

MAY CORPORATE GOVERNANCE LEAD TO BETTER PERFORMANCE? INSIGHTS FROM ROMANIAN SMEs

DOI: <https://doi.org/10.53486/dri2025.45>
UDC: 005.35:[334.012.63+334.012.64]

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Abstract: *The transition to a sustainable economy put SMEs under strain to implement improved corporate governance policies and practices in line with European and international sustainability frameworks, as well as legal requirements and social expectations. The aim of this research is to investigate the perceptions of SMEs' managers, investors, and operational employees regarding corporate governance mechanisms as performance drivers, as well as the relevance of implementing particular policies and practices related to audit characteristics. This empirical approach uses questionnaire as the main research method, with 130 responses that are analysed. To test the research hypothesis, an in-depth descriptive overview, frequency and reliability analyses, and regression estimation are performed. The main findings suggest that the respondents do not ignore the need for a strong internal control and risk management system in SMEs. Likewise, they draw attention to the valuable roles of auditors, being aware of their responsibilities such as ensuring financial statements' integrity, minimising risks and conflicts of interest, as well as guaranteeing the integrity of internal and external audit procedures. The results shed new light on a developing economy background, suggesting that SMEs may achieve performance through corporate governance policies and practices, designed for their needs and entrepreneurial traits. Thus, this study could be valuable for government and investors alike in creating plans and regulations for a sustainable economy and business environment.*

Key words: *corporate governance, SMEs, performance, audit committee, internal control, risk management*

JEL: G34, M41

1. Introduction

Small and medium-sized enterprises (SMEs) directly and positively contribute to the growth of the global socio-economic system. According to the literature (Jiang et al., 2023; Singh & Pillai, 2021), SMEs face several constraints in the adoption of sustainable business practices. These challenges could include lack of funding and technological know-how and limited exposure to international markets. In light of these circumstances, this study investigates how investors, managers, and operational employees of SMEs perceive various corporate mechanisms in performance achievement. Corporate governance policies and practices stand out as a crucial component for a better understanding of the long-term development prospects of SMEs in light of the social needs and legal obligations stipulated by governments. Corporate governance may be understood as a framework for ensuring accountability and coordinating company goals with those of its stakeholders (Teixeira & Carvalho, 2024; Ronoowah & Seetanah, 2024; Nasrallah & El Khoury, 2021).

This study focusses on the relationship between corporate governance mechanisms, measured based on specific audit characteristics, and Romanian SMEs' performance, through the lens of management, investors, and operational employees. Hence, the respondents may be considered representatives of SMEs, having as main purpose the fulfilment of entrepreneurial objectives in a challenging economic environment. All responders are highly skilled professionals that work in financial business areas such as Accounting, Audit, and Tax consulting. A questionnaire is used as the basis for quantitative analysis. Summary of the main findings suggest that Romanian SMEs might support corporate governance, which would help create a more robust and sustainable socio-economic development. Therefore, according to the results, several recommendations could be formulated for SMEs and policymakers who should draw attention to designing policies and strategies for a sustainable business setting.

This research is structured as follows. Section 2 covers a summary of scientific literature review that justifies the research hypothesis. Section 3 presents the research methodology, primary data collection and processing, sample characteristics, variables, and empirical analysis conducted. Section 4 exposes the main findings, while Section 5 summarises the conclusions, limitations, and perspectives for future studies.

2. Literature review and research hypothesis

Corporate governance involves a system of guidelines, policies, and practices that management and leadership use to guide and control the entrepreneurial activities of the company. Corporate governance strikes a balance between the interests of different stakeholders such as society, management, shareholders, government, clients, and financial institutions, and has implications for decision-making processes (Teixeira & Carvalho, 2024; Singh & Pillai, 2021; Bhagat & Bolton, 2019).

Small and medium-sized enterprises (SMEs) are autonomous, non-subsidary businesses with a small workforce and manufacturing methods, whose number varies across different geographical regions. SMEs are important for emerging countries, since they are essential in increasing the rate of employment, economic growth, and career opportunities (Teixeira & Carvalho, 2024).

Compared to larger corporations, SMEs frequently have lower financial reporting and corporate governance mechanisms, given the scarcity of research in this field, and because the implementation of corporate governance policies and practices is still relatively new in many countries (Teixeira & Carvalho, 2024; Singh & Pillai, 2021). However, the need to scientifically explore SMEs from different perspectives may be underlined.

The scientific literature has different approaches on corporate governance and SMEs, the debates considering extensive backgrounds such as environmental, social, or financial, analysing various business fields. For example, Yip et al. (2024) conduct a qualitative analysis based on interviews, their main findings suggesting that environmental, social, and governance (ESG) reporting could be improved as a result of the influence exerted by most relevant stakeholders. Schifilliti and La Rocca (2024) emphasise the negative influence of board gender diversity on financial performance in SMEs. In contrast, Issa and Abbaszadeh (2023) expose that corporate governance protects shareholders' interests and leads to the maximisation of value creation in SMEs. Additionally, scientific environment investigates and debates non-financial dimension in SMEs considering in the analysis gender diversity (Hussain et al., 2024) and board characteristics (Roffia et al., 2022; Bennett & Robson, 2004).

Likewise, authors are interested in internal control and risk management system, as well as audit characteristics in SMEs. For example, Oppong et al. (2024) focus on the banking industry, applying a questionnaire. They find that financial performance is significantly impacted by internal control and corporate governance. Therefore, to improve the effectiveness of internal control systems and achieve financial performance, companies should strengthen their corporate governance practices. A comprehensive analysis based on bibliographic data, outlining the importance of risk management procedures for SMEs, is conducted by Sotamaa et al. (2025), whose final remarks support the idea that digitalisation and artificial intelligence may be used by SMEs in manufacturing business field as tools for risk management system.

For a thorough understanding of the topics studied, this research outlines a theoretical framework consisting of agency, stakeholder, and legitimacy theories that shape the main findings' discussion. Agency theory draws attention to the conflicts that may arise between managers and owners but could be reduced by corporate governance policies and practices (Adrian & Wright, 2018). Stakeholder theory is suited to explain the outcomes, since it allows stakeholders to effectively pull SMEs by offering them observable advantages, which leads to greater management support (Yip et al., 2024). One of the approaches of legitimacy theory may refer to using non-financial information disclosure to satisfy stakeholders and show adherence to accepted social norms (Yip et al., 2024).

Thus, the brief review of several studies from the scientific literature exposed above outlines that SMEs represent a challenging topic, given the extensive analyses performed considering sustainable development, corporate governance, in general, as well as through several mechanisms such as gender diversity (Hussain et al., 2024; Schifilliti & La Rocca, 2024) board of directors (Roffia et al., 2021), audit, internal control (Oppong et al., 2024), and risk management (Sotamaa et al., 2025). Consequently, prior studies support assertion of the research hypothesis, as follows. *RH1. SMEs' performance is positively and significantly impacted by corporate governance mechanisms, as perceived by managers, investors, and operational employees.*

3. Research methodology

3.1. Data collection and sample composition

This study is performed using primary data collected through a questionnaire, and validity of the research hypothesis is demonstrated based on quantitative analysis. This approach is comparable to Bojan (2024) and Wen et al. (2023). According to the literature, the questionnaire is an appropriate and trustworthy technique for examining behavioural patterns from a large number of respondents with comparable perspectives on company activity (Caraiani et al., 2023; Issa & Abbaszadeh, 2023). The digital form of the questionnaire was sent to respondents by email In the period between February and March 2024. The questions were addressed to a sample of management, operational employees, and investors with significant professional backgrounds in Accounting, Tax consulting, or Audit. Most of the respondents are members of Romanian financial-accounting professional organisations.

Research variables and analysis

The summary of questions addressed covers, first, demographic characteristics of the respondents, such as gender, age, professional experience, educational level, main activity of company, and number of employees. Second, the questions measure dependent and independent variables. SMEs' performance (SMEs_PERFORMANCE) is the dependent variable, while independent variables are represented by internal audit, risk management, and internal control approached both from their existence and their necessity in SMEs according to perceptions of the respondents. All research variables are shown in Table 1.

Table 1. Research variables

| Variable | Description | Measurement |
|------------------------------|--|--------------------------------|
| <i>Dependent variable</i> | | |
| SMEs_PERFORMANCE | The respondents rated it considering several characteristics of corporate governance and financial performance | 5-point Likert scale (average) |
| <i>Independent variables</i> | | |
| RM_IC_EXISTENCE | Perceptions of the respondents about existence of risk management and internal control system in SMEs | 5-point Likert scale |
| AC_NECESSITY | Audit Committee necessity in SMEs | 5-point Likert scale |
| AC_ROLE | Audit Committee role in assessing conflict of interests between executive management and directors | 5-point Likert scale |
| RM | The role of internal auditors in identifying and assessing risks | 5-point Likert scale |
| IC | The role of internal auditors in 366inimizing and correcting deficiencies in the internal control system | 5-point Likert scale |
| INTEGRITY | Integrity of financial reporting and the internal control system, including internal and external audit procedures | 5-point Likert scale |

Source: Author's own research adapted according to Corporate Governance Code issued by the Bucharest Stock Exchange

Respondents scaled corporate governance mechanisms on a 5-point Likert scale, where 5 = extremely important. Independent variables highlight the necessity of an Audit Committee in SMEs (AC_NECESSITY) and its role (AC_ROLE), complemented by the roles of internal auditors in risk management (RM) and internal control (IC). Muchmore, it is examined the way respondents perceive integrity of financial reporting and internal control system (INTEGRITY).

Statistical analysis and econometric estimation are performed in STATA18 to examine whether respondents consider corporate governance, measured through specific characteristics of internal audit, risk management, and internal control, leading to better performance in SMEs. Furthermore, in line with previous research (Oppong et al., 2024; Issa & Abbaszadeh, 2023; Wen et al., 2023), Cronbach Alpha is used to test the internal structure of the questionnaire, and the regression equation is exposed as follows:

$$SMEs_PERFORMANCE_i = \beta_0 + \beta_1*RM_IC_EXISTENCE_i + \beta_2*AC_NECESSITY_i + \beta_3*AC_ROLE_i + \beta_4*RM_i + \beta_5*IC_i + \beta_6*INTEGRITY_i + \varepsilon_i \quad (1),$$

where the constant is β_0 , coefficients associated with audit characteristics are β_1 to β_6 , and the error term is ε_i .

4. Results

4.1. Frequency analysis

Frequency analysis is intended to summarise demographic characteristics of the sample. According to the data presented in Table 2, it is emphasised that 60.8% of the respondents are women. Furthermore, most of the respondents are university graduates (94.60%) and have professional experience of more than 20 years (63.10%). The main activities of SMEs are focused on providing Accounting, Audit and Tax consulting services, and most of them have less than 9 employees. According to the Law no. 346, these companies are classified as micro-enterprises (Romanian Parliament, 2004).

Table 2. Frequency analysis

| Demographic characteristic | | Frequency | Percent (%) |
|----------------------------|-----------------------------------|-----------|-------------|
| Gender | Female | 79 | 60.70% |
| | Male | 50 | 38.50% |
| | I prefer not to respond | 1 | 0.80% |
| Educational level | Pre-university studies | 7 | 5.40% |
| | University studies | 123 | 94.60% |
| Professional experience | Less than 2 years | 1 | 0.80% |
| | 2-5 years | 5 | 3.80% |
| | 6-10 years | 9 | 6.90% |
| | 10-20 years | 33 | 25.40% |
| | More than 20 years | 82 | 63.10% |
| Main activity | Manufacturing | 7 | 5.40% |
| | Services | 110 | 84.60% |
| | Trading | 13 | 10.00% |
| Number of employees | Less than 9 (micro-enterprises) | 82 | 63.10% |
| | 10-40 (small enterprises) | 28 | 21.50% |
| | 50-249 (medium-sized enterprises) | 20 | 15.40% |

Source: Author's own research

4.2. Descriptive overview

Further, the main statistical indicators are computed. According to the results presented in Table 3, significant average values of the variables analysed are identified. The average range is between 3.269 and 3.50, suggesting that the respondents are aware of corporate governance mechanisms and their importance for SMEs' performance. First, they consider that SMEs need a system for risk management and internal control (RM_IC_EXISTENCE). Furthermore, the overall perception

regarding Audit Committee in SMEs (AC_NECESSITY) reflects that this committee may be considered a performance driver for SMEs.

Table 3. Descriptive statistics

| Variable | Mean. | Std. Dev. | Min. | Max. | Skewness | Kurtosis |
|------------------|-------|-----------|------|------|----------|----------|
| SMEs PERFORMANCE | 3.808 | 0.897 | 1.00 | 5.00 | -0.636 | 0.239 |
| RM IC EXISTENCE | 3.623 | 1.116 | 1.00 | 5.00 | -0.502 | -0.291 |
| AC NECESSITY | 3.269 | 1.262 | 1.00 | 5.00 | -0.288 | -0.807 |
| AC ROLE | 3.285 | 1.301 | 1.00 | 5.00 | -0.331 | -0.864 |
| RM | 3.569 | 1.30 | 1.00 | 5.00 | -0.617 | -0.650 |
| IC | 3.50 | 1.265 | 1.00 | 5.00 | -0.548 | -0.602 |
| INTEGRITY | 3.646 | 1.232 | 1.00 | 5.00 | -0.836 | -0.157 |

Source: Author's own research

Similarly to larger companies, in SMEs, conflictual circumstances may arise between executive management and directors. The main findings suggest that respondents recognise the roles of the Audit Committee (AC_ROLE) in preventing and solving these conflicts of interest, to achieve performance and competitive gain in the market. Additionally, taking into account respondents' perceptions, the responsibilities of internal auditors are emphasised in risk recognition and assessment (RM), as well as in minimising and fixing internal control system flaws (IC). Muchmore, the respondents consider that another key characteristic of audit consists in maintaining the accuracy of financial reporting and the internal control framework, which includes both internal and external auditing (INTEGRITY).

Skewness and Kurtosis indicators are used to assess univariate analysis, similar to Wen et al. (2023), and the results suggest that all values fell within the recommended ranges.

4.3. Correlation and reliability analyses

Table 4 presents correlation matrix for the dependent and independent variables. Pearson correlation coefficients illustrate that all corporate governance mechanisms related to audit, internal control, and risk management are positively and statistically significant correlated with SMEs_PERFORMANCE. Correlation diagnostics are comparable to Bojan (2024), who examine the influence of board and executive characteristics on the corporate governance-performance relationship.

Table 4. Correlation matrix

| Variable | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|------------------|----------|----------|----------|----------|----------|----------|--------|
| SMEs PERFORMANCE | 1.0000 | | | | | | |
| RM IC EXISTENCE | 0.6471** | 1.0000 | | | | | |
| AC NECESSITY | 0.7524** | 0.6891** | 1.0000 | | | | |
| AC ROLE | 0.7401** | 0.5871** | 0.8873** | 1.0000 | | | |
| RM | 0.7331** | 0.6625** | 0.8367** | 0.8385** | 1.0000 | | |
| IC | 0.7469** | 0.6618** | 0.8275** | 0.8310** | 0.9099** | 1.0000 | |
| INTEGRITY | 0.7237** | 0.6356** | 0.8095** | 0.8274** | 0.8726** | 0.8953** | 1.0000 |

** $p < 0.05$. Source: Author's own research

The reliability of the questions is evaluated using Cronbach's Alpha, whose results are shown in Table 5. The internal consistency of the scales used to measure the constructs is demonstrated by an Alpha value that is adequately above the minimal limit of 0.70. Given these findings, the questionnaire in this research is considered to have an appropriate internal structure (Issa & Abbaszadeh, 2023; Wen et al., 2023; Kim & Lee, 2022).

Table 5. Reliability analysis

| Cronbach's Alpha | No. of items |
|------------------|--------------|
| 0.958 | 7 |

Source: Author's own research

4.4. Regression estimation

Linear regression analysis is performed to test the research hypothesis. The findings are summarised in Table 6 and highlight that all independent variables are positively associated with SMEs_PERFORMANCE, but the statistically significant effects are exerted only by RM_IC_EXISTENCE and AC_ROLE, at the 0.01 and 0.1 levels, respectively.

Table 6. Regression analysis

| Variable | β (t-stat) |
|---|------------------|
| Dependent variable: SMEs_PERFORMANCE | |
| RM_IC_EXISTENCE | 0.166*** (2.65) |
| AC_NECESSITY | 0.119 (1.239) |
| AC_ROLE | 0.157* (1.716) |
| RM | 0.017 (0.167) |
| IC | 0.139 (1.283) |
| INTEGRITY | 0.052 (0.546) |
| Constant | 1.564*** (8.96) |
| Observations | 130 |
| R-squared | 0.644 |

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Source: Author's own research

Thus, the regression model offers empirical support for the research hypothesis, highlighting that managers, investors, and operational employees of Romanian SMEs perceive corporate governance mechanisms related to audit, internal control, and risk management as central factors in achieving performance. Specifically, performance of SMEs could increase significantly if these companies are constantly focused on establishing and improving their internal control and risk management system. Muchmore, the significant impact of AC_ROLE outline that company performance is directly proportional to shrinking conflicts of interest between management and executive directors. These conflicts could rise given the divergent goals of the management that may be focused on personal purposes instead of company business objectives, and one of the responsibilities of corporate governance mechanisms is to prevent and avoid these inappropriate circumstances.

5. Conclusions

This paper examines the perceptions of management, investors, and operational employees with significant experience in the financial-accounting field related to the necessity of corporate governance mechanisms in Romanian SMEs and their influence exerted on performance. Corporate governance mechanisms are measured through audit characteristics, the questions being formulated according to the recommendations stipulated in the Corporate Governance Code issued by the Bucharest Stock Exchange (Bucharest Stock Exchange, 2025; Bucharest Stock Exchange, 2024) and prior literature (Issa & Abbaszadeh, 2023; Wen et al., 2023).

The questionnaire designed to collect primary data was distributed by email, and statistical and econometric analysis conducted suggests that respondents rated corporate governance mechanisms as determinants of SMEs' appropriate business activities and performance.

Frequency analysis, descriptive overview, correlation matrix, and reliability analysis are performed to examine the relationship between corporate governance and performance in SMEs from an emerging economy. Muchmore, the analysis is extended with regression estimation, offering empirical support and validating the research hypothesis (*RH1. SMEs' performance is positively and significantly impacted by corporate governance mechanisms, as perceived by managers, investors,*

and operational employees). The main findings shape a new perspective on corporate governance policies and practices through the lens of a specific category of companies and their representatives, suggesting that several corporate governance policies and practices could be designed and adopted for SMEs to achieve performance. All corporate governance mechanisms are positively correlated with performance, but several recommendations for SMEs could be formulated taking into account the internal control and risk management system, as well as the audit role in avoiding and preventing conflicts of interest.

This research may represent a valuable resource for entrepreneurial environment and academic representatives. First, the findings summary outlines that the performance of Romanian SMEs could be improved if corporate governance policies and practices that meet their needs are designed. Therefore, according to the perceptions of the respondents, SMEs should focus on a strong internal control and risk management system, as well as the establishment of an Audit Committee. These assertions are comparable to the previous literature (Wen et al., 2023; Roffia et al., 2022; Nasrallah & El Khoury, 2021).

Second, respondents understood that audit has crucial roles in preventing and avoiding conflicts of interest and risks, supporting the internal control system, and ensuring the integrity and veracity of financial reporting, leading to appropriate business activity, achieving performance, and strengthening relationships with stakeholders.

However, for this research, several limitations are identified in terms of sample composition and analysed period. Likewise, the empirical approach consists only of one regression model. Thus, future research horizons may consider a larger sample and an extended number of questions, complementing the analysis with multiple statistical tests and a comprehensive econometric estimation.

Acknowledgements

This paper was co-financed by the Bucharest University of Economic Studies during the Ph.D. program.

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