CORPORATE GOVERNANCE APPLIED TO SMALL AND MEDIUM-SIZED ENTERPRISES: LIMITATIONS OF TRADITIONAL MODELS AND ADAPTATION PROPOSALS

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Abstract: This article examines, through a systematic literature review, the application of corporate governance practices in small and medium-sized enterprises (SMEs). The investigation focuses on scientific production from the last five years, seeking to understand the inherent limitations of traditional governance models — originally designed to meet the demands of large publicly traded corporations — and to map the adaptation alternatives being developed by the academic community. The research was conducted through a structured search in Scopus, Web of Science, SciELO, and Google Scholar databases, employing qualitative analysis of the selected works. The findings reveal that, although the adoption of formal governance mechanisms in SMEs is still in an embryonic stage, the implementation of adapted practices — notably the promotion of transparency, the establishment of accountability mechanisms, and the constitution of advisory boards — produces significant positive effects. Such practices not only expand the possibilities for raising financial resources but also enhance innovative capacity, strengthen organizational resilience, and increase the competitiveness of these companies. The conclusion points to the absence of a universal governance model applicable to SMEs, making it essential to adopt flexible and gradual

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approaches that consider the specificities of this business segment: ownership concentration, the lack of distinction between management and ownership, family ties, and resource constraints. Future investigations should prioritize longitudinal studies and behavioral analyses of the actors involved in governance processes.

Keywords: Corporate Governance. Small and Medium-sized Enterprises. Agency Theory. Organizational Adaptation. Business Management.

INTRODUCTION

Small and medium-sized companies constitute the foundation on which national economies in virtually every country in the world. Consolidated data by the World Bank demonstrates that these organizations account for the largest share of job creation and represent a decisive contribution to the dynamism economic status of nations (WORLD BANK, 2021). Paradoxically, the field of study of corporate governance has devoted, over decades, almost exclusive attention to large corporations listed on stock exchanges, developing theoretical frameworks and practical instruments whose applicability to the context of smaller companies remains, to say the least, questionable.

The awakening of academic interest in governance in SMEs is a relatively recent phenomenon. Singh and Pillai (2022) note that specialized literature began to recognize, more consistently, that the adoption of appropriate governance practices constitutes a critical variable for sustainability, competitiveness and capacity to raise funds of these companies. This late recognition may be attributed, in part, to the statistical invisibility of SMEs and the geographic and sectoral dispersion that characterizes this business universe.

Hegemonic models of corporate governance find their foundations in Agency Theory, formulated in a seminal way by Jensen and Meckling (1976). Second this theoretical construction, conflicts of interest between shareholders — as long as principals — and professional administrators

— acting as agents — constitute the central problem to be resolved by governance. The underlying premise is the existence of dispersed proprietary structures, in which the separation between ownership and control engenders informational and potential asymmetries opportunistic behaviors on the part of managers.

It turns out that SMEs have a substantially different organizational configuration. In these companies, ownership is, as a rule, concentrated in the hands of an individual or of a restricted family nucleus, and the figure of the owner is often confused with that of the main manager (HANDLEY, 2022). This overlapping of roles radically alters the dynamics of agency conflicts, making the mere transposition of control mechanisms developed for the environment of large corporations.

Faced with this problem, this article proposes to carry out research systematic review of scientific literature produced in the last five years, guided by the following guiding question: what are the limits of traditional models of corporate governance when applied to small and medium-sized companies and which

Have adaptation alternatives been proposed by the academic community? The central objective consists of consolidating recent findings, identifying the main barriers to implementation, critically analyzing emerging solutions and indicating promising paths for future investigations.

The relevance of this investigation is justified both from a theoretical and practical point of view.

On a theoretical level, it contributes to the consolidation of a field of studies still in progress construction, lacking comprehensive syntheses that organize the fragmented production on the topic. On a practical level, it offers subsidies for entrepreneurs, consultants and public policy makers interested in promoting development sustainability of SMEs through improving their governance structures.

METHODOLOGICAL PROCEDURES

The conduct of this systematic review followed a structured search, selection and analysis of scientific articles, aiming to guarantee the replicability and transparency of the investigative process. The time frame covered publications dated between January 2021 and January 2026, a period considered appropriate to capture trends most recent academic debate on the subject.

The databases consulted included Scopus, Web of Science, SciELO and Google Scholar, selected for their scope and relevance in the field of applied social sciences. The search strategy used combinations of descriptors in Portuguese and English: "corporate governance AND small and medium enterprises" , "governance corporate AND SMEs" , "governance adaptation AND SMEs" , "governance limitations corporate and small businesses", "family business governance" and "advisory council PME" .

The inclusion criteria established were: (a) articles submitted to a peer review process; (b) publication within the defined time frame; (c) treatment explicit relationship between corporate governance and SMEs as a central or relevant to the investigation; and (d) full availability of the text. were excluded works that exclusively addressed large corporations, startups in pre-operational structures lacking a minimally formalized organizational structure, or studies that dealt with governance from strictly technological or socio-environmental responsibility without direct connection with the decision-making and control of companies.

The selection procedure was developed in successive stages. Initially, titles and abstracts were read, eliminating works that were clearly incompatible with the established criteria. The remaining articles were subjected to full reading, through which the thematic relevance and the methodological quality. Content analysis followed a qualitative approach, seeking to identify recurring thematic categories, convergences and divergences arguments, empirical evidence and gaps in accumulated knowledge.

The information extracted was systematized and organized around three analytical axes: (a) the structural and contextual particularities of SMEs that influence the governance; (b) the limits and inadequacies of traditional models when applied to this context; and (c) the adaptation proposals and emerging models identified in the literature.

THEORETICAL FRAMEWORK

Agency Theory and its limitations in the context of SMEs

Agency Theory, whose foundations were established in the classic work of Jensen and Meckling (1976), starts from the premise that organizations can be understood as links of contracts between different interested parties. The central problem identified by this perspective lies in the divergence of interests between the capital owners (principals) and the professional managers in charge of managing it (agents). Given that both parties are rational maximizers of utility and that there is informational asymmetry in favor of the agents, the need for monitoring and incentive mechanisms capable of aligning interests of managers to those of shareholders.

The corporate governance structures developed under this theoretical orientation — independent boards of directors, external audits, variable remuneration linked to performance, among others — were designed to organizational environments characterized by the separation between ownership and management.

It turns out that this separation does not occur, or occurs in a very tenuous way, in the most SMEs. Chrisman, Chua and Litz (2004) demonstrated that agency costs in family businesses — which represent a significant portion of the universe of SMEs — differ substantially from those observed in non-family businesses. The natural alignment set of interests between owners and managers, when these figures coincide, tends to reduce certain agency costs, but can generate other problems, such as managerial entrenchment, resistance to professionalization and the difficulty of implementing appropriate succession processes.

Distinctive characteristics of SMEs

Understanding the limitations of traditional governance models requires, preliminarily, the recognition of the specificities that distinguish SMEs from large corporations. Handley (2022), in an extensive review of the literature on informal governance mechanisms in SMEs, identifies a set of recurring characteristics: (a) high proprietary concentration, often in the hands of a single individual or family; (b) overlap between ownership and management; (c) hierarchical structures flattened and centralized decision-making processes; (d) predominance of personal and informal relationships; (e) limited financial, human and technological resources; and (f) vulnerability to fluctuations in the competitive environment.

These characteristics produce direct implications for governance. The concentration ownership reduces or eliminates the traditional agency conflict between shareholders and managers, moving it to other dimensions — such as tensions between majority shareholders and minority interests, or between the interests of the family and the interests of the company as productive organization. The scarcity of resources imposes restrictions on the implementation of formal governance structures, the costs of which may be perceived as excessive in relation to the expected benefits.

Governance in family businesses

A significant portion of SMEs are organized in the form of family businesses, in which kinship ties exert a determining influence on the organizational dynamics. Egon Zehnder International (2023), in a guide dedicated to corporate governance family businesses, highlights that these companies face particular challenges arising from the interpenetration between the family sphere and the business sphere.

The literature identifies three subsystems that overlap in family businesses: family, ownership and management. Each individual can occupy different positions in these subsystems, generating complex configurations of interests and loyalties. A member of the family that is simultaneously shareholder and manager will experience different tensions than those experienced by a family shareholder who does not participate in management, or by a professional manager not belonging to the family.

The governance of these companies therefore demands instruments capable of managing not only the economic relations typical of any business organization, but also affective dynamics, succession processes, education of new generations and the preservation of family values. Shareholder agreements, family protocols and family councils emerge as specific mechanisms to address these issues.

Limitations of Traditional Governance Models Applied to SMEs

Recent scientific production is emphatic in pointing out the inadequacy of direct transposition from governance models developed for large corporations to the universe of SMEs. This inadequacy manifests itself in multiple dimensions, which will be examined in the following subsections.

Theoretical incompatibility

The most fundamental criticism is directed at the very assumptions of Agency Theory when applied to SMEs. Essel and Addo (2021), in an empirical study carried out in emerging economy, argue that the control mechanisms designed to monitoring professional executives in companies with dispersed capital lose big part of its effectiveness when the owner is simultaneously the main manager. In that scenario, there is no agent to be monitored, and conflicts of interest assume different configurations from those predicted by the hegemonic theoretical model.

The authors suggest that, in SMEs, the most relevant conflicts tend to occur between majority shareholders — who concentrate decision-making power and privileged access to information —

and stakeholders with less power of influence, such as creditors, employees and possible minority partners. This reconfiguration of the agency conflict demands governance instruments aimed not at monitoring managers, but to protect the interests of less powerful parties.

Excessive costs and scarcity of resources

Singh and Pillai (2022) identify resource limitations as a central obstacle to implementation of formal governance practices in SMEs. The constitution of councils management with independent members, the hiring of external audits, the establishment of specialized committees and maintenance of compliance structures represent significant investments, the return of which may be perceived as uncertain or distant by businesspeople.

This perception is worsened by the culture of informality that predominates in many SMEs. Handley (2022) notes that informal governance — based on trust personnel, reputation and long-term relationships — tends to be valued by owner-managers, who may see formalization as a threat to flexibility and the agility in decision-making that constitute the competitive advantages of these businesses.

The challenge, therefore, is to demonstrate that governance does not represent necessarily unproductive cost or source of bureaucratic rigidity, but may constitute investment capable of generating tangible returns — such as easier access to financing, reducing operational risks and improving the ability to attract and talent retention.

Family and emotional dynamics

In family businesses, the limitations of traditional governance models become become even more evident. Egon Zehnder International (2023) highlights that decisions business in these organizations are often crossed by considerations emotions, family loyalties and interpersonal dynamics that escape rationality econômica pressuposta pelos modelos convencionais.

Succession is an emblematic example of this problem. The choice of successor, in a family business, it rarely follows exclusively meritocratic criteria; involves family expectations, feelings of distributive justice between siblings, perceived and actual capabilities, and the founder's willingness to effectively transfer the power. Traditional governance instruments were not designed to manage this complexity.

ADAPTATION PROPOSALS AND MODELS EMERGENTES

Given the identified limitations, the academic community has dedicated itself to development of adaptation proposals that take into account the specificities of SMEs. The predominant trend is not to formulate a single and universal model, but the construction of flexible frameworks, capable of accompanying growth and evolution of companies.

Advisory boards

One of the most recurring proposals in the literature refers to the creation of councils advisory boards as an alternative to formal boards of directors. The advice consultative is characterized by the absence of deliberative power: its members do not take decisions on behalf of the company, but offer strategic advice to the owner-manager, who fully preserves his decision-making autonomy (HANDLEY, 2022).

This configuration presents significant advantages for SMEs. implementation are substantially lower than those of a board of directors formal; operational flexibility is preserved; and the company benefits from the experience and relationship networks of external professionals, without incurring the risks associated with the delegation of decision-making powers.

Furthermore, the advisory council can function as a preparatory stage for structures of more robust governance. As the company grows and its operations become if more complex, the advisory board may gradually evolve into a of formal administration, in a process of institutional maturation that respects the pace and specific conditions of each organization.

Transparency and accountability

Ramos, Florencio and Vasconcelos (2024), in empirical research conducted with SMEs Brazilian companies, demonstrated that the adoption of transparency practices and provision of accounts — even at incipient levels — exerts a positive influence on the structure of capital of these companies. The authors statistically identified a correlation significant difference between transparency indicators and the capacity to raise funds with third parties.

The explanation for this phenomenon lies in the reduction of information asymmetry. Potential creditors and investors, when faced with companies that present organized financial reports, audited financial statements and processes documented decision-making, tend to attribute less risk to these operations, making itself available to offer more favorable financing conditions.

This finding is particularly relevant to the Brazilian context, in which SMEs have historically faced difficulties in accessing bank credit and the capitals. The adoption of basic governance practices — which do not require investment large — can represent a significant competitive advantage in the dispute for resources scarce finances.

Separation between family and business governance

For family businesses, the literature recommends a clear distinction between family governance mechanisms and company governance mechanisms. That separation aims to prevent strictly family issues from contaminating decisions business, and vice versa (EGON ZEHNDER, 2023).

The family council emerges as a privileged instrument for this purpose. Treat as a forum in which family members — shareholders or not, managers or not — meet to discuss matters of family interest that may impact the company: family employment policies, dividend distribution criteria, planning succession, education of new generations for entrepreneurship, among others.

Complementarmente, os acordos de acionistas e os protocolos familiares formalizam understandings about the rights and obligations of family members in relation to company, establishing clear rules for potentially conflicting situations — such as the departure of partners, the admission of new family members into the corporate structure or the disposal of shares.

Progressive and modular approach

Teixeira and Carvalho (2024), in a comprehensive systematic review, identified that governance effects on SME performance are conditioned by adequacy from the mechanisms adopted to the specific circumstances of each company. Structures excessively formalized processes can produce counterproductive effects in companies smaller or in early stages of development.

The authors propose a progressive approach, in which governance practices are implemented gradually, following the company's evolution. One family microenterprise, for example, can start with elementary practices — such as separation between the owner's personal finances and the company's finances, or the holding periodic meetings for strategic planning. As it grows, it may establish an informal advisory board, later formalized. Reaching certain size, can evolve into more robust structures, including a board of administration, external audits and specialized committees.

This modular perspective recognizes that there is no single solution applicable to all SMEs, and that effective governance is one that adjusts to the needs, resources and culture of each organization.

DISCUSSION

The analysis of recent scientific production allows us to verify that the field of studies of corporate governance applied to SMEs is in the consolidation and theoretical maturity. The view that governance would be prerogative or exclusive need of large corporations, establishing the understanding that appropriately adapted practices constitute a determining factor for the sustainability and growth of smaller companies.

The shift in the investigative focus is noticeable: the central question is no longer “if” the SMEs must adopt governance, to focus on “how” and “what” practices are more effective for each specific context. This shift in emphasis reflects the maturation of the field and the growing accumulation of empirical evidence on the positive effects of adaptive governance.

Agency Theory, although it maintains relevance as an analytical starting point, proves to be insufficient to capture the complexity of organizational dynamics in SMEs. Complementary perspectives — such as Transaction Cost Theory, Stewardship and behavioral approaches — offer conceptual tools additional resources to understand the motivations, conflicts and decision-making processes in this environment.

Teixeira and Carvalho (2024) highlight the need for investigations that adopt behavioral perspective, shifting the focus from formal governance structures to the processes, practices and interactions between the actors involved. This guidance methodological approach promises to reveal dimensions of governance that escape structuralist analysis predominant in literature.

The impact of governance on access to financing deserves particular attention in contexts in which credit is a scarce and contested resource, SMEs that demonstrate greater transparency and internal organization obtain significant competitive advantage. The findings of Ramos, Florencio and Vasconcelos (2024) demonstrate that even modest improvements in governance practices can have significant effects relevant information on the capacity to raise funds - conclusion especially pertinent to emerging economies such as Brazil.

Despite the advances identified, the heterogeneity of the universe of SMEs imposes considerable challenges to the generalization of results. A small family business with half a dozen employees faces radical governance issues different from those experienced by a medium-sized company with hundreds of employees and operations in multiple markets. This diversity demands caution in formulation of recommendations and reinforces the importance of contextualized and flexible.

FINAL CONSIDERATIONS

This systematic review confirmed that traditional corporate governance models, developed to meet the needs of large publicly traded corporations, present significant limitations when applied to small and medium companies. The main barriers identified refer to concentration characteristic of this segment, the scarcity of resources available for investment in formal structures and the culture of informality that permeates organizational relationships.

In response to these limitations, scientific production in recent years has converged on adaptation proposals that prioritize flexibility, progressiveness and customization. The advisory boards, the emphasis on transparency and the provision of accounts, and the separation between family and business governance emerge as especially promising practices, capable of reconciling the benefits of governance with the restrictions and specificities of SMEs.

The adoption of adapted practices not only mitigates conflicts of interest and improves quality of strategic decisions, but also expands the possibilities of access to capital, stimulates innovation and strengthens organizational resilience. In that sense, governance is no longer perceived as a cost or bureaucratic formality, to be recognized as a strategic investment with tangible returns.

The limitations of this investigation include the dependence on articles available in the databases of selected data and the time frame adopted, which may have excluded relevant contributions published in other languages or vehicles. It is suggested that future investigations will develop into longitudinal case studies, capable of capturing the evolution of governance practices over time and their effects on the organizational performance. The comparative analysis between economic sectors and different geographic contexts also represents a promising avenue for advancing knowledge in the area.

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