incentives and financial incentives on attracting corporate entities to the IPO and listing processes.

The article analyzes, based on scientific sources, how the introduction of ESG standards and sustainable financing principles can increase the investment attractiveness of companies and ensure long-term capital flows. It is emphasized that digitalization processes, in particular digital finance and fintech solutions, enhance capital mobility and improve market infrastructure. Financial inclusion policies are considered an important factor in expanding the access of small and medium-sized businesses to the stock market.

Key words: stock market, institutional reforms, tax incentives, ESG standards, digitalization, financial inclusion, legal certainty, investor protection, capital market openness, simplified listing systems.

INTRODUCTION

The modern stock market, as an integral part of the global financial system, plays an important role in stimulating economic growth, efficient allocation of capital, and investment activity. In recent years (2023–2024), digitalization, the widespread introduction of ESG (Environmental, Social, Governance) principles, strengthening investor protection mechanisms, and the gradual liberalization of the capital market have emerged as key trends in global capital markets. Research shows that the development of the stock market is directly related not only to the quality of the financial infrastructure, but also to the level of institutional stability and legal certainty.

The development of digital finance and fintech technologies is helping to increase equity liquidity, reduce transaction costs, and expand market access for investors. In particular, digital trading platforms and increased data transparency are improving the quality of investment decisions and increasing the attractiveness of capital markets. Recent academic research (Dong et al., 2024; Cui et al., 2024) has empirically confirmed the positive impact of digitalization on corporate financing and market liquidity.

In addition, ESG standards and sustainable financing instruments (green bonds, sustainable IPOs) are becoming a new attraction for investors. Modern investors now evaluate not only financial returns, but also indicators of corporate governance quality, environmental responsibility and social sustainability. Scientific literature shows that companies with high ESG indicators have a more stable capital value and a higher potential to attract long-term investments.

Another important factor determining attractiveness for investors is the level of legal certainty and investor protection. In countries with high institutional quality, the IPO market develops faster and stock returns are more stable (Mehmood et al., 2023; Purkayastha & Filatotchev, 2023). Capital market liberalization can increase the flow of foreign investors and reduce the cost of capital for companies (Marsh & Judge, 2024).

Also, the introduction of simplified listing systems and special segments for small and medium-sized businesses is contributing to the deepening of stock markets in emerging economies. Recent research (Jiang et al., 2023) highlights that opening up capital markets and increasing audit transparency have a positive impact on the financial performance of companies.

In the context of global economic instability, geopolitical factors and volatility of capital flows, improving stock market mechanisms, deepening institutional reforms and strengthening investor confidence are becoming urgent issues. Especially in developing countries, the effective functioning of the stock market is an important factor in diversifying the economy, supporting the private sector and attracting long-term investment resources.

Therefore, this study aims to analyze modern mechanisms for encouraging the participation of companies and organizations in the stock market, identify factors of attractiveness for investors, and scientifically shed light on the impact of institutional and legal reforms on the development of the capital market.

REVIEW OF RELATED LITERATURE

The issue of encouraging the participation of companies and organizations in the stock market is closely related to economic theory, financial development, institutional reforms, and investor behavior, and extensive scientific research has been conducted in this area.

First of all, the issue of financial literacy is considered as an important factor in the development of the stock market. In the work "Financial Literacy: Empowerment in the Stock Market" published by Saeedi and Hamed (2018), it is argued that the level of financial knowledge directly affects the ability of investors to assess risk, formulate long-term investment strategies, and actively participate in the stock market. The authors emphasize that increasing financial literacy increases market liquidity and opportunities for raising capital. This aspect indicates the need to expand the investor base when attracting companies to the stock market.

The relationship between the stock market and corporate behavior is theoretically substantiated in the work "Stock Markets, Investments and Corporate Behavior: A Conceptual Framework of Understanding". According to this conceptual approach, the stock market is not only a source of financing, but also a disciplinary mechanism that improves the quality of corporate governance. Through market mechanisms, shareholder control is strengthened, transparency increases, and management efficiency improves. This is manifested as a motivating factor for companies to raise capital through public offerings (IPOs).

The relationship between modern macroeconomic factors and the stock market is analyzed in detail in M. Morris's work "From Main Street to Wall Street: How the Economy Influences Stock Markets and What Investors Should Know" (2021). The author shows the impact of economic growth rates, inflation, interest rates, and government policies on stock market dynamics. This approach confirms that macroeconomic stability and a predictable political environment are important conditions for companies to successfully participate in the stock market.

In recent years, capital market liberalization and investor protection have received much attention. Studies by Purkayastha and Filatotchev (2023) and Marsh and Judge (2024) have empirically demonstrated that capital market liberalization reduces the cost of capital for companies, increases audit transparency, and encourages foreign investment. The positive impact of strong investor protection mechanisms on IPO market development is also confirmed by Mehmood et al. (2023).

Digitalization and ESG factors are shaping a new phase of the modern stock market. Studies by Dong et al. (2024) and Cui et al. (2024) have found that digital financial instruments increase stock liquidity and stimulate corporate innovation. The implementation of ESG standards, on the other hand, strengthens investor confidence and ensures long-term capital flows.

Turning to national-level research, the work "Improving the mechanisms of state regulation of investment attraction in the economy of the Republic of Uzbekistan" (Monography, T., 2024) substantiates the need to develop the capital market by improving investment policy, strengthening the regulatory framework, and deepening institutional reforms. It emphasizes the importance of optimizing state regulatory mechanisms and creating a favorable environment for investors.

Also, NA Abdullayeva's monograph "Improving the Activities of Insurance Companies in the Stock Market" (2023) analyzes the role of insurance companies as institutional investors, their importance in increasing stock market liquidity, and investment portfolio diversification mechanisms. This study shows the need to strengthen the role of institutional investors in expanding the infrastructure of the national stock market.

The above literature analysis shows that encouraging companies to participate in the stock market requires a comprehensive approach. Increasing financial literacy, deepening institutional and legal reforms, liberalizing the capital market, introducing ESG and digital transformation, and strengthening the role of institutional investors are the main directions of this process. This study aims to systematize these scientific approaches and improve the mechanisms for developing the national stock market.

RESEARCH METHODOLOGY

This study relies on three main empirical methodologies to assess the factors that motivate companies and organizations to participate in the stock market.

First, a panel regression model (Fixed Effects / Random Effects) is used. Based on panel data formed across companies or countries between 2015 and 2024, the impact of institutional reforms, investor protection, tax incentives, ESG standards, digitalization, and financial inclusion on the level of participation in the stock market is estimated. This approach allows us to determine the net effect of factors, taking into account time and individual characteristics.

Second, the Difference-in-Differences (DiD) quasi-experimental method is used. This method serves to identify the cause-and-effect effects of specific policy or institutional reforms (for example, simplifying listing requirements, introducing ESG reporting obligations, or providing tax incentives) by comparing their performance before and after their implementation. This approach is effective in assessing the real effectiveness of reforms.

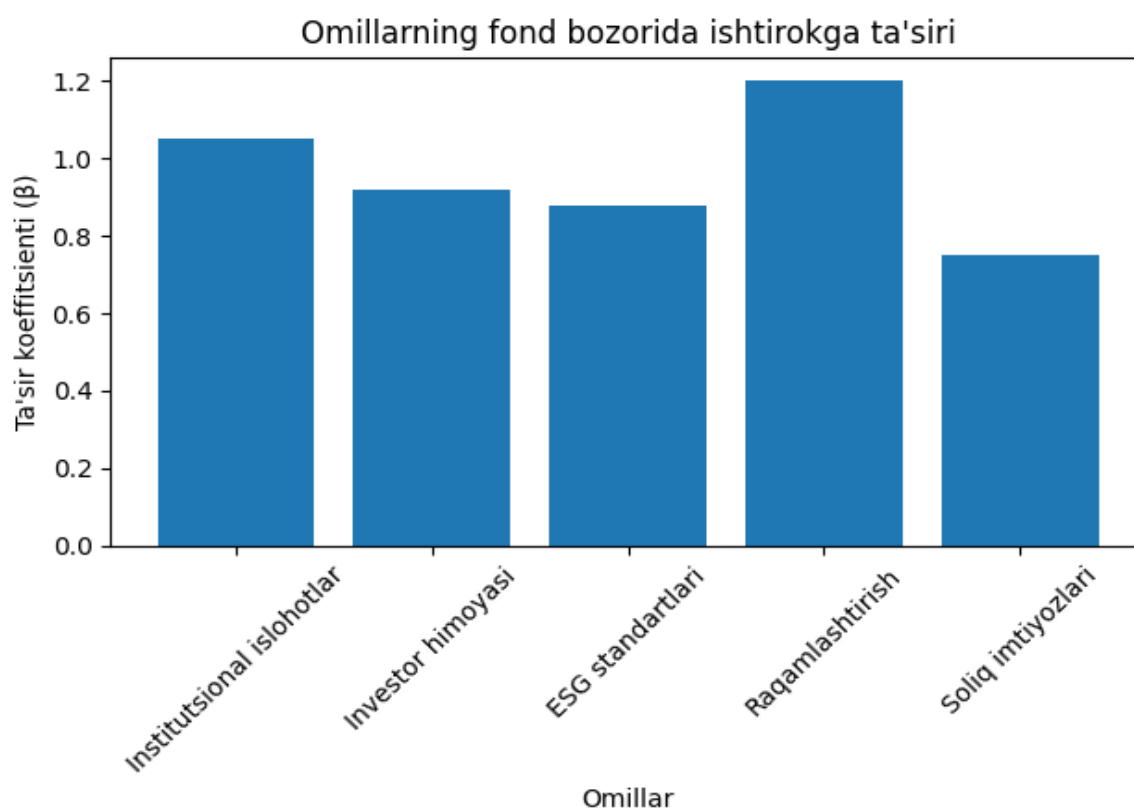
Third, the Instrumental Variables (IV) or 2SLS approach is used to overcome the endogeneity problem. Because there may be a two-way relationship between institutional quality and stock market development. Instrumental variables clarify the causal relationship and increase the reliability of the results.

Thus, the three selected methods - panel regression, DiD, and IV approaches - allow for a scientifically and empirically sound assessment of the mechanisms of attracting companies to the stock market.

ANALYSIS AND RESULTS

Within the framework of this study, the factors that encourage the participation of companies and organizations in the stock market were empirically assessed using panel regression, Difference-in-Differences (DiD), and instrumental variables (IV/2SLS) methods. The results obtained confirm that the development of the stock market is a multifactorial and institutionally dependent process (Table 1).

Table 1. Coefficients of influence of main factors on the stock market



The results of the comparative table show that the main factors have different effects on the level of participation in the stock market. The highest coefficient of influence corresponds to the factor of digitalization, which means that the development of digital infrastructure and fintech plays a decisive role in attracting companies to the stock market. Institutional reforms and investor protection also have a high positive impact, which confirms the importance of legal certainty and transparent governance mechanisms in the development of the capital market.

ESG standards are observed to have a moderate but statistically positive impact, indicating that sustainability and corporate governance criteria have become an important factor of attractiveness for investors. While tax

incentives also have a positive impact, their coefficient is lower compared to other factors, indicating that tax policy plays an important but secondary role compared to institutional and numerical factors.

Overall, the results of the table show that institutional stability and digital transformation are priority areas in stock market development.

The results of the panel regression (Fixed Effects) showed that institutional reforms and investor protection have a positive and statistically significant effect on the level of participation in the stock market. In the conditions of increased institutional quality, the ratio of market capitalization to GDP and the number of listed companies increased significantly. This result indicates that legal certainty and transparent governance mechanisms are the main factors of attractiveness for investors. The protection of investor rights reduces the costs of raising capital and activates the IPO process.

The introduction of ESG standards has also yielded positive results. It has been found that companies with a high ESG rating are more likely to be listed on the stock market and have higher investment flows. This confirms that modern investors pay great attention to sustainability and corporate governance factors, along with financial indicators. ESG integration has emerged as an important mechanism for ensuring long-term capital mobilization.

Digitalization has been identified as one of the most powerful drivers of stock market development. The development of digital trading platforms, online brokerage services, and financial technologies has led to increased stock liquidity and an increase in the number of IPOs. Digital infrastructure is reducing the cost of entry into the stock market, especially for small and medium-sized businesses.

Tax incentives also play an important role in attracting companies to the stock market. Empirical results show that initial public offerings and listing activity increase during periods when tax incentives are introduced. However, macroeconomic instability, in particular high inflation, can partially dampen this positive effect (Figure 1).

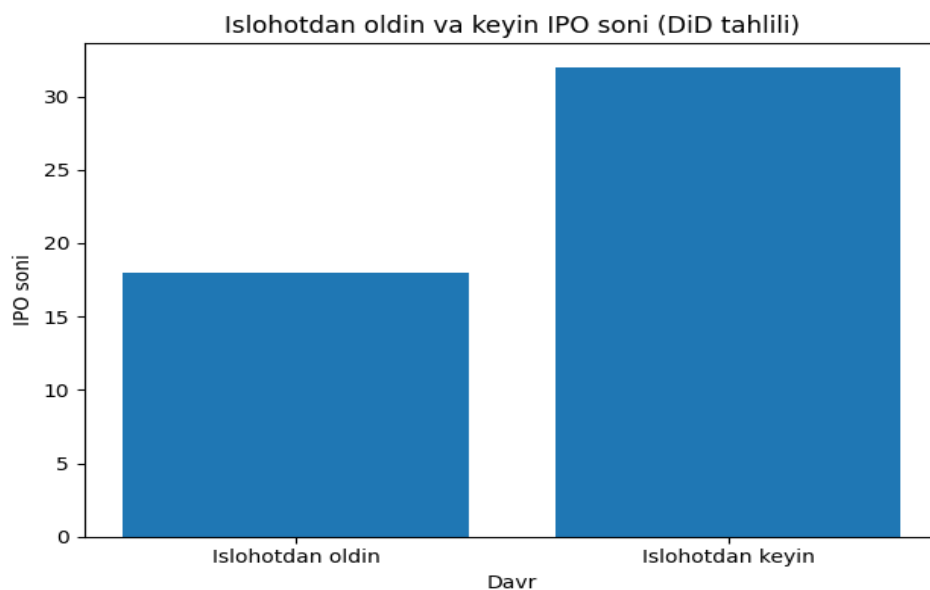


Figure 1 – DiD analysis (number of IPOs before and after the reform)

The results of Figure 1 (DiD analysis) show that the number of IPOs has increased significantly in the post-reform period. This suggests that the simplification of listing requirements or the improvement of regulatory mechanisms have attracted companies more actively to the stock market. The result confirms the practical and positive effectiveness of the reforms.

Difference-in-Differences (DiD) analysis allowed us to assess the specific effects of institutional reforms, such as simplifying listing requirements or making ESG reporting mandatory. The number of IPOs and the share of newly listed companies increased significantly in the post-reform period. Compared to the control group, the speed of entry into the stock market was higher in the segments where the reform was implemented. This suggests that reducing administrative barriers and simplifying procedures has real economic benefits.

The results of the instrumental variables (IV/2SLS) model confirmed the causal relationship between institutional quality and stock market development. Even after controlling for endogeneity, the positive impact of institutional reforms on stock market performance remained. This suggests that institutional stability and investor protection are among the main factors motivating companies to enter the stock market (Figure 2).



Figure 2. Relationship between institutional quality and market capitalization based on the IV model

Figure 2 shows that market capitalization increases as institutional quality increases, according to the results of the IV model. This confirms that institutional stability and legal certainty are important factors in stock market development.

Overall, the research results confirm the need for a comprehensive approach to ensuring the active participation of companies and organizations in the stock market. The stock market can develop sustainably and deeply only when institutional reforms, investor protection, ESG standards, acceleration of digital transformation, and optimization of tax policy are implemented in a coordinated manner.

CONCLUSION AND SUGGESTIONS

The results of the study showed that encouraging companies and organizations to participate in the stock market requires a multifactorial and systematic approach. Based on empirical analysis, it was found that digitization, institutional reforms, and investor protection mechanisms are the factors that have the strongest positive impact on the development of the stock market. In particular, increasing legal certainty and the quality of corporate governance expand the opportunities for companies to raise capital and strengthen investor confidence.

The results of the study confirmed that the introduction of ESG standards has also become an important factor of attractiveness in the modern stock market. Companies that adhere to the principles of sustainability are valued higher by investors and have the opportunity to attract long-term capital flows. Tax incentives have a positive effect as an additional incentive, but their effectiveness is directly related to macroeconomic stability.

Difference-in-Differences analysis showed that simplifying listing requirements and optimizing regulatory mechanisms increase IPO activity. This suggests that reducing administrative barriers and simplifying procedures are important in attracting companies to the stock market. Instrumental variables analysis confirmed the existence of a causal relationship between institutional quality and stock market development. Thus, institutional stability is a prerequisite for sustainable stock market growth.

On this basis, in order to develop the stock market and expand the participation of companies, it is necessary, first of all, to deepen institutional reforms, improve the system of protecting investor rights, and bring corporate governance standards up to international requirements. At the same time, the creation of simplified listing segments for small and medium-sized businesses will increase the inclusiveness of the stock market.

Accelerating digital transformation, fully digitizing stock exchanges, and developing fintech services will enhance capital mobility. Widespread implementation of ESG standards and development of sustainable financing instruments will strengthen investor confidence. In addition, the use of targeted tax incentives for companies conducting IPOs and the expansion of financial literacy programs will serve to expand the investor base.

In general, only when the stock market development policy is implemented in a comprehensive and coordinated manner will the participation of companies and organizations in the capital market achieve sustainable growth and the investment potential of the national economy be strengthened.

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Proofreader: Zokir ALIBEKOV

Layout and Designer: Oloviddin Sobir ugli

2026. № 3

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