

THE IMPACT OF REGULATION ON THE FINANCIAL PERFORMANCE OF SMALL CORPORATIONS IN AUSTRALIA: A STRUCTURAL EQUATION MODELLING APPROACH

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Abstract

*This paper examines a widely explored while yet to be confirmed relationship between two latent constructs – regulation and financial performance of small corporations in Australia. Prior studies have either focused on larger organisations or isolated regulatory requirements in small firms, however, few have examined how regulatory requirements as a bundle relates to the financial performance of small corporations. This study fills these gaps by empirically analysing the aforementioned relationship from Structural Equation Modelling (SEM). Based on 387 responses from small corporations, the results show that regulatory bundles measured by the extant literature, has a **positive** impact on the CSR of small corporations, which may be explained by the Public Interest Theory. The results challenges the ‘one size fits all model’ and call for alternative policy prescriptions to meet the unmet regulatory needs in small corporations in Australia.*

Keywords: *regulation, small corporations, structural equation modelling (SEM)*

Introduction

Small corporations are the backbone of the Australian economy. The G20 meeting held in June 2014 in Melbourne set the development of small and medium-sized enterprises (SMEs) as the only theme and future opportunity for G20 countries. The OECD (2010) estimated that cutting the red-tape by 25% will increase the economic growth in Australia by 1%. However, the evidence-based is still yet to be developed to inform policy reforms. Though the Abbott government (2014) claimed that they endeavour to cut the red tape by \$1 billion per year, the repealing of prior legislations happened in a fairly ad hoc fashion and the methodology for a systematic regulatory reform has yet to be established. Fundamental to the regulatory design for small businesses are questions such as why regulate? How to regulate? Who to regulate? And regulate who?

The “one size fits all model” adopted by most of the corporations’ law frameworks and the “comply or explain” mentality places a significant amount of unnecessary and disproportionate compliance burden on small businesses. Worse still, non-listed small corporations are losers of the “corporate governance reform competition”, given their resource constraints and failing to putting these matters on their strategic agenda.

Small corporations in Australia

Small corporations are those with less than 50 shareholders and which meet at least two of the following criteria: they have consolidated revenue of less than \$25 million per year, gross assets of less than \$12.5 million, and fewer than 50 full-time employees. This definition derives from s 45A(2) Corporations Act 2001 (Cth) (Corporations Act 2001 (Cth) s 45 2001). Under this definition, ‘small corporations’ make up the vast majority of the Australian market — some 1.38 million companies — and are vitally important in economic, social and cultural contexts. They employ more than five million members of the Australian workforce (Armstrong, Li and Clarke et al. 2011). Small corporations have been referred to as the ‘engine room of the Australian economy’ (Clarke 2007).

While the Act has a clear definition, both regulators and scholars are yet to agree upon a simple definition of a small corporation. They do agree though that small corporations encompass a wide range of entities: one-person firms, family businesses, SMEs (small and medium enterprises), and small proprietary companies.

Small businesses are the engine room of the Australian economy. Demographics speak of the widespread impact that small businesses has on economic growth. During 2008-09, there were 1.96 million small businesses actively operating, accounting for 95.20% of all businesses; 0.75 million small businesses were employers, accounting for 88.39% of all businesses providing employment; small businesses employ 4,764,000 people in Australia, taking up 47.65% of total number of people been employed; 293,681 small businesses entered the market, equivalent to 99.20% of the total number of business entries; 311,227 businesses exited the market, accounting for 98.74 of the total number of business exits (ABS 2010).

In monetary terms, small businesses are the backbone of the Australian economy. Small business generated \$772,057 million income from sales and service, accounting for 31.85% of all the salary and service income; small business paid \$116,386 million for wages and salaries, accounting for 29.57% of all the wages and salaries paid economy-wide; small businesses generated \$109,264 million operating profit before tax, accounting for 40.17% of profit generated by all the businesses; small businesses contributed \$290,348 million value-added to the economy, accounting for 34.46% of the total value-added generated by all businesses (ABS 2010).

Government regulation

Despite the impact small business has on the economy, small business has largely been ignored in recent governance and regulation reforms in Australia. Due to the resource constraints, in particular a lack of access to finance and lack of in-house experts, small businesses are not benefiting from the spill-over effect of the policy reforms, rather they are bearing more unnecessary compliance burdens (Clarke 2007). Thus, it becomes an imperative task for scholars to understand and to build the evidence base so as to understand how small businesses are actually performing in Australia (Clarke 2007).

RQ: what is the relationship, if there is any, between regulation and financial performance of small corporations in Australia?

Theory Development And Hypotheses

Government and their regulators, legal and economic theorists and others like to portray regulation as benign and helpful to business. A common depiction is that regulators are the friends and the guide of the start-up and small corporations, with regulation being viewed by the regulated as a necessary evil - the cost of doing business (Kitching 2006). For many small business owners, the time and resources spent dealing with regulation is time spent away from core business.

The US scholar Robert Summers (1971) identifies regulation as a 'technique element' of the law. He refers to five 'technique elements' or basic approaches in law. One of these is the administrative-regulatory approach. As Farrar notes in summarising the model (2010, p.39):

'it basically exists to regulate wholesome activity rather than prohibiting anti-social forms of behaviour. It is designed to operate preventively before a grievance has arisen.'

There are, in turn, three basic steps which taken together comprise the administrative-regulatory approach. They are: first, the adoption of a set of regulatory standards; second, relevant communication with the whole of the regulated cohort; and third, taking measures to ensure compliance with the set of regulations (Farrar 2010, p. 49-50).

The roles played by the leading federal regulators Australian Securities & Investment Commission (ASIC), Australian Competition and Consumer Commission (ACCC), Australian Taxation Office (ATO) and Australian Prudential Regulation Authority (APRA) respectively reflect this basic law paradigm in regulating the corporate sector in Australia.

Legal and economic approaches to regulation

Regulation involves both economic and legal theories relevant to the firm and the market. Despite the approaches offered by free market economy advocates such as Summers (1969), it can be argued that more work has been done in relation to economic theories in this regard. Theory of the firm scholarship dates back to R.H Coase whose work has taken on wide international application (1932). Coase's work can be applied to all firms given that his definition of the firm in modern economic theory is an organization which transforms inputs into outputs. This definition is so broad as to capture micro as well as behemoth organizations.

The law, in so far as modern Australian regulation is concerned predominantly reflects a 'large firm' view of the world. The law also operates at a national (rather than international) level, with distinctive border and jurisdiction issues at play. In contrast, economics is a much more international and integrated project. The Corporations Act 2001 (Cth) (Corporations Act 2001 (Cth) 2001) provides a complex scheme of regulations designed for large (Mroczkowski and Tanewski) firms. It is predicated on the assumption of firms possessing in-house expertise, or being able to access the same via lawyers, accountants and other compliance experts. There are some references (ie. Section 45) to small corporations in the Act such as on the sole director firm and guides for small businesses, but the Act is overwhelmingly complex, and this makes it far more difficult for a small firm to comply with it.

Regulation and law reform

Even the law making and law reform process in modern Australia is likely to be dominated by reference to a firm's resources. In the recent debates on the mining tax, the three biggest mining firms were given the opportunity to negotiate directly with senior members of the Government. As such, they gained special rights to seek to resolve the political impasse at the Federal level. This exclusive club was apparent in public-political terms that second tier and third tier firms resorted to complaining loudly, and to being shut out of the process. In regulation and regulation reform, the law appears instinctively to stratify the market into layers relevant to firm size and political capacity.

This reflex towards big business works against the interests of many small firms who lack political resources. A double bind is that the regulations operate in effect as a contract between an individual firm and the State. This means that small, resource stretched firms are atomised and isolated in their dealings with regulators and the complex matrix of regulation. From a legal perspective, the phrase 'regulatory burden' has real resonance for most small corporations, as they struggle to compete in the national 'regulatory politics.' (Milhaupt 2004, p.232). As Milhaupt (2004, p.240) notes, "cross industry ('peak') associations and industry organizations provide a forum for negotiations with political agents and constrain the actions of individual member firms.". It is this balancing act between speaking with one united voice, and actually being heard by Government, which neatly describes the role of COSBOA, and other peak bodies, in the law reform arena.

Rationales for government regulation

There are three major theories explaining regulation, namely: Force of Ideas Theory, Interest Theory, and Institutional Theory.

In discussing the impact of ideas, ideologies, and beliefs, a number of different lines of thought can be detected in the wider literature on public policy and regulation. One line points to changing (party-) political ideologies that shape regulation. This phenomenon has been particularly prominent in discussions regarding 'deregulation' in the US and in wider public sector reforms elsewhere. A second line stresses the inherent plurality of rationalities or worldviews that characterize any debate regarding regulatory instruments. A third line emphasizes the importance of deliberation and conversations (Baldwin et al. 2011).

Based on whose interests count in the regulatory design, Interest Theory can be divided into two main theories: the public interest theory and interest group theory. Public interest theories centre on the idea that those seeking to institute or develop regulation do so in pursuit of public interest-related objectives (rather than group, sector, or individual self-interests). Proponents of regulation are thus seen as acting as benevolent agents for the public interest. The purpose of regulation is to achieve certain publicly desired results in circumstances where, for instance, the market would fail to yield these.

The interest group theory to regulation, however, stresses the extent to which regulatory developments are driven not by the pursuit of public interest but by the particularistic concerns of interest groups. This approach has most prominently been associated with the so-called 'economic theory of regulation' (often also linked to labels such as private interest, Chicago/Virginia school, public choice, special interest and 'capture' theory). The economic theory of regulation builds on the assumption that actors are inherently self-regarding and orientated at maximizing their own (material) interest. It assumes that all parties involved in regulation seek to maximize their utility (self-interest) (politicians, for instance, seeking votes to maximize their cash incomes); it assumes that all parties are as well informed as possible and learn from experience; and it also assumes that regulation is costless .

Mechanisms for government regulation

There are mainly six types of regulatory strategies toward firms, covering command and control, Incentive-based approaches, Government compensation, Self-regulation, Responsive regulation and Network-based regulation (Armstrong, Li and Clarke et al. 2011).

The essence of command and control regulation is the exercise of influence by imposing standards backed by criminal sanctions. Thus, the Health and Safety Executive may bring criminal prosecutions against occupiers who breach health and safety regulations. The force of law is used to prohibit certain forms of conduct, to demand some positive actions, or to lay down conditions for entry into a sector.

According to the incentives approach, the potential mischief causer can be induced to behave in accordance with the public interest by the state or a regulator imposing negative or positive taxes or deploying grants and subsidies from the public purse. Thus, not only can taxes be used to penalize polluters, but rewards can be given for reductions in pollution, or financial assistance can be given to those who build pollution-reducing mechanisms into their production or operational processes. An example of such an incentive strategy at the broadest level was the differential tax on leaded and unleaded petrol that was introduced into Britain in 1987. Moreover, the incentive based approach is assumed to be cheaper.

Economic incentives to avoid undesirable behaviour can be created not merely by systems of taxation and subsidy but also by schemes of compensation or insurance that link premiums paid to performance records. One field in which a good deal of research into insurance-based incentives has been conducted is that of the working environment. The compensation may come in a number of ways, for instance, credit guarantee by government agencies to facilitate small firms' accessing to finance.

Fiscal pressures prevent government to monitor every activity of the corporations in that governments are not able to afford it. Thus, self-regulation becomes a cheaper solution and a more attractive alternative (Braithwaite 1982). Self-regulation can be seen as taking place when a group of firms or individuals exert control over its own membership and their behaviour. In Britain, it is encountered in a number of professions and sports and in sectors such as advertising, insurance, and the press. A host of arrangements can be seen as self-regulatory and variations in the characteristics of self-regulatory regimes can be identified (Baldwin et al. 2011).

Braithwaite (1982) coined the term "enforce self-regulation", which refers to the situation that the regulator imposes a requirement in order to achieve certain policy ends on the business while the businesses responds accordingly by determining and implementing their own rules and procedures. A critical element for enforced self-regulation is its internal control systems of the regulated to achieve the goal of the regulator (Ayres and Braithwaite 1992).

Responsive regulation has been recognised as the best way to promote regulatory compliance (Nielsen and Parker 2009). Institutional theorists call for responsive regulation and network-based regulation as more efficient vehicles to enhance the collaboration between the regulators and the regulated in order to achieve certain policy objectives (Braithwaite et al. 2007). Responsive regulation focuses on designing for more flexible regulatory enforcement (Ayres and Braithwaite 1992). Ayres and Braithwaite (1992) developed a pyramid of regulatory alternatives ranging from deterrent to cooperative regulatory enforcement strategies, where responsive regulation can be interpreted in two ways: tit-for-tat responsive regulation and restorative justice responsive regulation (Nielsen and Parker 2009).

Regulation and financial performance

Hills (2008) suggested a Realist View of Causation for the regulation-performance relationship (Figure 1).

Insert Figure 1 about here

This study is only able to obtain one study which takes a systematic approach to look into the impact of regulation and performance in companies employing less than 250 staff in the United Kingdom (UK) (Anyadike-Danes et al. 2008). Their study took a new approach, which involves 124 qualitative interviews with small business owners and 1205 small businesses by telephone interview, to analyse the relationship between regulation and small business performance. Their interviews with the 124 small business owners found that regulation generates multiple influences which can be enabling and motivating as well as constraining.

These influences, operating simultaneously, shape the activities of small business owners and other stakeholders whose actions underpin small business performance, regardless of the owner and manager's awareness of such regulations. The impact of regulation on business performance depends on how business owners and other stakeholders respond to specific regulations. Agents' adaptations to regulation, and thus the business performance outcomes that result, depend on firms' internal resources and capabilities, and on the external product, labour and capital market conditions.

The report (Anyadike-Danes et al. 2008) has for the first time introduced the latent variable technique to measure regulation in the small corporation's literature. Their analysis is of significant conceptual and empirical depth to the construct of regulation. However, as they acknowledged, given that they used the subjective instruments, the robustness of which is yet to be tested, they failed to find any explicit relationship based on the multivariate Structural Equation Modelling approach (SEM). The explorative nature also weakened the power of causality testing based on the explorative analysis.

However, proponents of regulation argue that the regulation has economic, social and environmental benefits, including sustaining a stable market economy, protecting the investors, employees, citizens, and the community and maintaining the market confidence and trust for business activities (Radaelli and Meuwese 2009). Given that the empirical evidence are mixed, the research hypothesis is put as follows

Research hypothesis: There is no relationship between regulation and financial performance of small corporations in Australia.

Method**Data collection**

The study first attempts to collect data from mailing out the surveys to small corporations using random sampling approach in respective states in Australia. However, out of a small corporations' sample of more than twelve thousand business entities, only six responses were received during a six-month period. Given the tight project timeline, the authors had to render to an online survey approach.

Measures*Measures for regulation*

Regulation, measured by regulatory compliance requirements can be specified as ASIC regulation, record keeping for tax purposes, directors' duties, information disclosure, occupational health and safety, superannuation management, workplace relationships, maternity leave, quality assurance and environmental protection (Productivity Commission 2006).

Measures for financial performance

CSR can be measured by the perceptions of small corporations' owners and managers on key stakeholders, including customers, suppliers, employees, environment and philanthropy (Freeman et al. 2010; Tonello 2007).

Small Business Regulation Questionnaire

The Regulation Questionnaire was mainly derived based on findings from the semi-structured interviews with the CEOs/Managers and heads of the industry associations. Additional questions were added to capture the details of regulation, including the Constitutions or Replaceable Rules, time and money spent on meeting compliance requirements. The questions relate to Constitutions or Replaceable Rules suggested by the domain experts, while questions on regulatory compliance were derived from the literature.

According to the Corporations Act 2001, all corporations have to have either a constitution or use the Replaceable Rules provided by the Australian Securities and Investment Commission (ASIC). The Replaceable Rules are normally used the default arrangement. Question has also been asked about whether or not small corporations have encountered any difficulties with regards to the Replaceable rules and whether they have an overdraft in precaution for liquidity issues in the future. Whether the small corporation is a franchise or not is also of critical legal implication.

Regulation relates to the source of advice on regulatory compliance requirements, financial costs of regulatory compliance and difficulties encountered with specific regulatory requirements. The regulatory compliance advice normally comes from one of the four major sources for small corporations, namely industry associations, lawyers, accountants and government agencies. Regulatory compliance costs include the cost of the four advice sources, day equivalent that the small corporations spent on meeting regulatory compliance requirements and the corresponding dollar value estimation. Regulatory compliance requirements can be specified as ASIC regulation, record keeping for tax purposes, directors' duties, information disclosure, occupational health and safety, superannuation management, workplace relationships, maternity leave, quality assurance and environmental protection.

Analytic techniques

Structural equation modelling (SEM) had been applied to empirically test the statistical hypothesis. The SEM is recognised in the field as an appropriate analytical approach for confirmative causal relationship analysis. Moreover, SEM can be viewed as an 'umbrella' tool encompassing a set of multivariate statistical approaches including conventional and recent development approaches. It is a widely used approach in social sciences because of its capacity to deal with latent variables.

Research Results

Measurement model of regulation

The literature review thereof on small corporations-related regulation has identified ten dimensions of regulation. These were ASIC regulation, record keeping for tax purpose, directors' duties, information disclosure, OHS, superannuation, workplace relations, maternity leave, quality assurance and environmental protection. The measurement model hypothesized that regulation can be measured by each of these ten items, each of which also measures level of difficulty as perceived by the respondents (Figure 2). The items were allowed to correlate freely with each other but were uncorrelated with measurement errors from other indicators (Byrne, 2001). The path diagram together with standardised parameter estimates is shown in Figure 2.

Insert Figure 2 about here

Included in the model was a factor measuring overall regulation as perceived by the respondents. This is unobserved construct and is thus enclosed by ovals. Ten measures (enclosed by rectangles) were specified using a five-point Likert Scale, each with a nonzero loading on the factor it was designed to measure, and a zero loading on other factors. Thus, each indicator was identified with a unique construct. Error variables (enclosed by ovals because they are not directly observed) represent a composite of any influences on the observed measures that are not measured in this study. For example, in Figure 2 the single-headed arrow leading from regulation to ASIC regulatory compliance requirements (ASIC) shows that regulation depended only in part on ASIC; specifically the hypothetical 'Regulation' construct accounts for 27% of the variance in scores for item ASIC. Alternatively, the path coefficient (loading) that describes the impact of ASIC on Regulation is 0.57 (Arbuckle, 1995).

Goodness of fit index

There are 82 degrees of freedom (the construct variance is not shown for visual clarity). Thus normed chi-square = 0.195, GFI = 0.98, CFI = 0.99 all suggested the model is plausible. The RMSEA index is acceptably low at 0.028. A confidence interval provides a test of close fit (C.I. straddles 0.05), and not-close fit (entire C.I. lies above 0.05). Thus for the financial performance measurement model, a hypothesis of close fit < 0.05 was accepted, and not-close fit < 0.05 was rejected. There was, therefore, evidence to suggest that the financial performance measurement model had adequate overall goodness-of-fit.

Construct validity was also examined. The CFA provided a test of convergent validity for each of the sets of items that measured each construct. All path estimates were significant at the 1% level, and loadings between measured variables and factors were generally greater than 0.5. Indicators loaded significantly on their hypothesized construct, indicating adequate levels of convergent validity (Bagozzi & Phillips, 1982; Barki & Hartwick, 2001).

Nested models to test dimensionality were a further consideration. The plausibility of one level of regulation model for SMEs (as opposed to, for example, a multiple dimension model) was assessed in a nested modelling process. A further test of the measurement model was made by comparing two nested models (Barki & Hartwick, 2003). The first model loaded all items onto a single factor, hypothesizing that the items do not differentiate any underlying dimensions. The second model assumed a two-level model and hypothesized that the items have different dimensions hence regulation is a multi-level latent variables measured by other latent variables related to regulation. The third model assumed a three-level model by explorative factor analysis. The chi-square difference statistics were calculated

between the two-level model and single level model, the three-level model and the single level model. The Chi-square difference tests were not statistically significant, implying that the Model had a relatively better fit (as reported above). Thus, regulation of small corporations is a single level construct that can be measured by ten indicators, namely ASIC regulation, record keeping for tax purpose, directors' duties, information disclosure, OHS, superannuation, workplace relations, maternity leave, quality assurance and environmental protection.

Measurement model for financial performance

Confirmatory factor analysis was performed where four measures of financial performance, namely total assets (assets), total sales (sales), net profit, and net profit growth derived from the abovementioned literature were allowed to correlate freely with each other but were uncorrelated with measurement errors from other indicators (Byrne 2001). The path diagram together with standardised parameter estimates is shown in Figure 3.

Insert Figure 3 about here

The measurement model (Figure 3) hypothesized that four hypothesized financial performance dimensions of namely total assets (assets), total sales (sales), net profit, and net profit growth were correlated. Included in the model was a factor measuring overall financial performance as perceived by the respondent. This is an unobserved construct and is thus enclosed by ovals. Four measures (enclosed by rectangles) were specified, each with a nonzero loading on the factor it was designed to measure, and zero loading on other factors. Thus each indicator was identified with a unique construct. Error variables (enclosed by ovals because they are not directly observed) represent a composite of any influences on the observed measures that are not measured in this study. For example, in Figure 3 the single-headed arrow leading from financial performance to total assets shows that total assets scores depend only in part on financial performance; specifically the hypothetical 'financial performance' construct accounts for 70% of the variance in scores for item total assets. Alternatively, the path coefficient (loading) that describes the impact of total assets on financial performance is 0.86 (Arbuckle, 1995).

Goodness of fit index

A goodness of fit check was undertaken. There is 1 degree of freedom (6 distinct sample moments less 4 parameters and 1 construct variance estimated. The construct variance is not shown for visual clarity). Thus normed chi-square = 0.86, GFI = 1, CFI = 1 all suggested the model is plausible. The RMSEA index is acceptably low at 0.002. A confidence interval provides a test of close fit (C.I. straddles 0.05), and not-close fit (entire C.I. lies above 0.05). Thus for the financial performance measurement model, a hypothesis of close fit < 0.05 was accepted, and not-close fit < 0.05 was rejected. There was, thus, evidence to suggest that the financial performance measurement model had adequate overall goodness-of-fit.

In determining construct validity, the CFA provided a test of convergent validity for each of the sets of items that measured each construct. All path estimates were significant at the 1% level, and loadings between measured variables and factors were generally greater than 0.5. Indicators loaded significantly on their hypothesized construct, indicating adequate levels of convergent validity (Bagozzi & Phillips, 1982; Barki & Hartwick, 2001). Nested models to test dimensionality were also examined. The plausibility of one dimension of financial performance for SMEs (as opposed to, for example, a multiple dimension model) was assessed in a nested modelling process. The results showed that the financial performance of small corporations is a uni-dimensional construct that can be measured by four indicators, namely total assets, total sales, net profit, and net profit growth rates.

Hypothesis testing

The measurement models for regulation and financial performance were specified in Fig. 2 and Fig. 3. The Structural Equation Model (SEM) was applied to assess the impact of regulation on small corporations' financial performance. The standardised SEM results indicate that regulation has a **positive** impact on the CSR of small corporations. The standardised regression (which is also correlation) between the two latent variables — regulation and financial performance is 0.26 which is positive and statistically significant, meaning that regulation leads to more benefits than harm to small corporations on average (Fig. 4). The fit indices indicate that the model is satisfactory in meeting the fit criteria for a SEM.

Insert Figure 4 about here

Discussion

The SEM model finds a positive impact of corporate governance on the financial performance of small corporations, meaning that firms which have perceived more government regulatory requirements tend to have better financial performance. The effect size is 0.26, indicating a close to medium effect. The results discussed here provide answers to RQ: what is the relationship, if there is any, between government regulation and the financial performance of small corporations?

This finding is supported by the Public Interest Theory, which states that regulation is beneficial for the small corporations given that they face a quasi-competitive market and the stricter regulatory requirements may help to develop a stable market place for the small corporations to compete (Kitching 2008). This further supports the argument that regulated firms may require less monitoring and less uncertainty, thus saving some costs for small corporations to focus on their core business rather than conflict resolution (Becher and Frye 2012).

The results challenges the 'one size fits all model' and call for alternative policy prescriptions to meet the unmet regulatory needs in small corporations in Australia. ie. Inspired by the Hong Kong Model, Li et al. (2014) developed a responsive regulatory model for small corporations in Australia.

Study Limitations And Future Research

This study is subjected to the self-selection bias due to its use of the convenient online survey approach. Though the fact that the survey response rate is almost proportional to the distribution of small corporations by state, it may face the risk of violation of internal validity caused by failing to adopt a random sampling approach. Admittedly, a self-selection bias is always a challenge for any non-experimental types of research. A discussion of the specific consequences of self-selection bias can be found in Bethlehem and Biffignandi (2011). This study, however, made the effort to correct the self-selection bias by applying sampling weights matching the number of small and medium sized businesses in respective local government areas.

Future work could focus on complementing this study by adopting a more rigorous sampling approach, coupled with a finer level of quasi-experiment design, and may be used to collect more reliable information to represent the population. In addition, future research may also investigate the factors which mediates and moderates the relationship between regulation and financial performance in small corporations in depth.

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Biography

Dr. Yongqiang Li is a Research Fellow at College of Law & Justice. He obtained his PhD degree in Law from Victoria University, a Master's Degree in Public Policy and Management from Carnegie Mellon University and a Bachelor's Degree of Applied Physics from National University of Defence and Technology. Dr. Li is currently a member of the Academic Board of Victoria University. His research mainly focuses on public policy issues related to corporate governance, government regulation, and small business. He won four competitive research grants, including two from the Department of Foreign Affairs and Trade and one from the Victoria Government. He has co-published a book, eleven peer-reviewed journal articles and two dozens of conference papers. His research has a significant impact in Australia and he was awarded more than ten scholarships and awards, including the Australian Postgraduate Award from Australian Federal government and Most Outstanding Award for Self-financed Students Studying Abroad by Chinese Scholarship Council. He has actively collaborating on research projects with Chinese organisations, eg. Peking University, Chinese Academy of Science and judicial system at different levels.

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Appendix

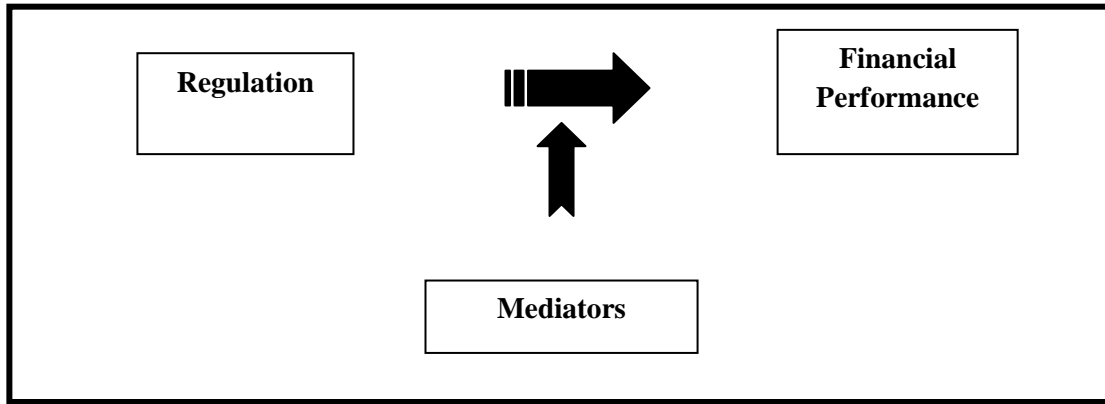


Figure 1 Realist View of Causation (adapted from Hills 2008)

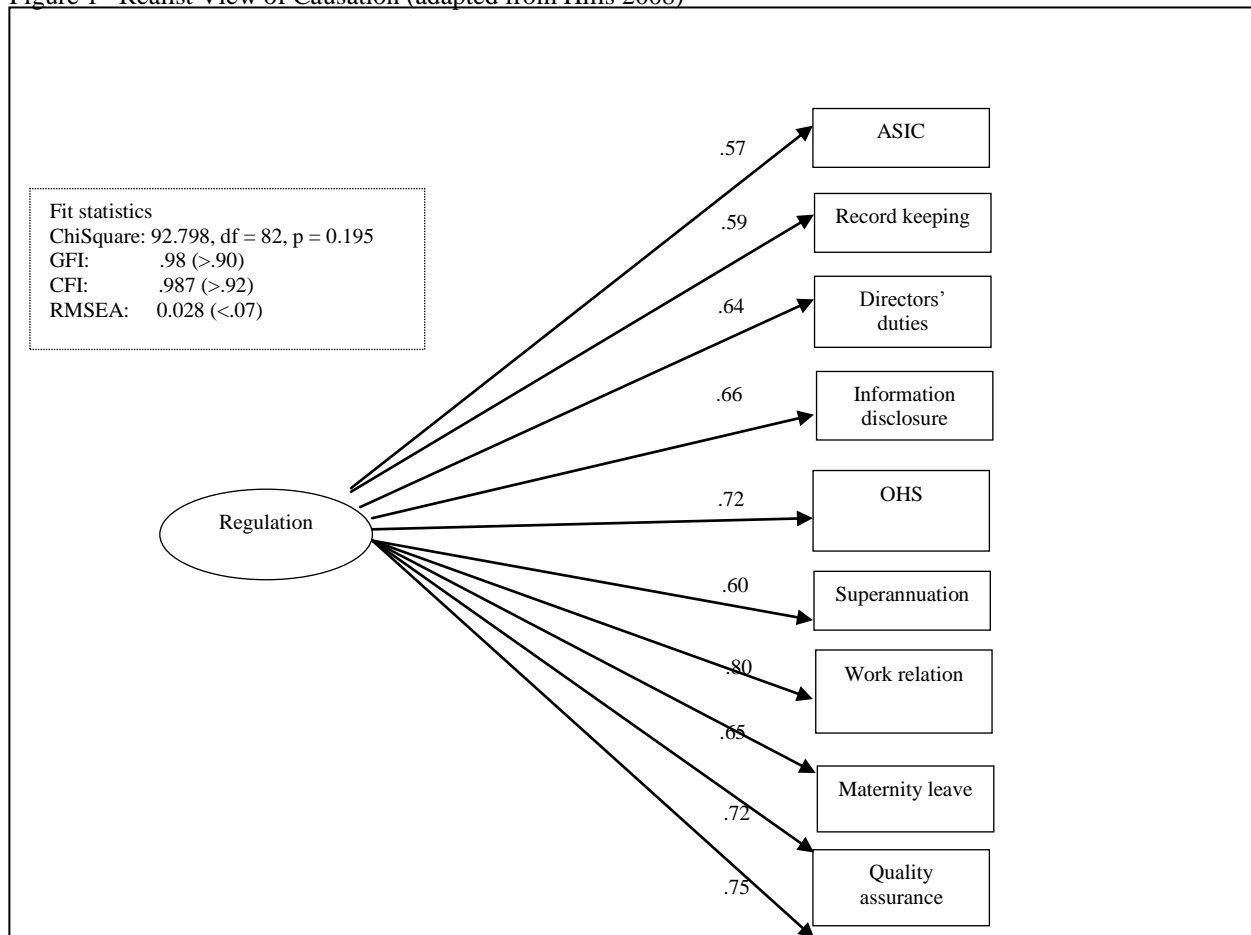


Figure 2: Measurement model of regulation

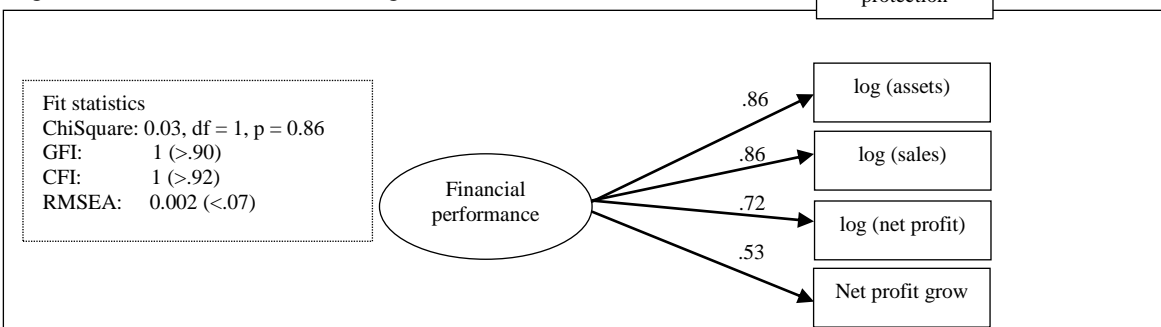


Figure 3: Measurement Model of financial performance

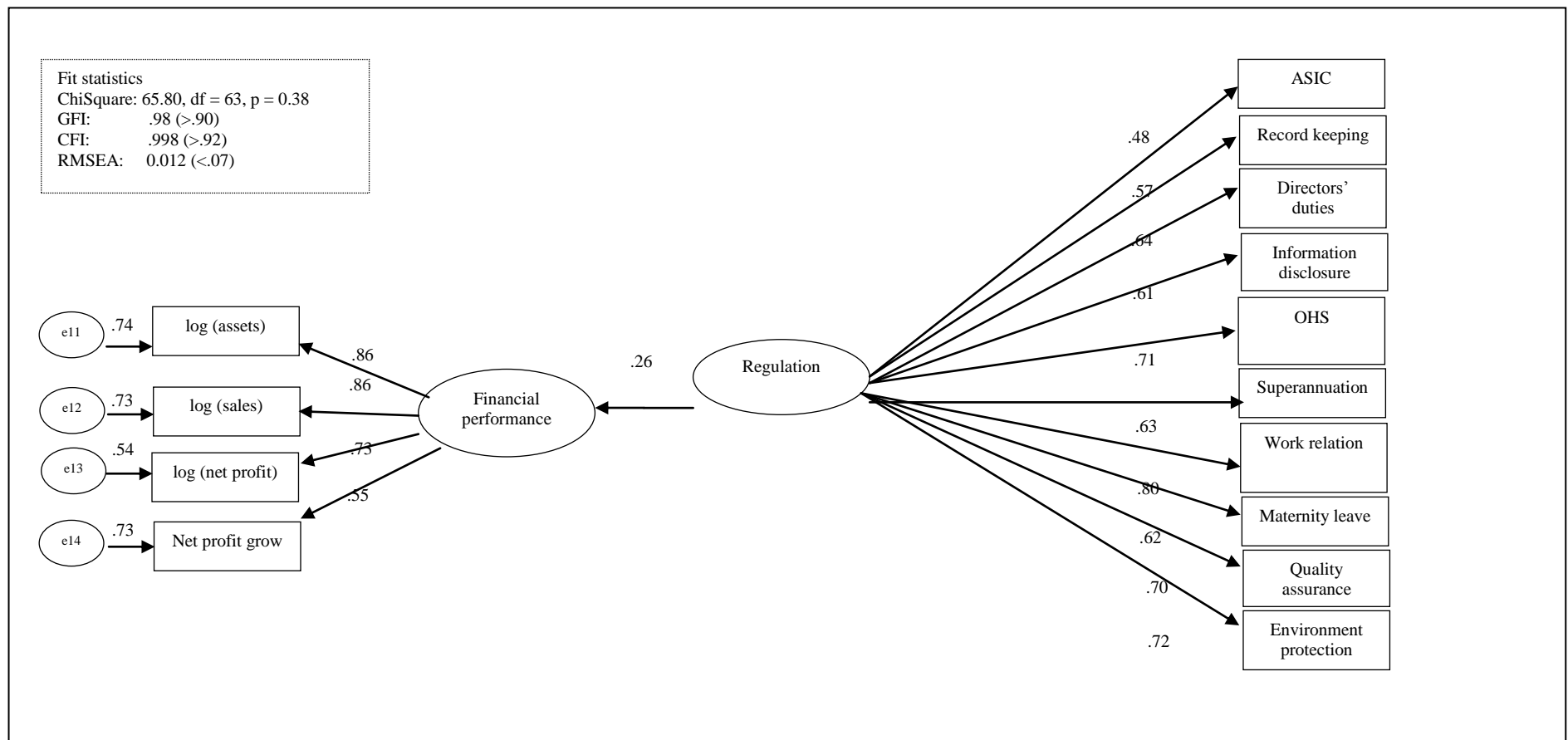


Figure 4: SEM of regulation on financial performance.