

The Board Paradox in SMEs: Corporate Governance as a Dynamic Configuration of Formal and Informal Mechanisms

Abstract: This paper examines how corporate governance should be conceptualized in small and medium-sized enterprises (SMEs), where formal boards are often absent or play only limited roles. This creates a central board paradox: governance research remains largely board-centred despite the limited relevance of boards in many SMEs. Building on insights from SME heterogeneity and organizational life-cycle research, the paper reconceptualizes governance as a dynamic configuration of formal and informal mechanisms that structure decision-making and accountability. Formal mechanisms include boards, management teams, and reporting systems; informal mechanisms encompass ownership arrangements, relational governance, and founder authority. This perspective shifts the analytical focus from governance structures to governance functions, and accommodates the diversity of SME organizational forms as well as the transitions they undergo over time. The paper contributes by challenging board-centred and agency-dominant approaches and introducing a configurational and dynamic framework that better captures the variety and evolution of governance in SMEs. It also provides a conceptual foundation for future empirical research that moves beyond board-based proxies.

Plain English Summary: Many small businesses are governed without a formal board of directors, yet most academic research on governance still treats the board as the central piece. This paper argues that corporate governance in small and medium-sized enterprises cannot be understood by simply scaling down theories built for large listed corporations. Instead, governance in SMEs is better conceptualized as a dynamic combination of formal and informal mechanisms, including ownership arrangements, founder authority, management teams, and reporting routines, that structure how decisions are made and how accountability is created. Because SMEs are highly diverse and change as they grow, their governance arrangements also evolve, shifting from informal to more structured forms as firms face new pressures such as external financing, succession, or strategic renewal. The principal implication for research is that future empirical work must move beyond board-based measures and develop new approaches capable of capturing the full range of governance mechanisms active in small firms, including those that operate informally and outside the boardroom.

Keywords: Corporate governance; SMEs; small and medium-sized enterprises; organizational life cycle; boards of directors; decision-making; accountability; organizational transitions.

JEL Codes: G34, L25, M10, M13.

1.- Introduction

Small and medium-sized enterprises (SMEs) account for the vast majority of firms in most economies, yet corporate governance research remains largely anchored in frameworks developed for large listed corporations. This mismatch becomes particularly evident when considering what may be named a central board paradox in SME governance: while much of the governance literature treats the board of directors as the primary locus of control, many SMEs either lack formal boards altogether or rely on boards that play only limited or symbolic roles. Despite this, board-centred approaches continue to dominate both theoretical and empirical analyses of governance.

This paradox raises a more fundamental question that has not been fully resolved in the literature: how should governance be conceptualized in SMEs when the mechanisms through which decisions are made, influenced, and held accountable are heterogeneous, frequently informal, and subject to change as firms evolve? In many SMEs, ownership and management overlap, decision-making authority is highly personalized, and governance is embedded in routines, relationships, and resource constraints rather than in formal governing bodies. Under these conditions, simply scaling down governance theories developed for listed firms is unlikely to provide an adequate account of how governance operates in small-firm settings (Li et al., 2020; Handley and Molloy, 2022; Gabrielsson et al., 2020).

The persistence of board-centred perspectives reflects both their theoretical tractability and their empirical visibility. Agency theory, in particular, has long framed governance in terms of monitoring, incentive alignment, and the separation of ownership and control (Jensen and Meckling, 1976; Fama and Jensen, 1983; Daily et al., 2003). While these concerns remain relevant in some SME contexts, especially where external investors are present, they offer only a partial and often incomplete view of governance in firms where such separation is weak or absent. In many SMEs, governance challenges relate as much to strategic guidance, resource mobilization, legitimacy, and organizational discipline as to the monitoring of managerial discretion (Brunninge et al., 2007; Machold et al., 2011; Li et al., 2020; Handley and Molloy, 2022).

A second limitation of existing approaches lies in their insufficient accommodation of heterogeneity. SMEs encompass a wide variety of organizational forms, including family firms, owner-managed businesses, and professionally funded entrepreneurial ventures. These firms differ not only in size, but also in ownership structures, funding patterns, managerial arrangements, and exposure to external stakeholders. As a result, governance mechanisms are unlikely to converge on a single template. Variation within the SME population is therefore not a secondary complication but a defining feature of the phenomenon (Garg and Furr, 2017; Ingley et al., 2017; Karoui et al., 2017).

The issue is also inherently dynamic. As SMEs grow, professionalize, seek external financing, confront succession, or undergo strategic renewal, their governance needs to evolve. Informal arrangements that may be effective in early stages often become insufficient as organizational complexity increases, giving rise to more structured and accountable forms of decision-making. While organizational life-cycle research has long

emphasized these transitions, governance research has only partially incorporated such insights, and often remains implicitly static in its conceptualization (Churchill and Lewis, 1983; Miller and Friesen, 1983; Phelps et al., 2007; Habib and Hasan, 2019, Teixeira & Carvalho, 2024).

In this paper, we address these limitations by advancing a conceptualization of corporate governance in SMEs as a dynamic configuration of formal and informal mechanisms that structure decision-making and accountability. Rather than treating governance as a fixed, board-centred architecture, we conceptualize it as an evolving system in which formal and informal mechanisms, such as boards, management teams, reporting systems, ownership arrangements, and relational practices, interact to structure authority, shape decisions and generate accountability. This configurational perspective shifts the analytical focus from the presence or absence of specific governance structures to the combination of mechanisms through which governance functions are performed.

The paper makes three main contributions. First, it challenges the dominance of board-centred and agency-based perspectives as the default lenses for analysing governance in SMEs. By starting from the empirical observation that many SMEs lack effective boards, the paper reframes governance as a broader organizational phenomenon that cannot be reduced to formal governing bodies alone.

Second, it conceptualizes corporate governance in SMEs as a dynamic configuration of formal and informal mechanisms. This configurational view shifts the focus from isolated governance structures to the interplay between mechanisms (e.g., boards, management teams, reporting systems, ownership arrangements, relational practices) that jointly shape decision-making and accountability.

Third, it integrates insights from the literatures on SME heterogeneity and organizational transitions to explain how different governance configurations emerge and evolve across firms and over time. In doing so, the paper develops an organizing framework that links firm characteristics and transition pressures to governance mechanisms and, ultimately, to governance outcomes.

By reframing governance as a dynamic configuration of formal and informal mechanisms rather than a fixed structure, the paper responds to calls for more context-sensitive and process-oriented approaches in governance research (Roberts et al., 2005; Hambrick et al., 2008; Filatotchev and Wright, 2017). It also aligns more closely with the realities faced by SME owners, managers, and stakeholders, for whom governance is less a matter of adopting formal structures than of developing mechanisms capable of supporting coordination, discipline, and growth over time.

The remainder of the paper proceeds as follows. The next section revisits the main theoretical lenses relevant to the study of governance in SMEs and explains why no single theory is sufficient on its own. The paper then examines the heterogeneity of SMEs and the implications of organizational transitions for governance analysis. Building on these discussions, it develops an integrative framework in which governance is conceptualized as an evolving configuration of mechanisms linked to firm structure, stage, and transition

pressures. The final section discusses implications for future research and for the study of governance beyond the listed-firm paradigm.

2. Theoretical foundations for a dynamic view of SME governance

Research on corporate governance in SMEs has developed largely in reaction to the limits of theoretical frameworks originally built around large, mature, listed corporations. Mainstream governance research has long taken agency theory as its dominant point of departure, with its emphasis on monitoring, incentive alignment, and the separation of ownership and control (Jensen and Meckling, 1976; Fama and Jensen, 1983). That perspective remains useful in settings characterized by dispersed ownership and managerial discretion. Its explanatory power is more limited in SMEs, however, where ownership and management often overlap, boards may be absent or largely nominal, and governance problems frequently concern strategic support, resource mobilization, legitimacy, and organizational discipline as much as the classic shareholder–manager conflict. This limitation has been acknowledged repeatedly in the literature on entrepreneurial and privately held firms, yet agency theory and board-centred approaches continue to shape much of the field (Uhlener et al., 2007; Li et al., 2020; Handley and Molloy, 2022).

Early critiques had already pointed in this direction. Charreaux and Desbrières (2001), for instance, argued that a shareholder-only perspective was too narrow to sustain a relevant theory of corporate governance, and that governance should instead be linked to value creation and value distribution across a broader set of organizational participants. Although their argument was not developed specifically for SMEs, it is highly relevant in this context, where governance problems often extend beyond the classic separation of ownership and control and involve the coordination of resources, interests, and organizational contributions that are not easily captured by a purely agency-based view.

This critique does not imply that agency problems disappear in SMEs. Rather, it suggests that they coexist with other governance challenges and that their relative importance varies across firms and over time. As ownership diversifies or as external investors enter the firm, monitoring concerns may become more salient and formal governance arrangements may become more likely to emerge. Even in such cases, however, governance cannot be reduced to the presence of a board or to the alignment of owners and managers. The SME context requires a broader framework capable of capturing informal arrangements, advisory roles, cognitive contributions, and the progressive formalization of decision processes.

Three complementary theoretical lenses are especially useful at this point. The first is the resource-based and resource-dependence perspective, which highlights the role of governance mechanisms in securing expertise, legitimacy, networks, and access to external resources (Grant, 1996). In SMEs, where firms are often resource-constrained and managerial capacity is limited, governance may create value not only by controlling behaviour but also by expanding the firm’s knowledge base and scope. This helps explain

why boards and outside directors have often been interpreted in entrepreneurial settings less as pure monitors than as providers of advice, legitimacy, and connections (Gabrielsson and Huse, 2005 and 2017; Hillman et al., 2009; Li et al., 2020).

Secondly, a contingency perspective is especially useful in this context, because it shifts attention away from universal governance templates toward the conditions under which mechanisms become relevant. From this view, there is no single optimal governance architecture. The relevance and effectiveness of governance mechanisms depend on factors such as ownership structure, firm complexity, growth trajectory, stage of development, and external dependence. This perspective is particularly appropriate for SMEs because it accommodates heterogeneity and helps explain why the same mechanism may play different roles across firms or at different moments in the life of the same firm (Huse, 2005b; Ingley et al., 2017; Li et al., 2020).

A further step away from a narrow monitoring view comes from team production and behavioural perspectives, which redirect attention toward value creation, accountability, and decision processes. Team production theory presents the firm as a cooperative enterprise in which multiple actors contribute critical resources and therefore have a stake in how authority is exercised and decisions are made (Alchian & Demsetz, 1972; Blair and Stout, 1999; Kaufman and Englander, 2005). In SME settings, this perspective has been used to emphasize the strategic and mediating role that boards or other governance arrangements may play in coordinating interests, supporting value creation, and enabling organizational learning (Machold et al., 2011; Huse and Gabrielsson, 2012). Closely related behavioural work stresses that governance should not be understood only as formal compliance, but as an accountability-creating process embedded in the organizational practice (Roberts et al., 2005; Huse, 2005a).

What these perspectives share is a rejection of the idea that governance in SMEs can be reduced to a formal board-centred structure. Instead, they suggest a broader view in which governance is understood as the set of mechanisms through which decisions are shaped, challenged, legitimized, and rendered accountable. This is where Gabrielsson et al. (2020) provide the most useful conceptual anchor for the present paper. Their definition of governance in SMEs extends beyond ownership, boards, and executive compensation to include management teams, financial reporting systems, auditing, and the wider regulatory and normative environment, including governance codes for unlisted firms¹.

Building on that view, the paper treats governance in SMEs as a dynamic and contingent configuration of decision-making and accountability mechanisms. The emphasis on decision-making matters because many SME governance arrangements are embedded in managerial and owner-manager interactions rather than in formal governing bodies alone. The emphasis on accountability matters because governance is not only about who decides, but also about how decisions are justified, disciplined, documented, and made credible to internal and external stakeholders (Roberts et al., 2005; Huse, 2005a). This conceptualization also resonates with broader calls to move governance research away

¹ Because the paper builds on this broader conception of governance, a summary of representative definitions used in the literature is provided in Appendix A (Table A1).

from static institutional templates and toward a more process-oriented understanding of how governance operates in practice (Hambrick et al., 2008; Filatotchev and Wright, 2017).

Two implications follow from this theoretical positioning. The first is that no single governance theory is likely to be sufficient for the SME context; a degree of theoretical pluralism is not a weakness here, but a necessity. The second is that any useful framework must be explicitly dynamic, because governance mechanisms in SMEs are heterogeneous, partly informal, and often reshaped by growth, external dependence, and organizational transition. The next sections develop that argument by examining how heterogeneity and transition pressures alter both governance needs and the mechanisms through which they are addressed.

3. SME heterogeneity and organizational transitions

3.1. SME heterogeneity as a governance problem

Any attempt to conceptualize corporate governance in SMEs has to begin with heterogeneity. SMEs do not constitute a coherent organizational category from a governance perspective. Rather, they encompass a broad range of firms that differ in ownership structure, financing arrangements, managerial organization, external stakeholder exposure, and growth ambitions. These differences are not peripheral. They shape both the governance problems firms face and the mechanisms through which decisions are influenced, coordinated, challenged, and rendered accountable. As several authors have noted, this heterogeneity makes it difficult to subsume SME governance under a single comprehensive model (Uhlener et al., 2007; Ingley et al., 2017; Karoui et al., 2017).

One major source of variation concerns ownership and funding structures. The governance needs of a venture-backed firm differ markedly from those of a family-controlled business or a small owner-managed firm. Garg and Furr (2017), for example, draw a useful distinction between professionally funded entrepreneurial ventures and more traditional small or family businesses. Even when both are small in size, the presence of external investors in the former tends to introduce stronger accountability pressures, more formal decision processes, and greater demand for structured governance arrangements. In many traditional SMEs, by contrast, ownership and management remain highly concentrated, and governance is more likely to be embedded in personal authority, informal routines, and close relational ties.

Heterogeneity in SMEs is not only structural; it may also reflect different organizing logics or governance ideologies. Gabrielsson et al. (2020), for example, suggest that small firms may be guided by different dominant orientations, including entrepreneurial, managerial, and family-based logics. This insight is useful because it helps explain why firms facing apparently similar structural conditions may still favour different governance arrangements. A founder-driven entrepreneurial logic may privilege flexibility, informal coordination, and personalized authority, whereas a stronger managerial or investor-

oriented logic may support earlier formalization, clearer role differentiation, and more structured accountability mechanisms. A family-centred logic, in turn, may attach greater weight to continuity, trust, and relational control. This does not replace structural explanations of heterogeneity but complements them by showing that variation in SME governance also reflects different underlying conceptions of how the firm should be directed and controlled.

These differences also shape the organizational forms through which governance is exercised. In some SMEs, more formal arrangements may emerge, but they are far from universal and do not necessarily perform the functions typically associated with boards in large corporations. As Karoui et al. (2017) suggest, some boards are closer to a formal or symbolic device than to an effective site of strategic challenge or accountability. In many SMEs, governance therefore remains embedded in founder authority, informal routines, internal control practices, and close stakeholder relationships rather than in a formal governing body alone (Uhlener et al., 2007; Karoui et al., 2017; Handley and Molloy, 2022).

Variation also arises from differences in organizational maturity. Statistical definitions based on size, turnover, or assets may be useful for policy purposes, but they are often too rudimentary for governance analysis. Firms of similar size may differ substantially in internal complexity, delegation patterns, reporting systems, and decision styles. This is why the proximity-based view developed by Torrès and Julien (2005), and later extended by Ingley et al. (2017), is particularly helpful. Instead of defining SMEs solely through quantitative thresholds, this approach emphasizes forms of proximity that shape governance realities: the overlap between owners and managers, solid stakeholder ties, and the central role of the founder or owner-manager in coordinating the organization. It also introduces the idea of organizational maturity, understood not simply in terms of age, but in terms of decentralization, specialization, informational complexity, and the degree to which the firm has moved beyond highly personalized forms of control.

Seen from this angle, the relevant question is not simply whether a firm is “small”, but how its structure conditions its governance needs. In governance terms, what matters is whether authority remains highly personalized, whether information flows are largely informal or increasingly systematized, whether outside stakeholders exert meaningful influence, and whether the firm has developed internal mechanisms capable of supporting continuity, accountability, and growth. Heterogeneity, in other words, is not a secondary complication in SME governance research. It is the central empirical condition that any useful framework must be able to accommodate.

3.2. Organizational transitions and the changing role of governance

Heterogeneity, however, is only part of the story. Governance in SMEs must also be understood as temporally evolving. As firms develop, their decision-making needs, accountability demands, and coordination problems change. This is precisely where organizational life-cycle (OLC) theories become critically useful. Although these theories

differ in how they specify stages, they broadly share the view that firms move through periods characterized by different combinations of strategic priorities, resource constraints, managerial styles, ownership challenges, and organizational structures (Churchill and Lewis, 1983; Miller and Friesen, 1983; Amin et al., 2021).

The underlying logic is familiar, but still important. Early-stage firms typically operate under severe resource constraints, rely heavily on the founder, and coordinate activities through informal arrangements. As firms grow, complexity increases. More employees, more specialized tasks, a wider external interface, and greater operational interdependence make informal governance more difficult to sustain. At that point, issues such as delegation, internal controls, strategic discipline, managerial professionalization, and stakeholder accountability become more salient. Governance changes, then, not because SMEs mechanically replicate the structures of large corporations, but because growth alters the conditions under which decisions must be made, justified, and monitored.

At the same time, the life-cycle literature warns against overly deterministic stage models. Phelps et al. (2007) make this point clearly when they argue that firm development is rarely linear, predictable, or unidirectional, and therefore prefer the notion of organizational “states” to that of fixed stages. This caution is especially important in the SME context, where growth trajectories are often uneven, reversible, or deliberately constrained. Some firms professionalize quickly, others remain intentionally small, and still others oscillate between expansion, consolidation, and retrenchment. For governance research, the implication is straightforward: transitions should be treated as contingent and path-dependent rather than as universal sequences through which all firms pass in the same way.

Even with that caveat, the OLC perspective remains highly valuable because it clarifies why governance should be expected to vary over time. Ingley et al. (2017) make this point explicitly by linking SME growth trajectories and transition points to changing governance demands. Their central insight is that governance becomes especially salient at moments when prior arrangements are no longer sufficient for the firm’s level of complexity or ambition. Such transitions may be triggered by external financing, succession, strategic renewal, professional management, or the need for more standardized internal processes. Under these conditions, governance may shift from founder-centred and largely informal decision-making toward more distributed, disciplined, and accountable arrangements.

More recent work reinforces this transition-based view. Lang and Wirtz (2022) show that nascent boards in venture-backed firms may emerge very early, as stakeholder complexity increases, suggesting that governance can become formalized before the classic separation of ownership and control fully materializes. Lepage and Tarillon (2025), in turn, argue that governance and growth may evolve simultaneously rather than sequentially. Their evidence is useful precisely because it shows that governance does not need to wait until firms become large or organizationally mature in any conventional

sense. It may emerge when growth creates pressures that existing managerial and organizational resources can no longer absorb.

The broader implication is that governance in SMEs should not be understood as a binary condition, present or absent, but as an evolving configuration of mechanisms that becomes more or less formalized as firms confront new coordination and accountability challenges. In some cases, governance adoption is reactive, introduced only when existing informal arrangements begin to fail. In others, it is more proactive, with firms adopting structures, routines, or advisory bodies in anticipation of growth, financing, or succession needs. This distinction matters because it shifts attention away from the mere existence of a board and toward the underlying function of governance at different organizational moments.

Taken together, the heterogeneity and organizational life cycle literatures point in the same direction: governance in SMEs cannot be adequately understood through a static or universal template. Instead, governance emerges as a contingent response to firm characteristics and evolving organizational needs. Figure 1 synthesizes this argument by conceptualizing corporate governance in SMEs as a dynamic configuration of formal and informal mechanisms, shaped by firm heterogeneity and organizational transitions, that structure decision-making and accountability. Specifically, variation in ownership, funding, structure, and maturity, together with transition pressures such as growth, professionalization, succession, or external financing, gives rise to different governance configurations. These configurations combine formal mechanisms (such as boards, management teams, and reporting systems) with informal mechanisms, including ownership arrangements, relational governance, and founder authority. Their interplay structures decision-making and accountability, ultimately shaping governance outcomes such as discipline, resource mobilization, and organizational adaptation.

The figure should be understood as an organizing framework rather than a deterministic model, highlighting how governance mechanisms interact with organizational conditions to produce different governance outcomes.

[Insert Figure 1 about here]

The framework shifts the analytical focus away from the presence of boards and toward the broader set of governance mechanisms that become salient under different organizational conditions.

4. The board paradox and the need for a broader governance lens

Once governance is understood in these broader terms, the over-centrality of the board in the SME literature becomes easier to see and more difficult to justify. This creates a central paradox in the field. On the one hand, scholars have long recognized that many SMEs either have no board at all or only a nominal one. On the other hand, the dominant

theoretical and empirical vocabulary of governance still tends to treat the board as the apex of the firm's decision-making structure (Machold et al., 2011). In this sense, the board occupies in SME governance research a position similar to that of agency theory: both remain highly influential despite their limited generalizability in small-firm contexts (Brunninge et al., 2007; Uhlaner et al., 2007; Li et al., 2020; Handley and Molloy, 2022).

The empirical basis for this paradox is well established. Prior work has shown that formal boards are absent in a large proportion of SMEs, and that, even when boards exist, they may perform only limited or symbolic functions. Karoui et al. (2017) describe one recurring configuration as a "legal fiction" board, namely a body that exists formally but is largely composed of relatives or close associates of the owner-manager and does not necessarily operate as an effective site of strategic challenge or accountability. Uhlaner et al. (2007), similarly, report that boards are present only in a minority of SMEs, even among relatively larger firms within that category. These findings are difficult to reconcile with a governance framework that treats the board as the natural point of departure for analysis (Karoui et al., 2017; Uhlaner et al., 2007; Garg and Furr, 2017; Handley and Molloy, 2022).

The continuing centrality of the board in the literature is not difficult to explain. Boards are visible, theoretically familiar, and readily incorporated into established governance frameworks. Agency theory privileges them as monitoring devices; resource dependence theory highlights their advisory, legitimizing, and networking roles; and life-cycle approaches frequently interpret governance development through changing board functions over time. The problem arises when that analytical convenience is mistaken for general applicability in the SME context. Even studies that move beyond static large-firm assumptions often continue to treat the board as the main organizational venue of governance (Machold et al., 2011; Gabrielsson and Huse, 2005; Gabrielsson, 2017; Li et al., 2020).

This board-centred inheritance becomes problematic when generalized to SMEs as a whole. In many such firms, governance is enacted through a wider set of mechanisms: ownership arrangements, founder authority, management-team interactions, reporting routines, informal consultation, stakeholder relationships, family dynamics, and other internal control processes that do not necessarily crystallize into an active board. Restricting governance analysis to boards therefore risks excluding a large share of the SME universe or, alternatively, mischaracterizing how authority, challenge, and accountability are actually organized. The problem is not merely one of empirical undercoverage; it is also one of conceptual distortion (Brunninge et al., 2007; Uhlaner et al., 2007; Handley and Molloy, 2022; Gabrielsson et al., 2020).

This does not mean that boards are unimportant in SMEs. Their significance is contingent. In some firms, especially those with external equity investors, increasing stakeholder complexity, or strong growth ambitions, the emergence of a formal board may be both functional and consequential. Lang and Wirtz (2022), for instance, show that in venture-backed firms the board may emerge very early as a response to the complexity generated by multiple financing rounds and a more diverse shareholder base. Their analysis is

valuable because it suggests that governance can become formalized before the classical separation of ownership and control fully materializes, and that board creation may itself accelerate organizational formalization. That logic, however, is most convincing for a specific subset of firms: professionally funded entrepreneurial ventures, and should not be generalized too quickly to SMEs as a whole (Lang and Wirtz, 2022; Garg and Furr, 2017).

The distinction between venture-capital-backed firms and more traditional small or family businesses is therefore crucial. External capital typically imposes stronger accountability requirements and may make more formal governance arrangements necessary at an earlier stage. By contrast, in owner-managed and family-controlled firms governance may remain embedded for longer in proximity-based relations, founder authority, and informal routines. The analytical mistake is thus not to study boards, but to assume that the venture-backed trajectory defines the normal path of governance development across the broader SME population. Once heterogeneity is taken seriously, the board can no longer function as the universal proxy for governance (Garg and Furr, 2017; Ingley et al., 2017; Handley and Molloy, 2022).

For this reason, the board is better understood as one possible governance mechanism within a broader governance repertoire, rather than as governance itself. Governance in SMEs includes not only ownership, boards, and executive compensation, but also management teams, reporting systems, auditing, and the wider regulatory and normative environment, including governance codes for unlisted firms (Gabrielsson et al., 2020). That formulation is particularly helpful because it preserves the board where relevant but prevents it from monopolizing the concept of governance. It also aligns closely with Handley and Molloy's (2022) argument that a broad conception extending governance beyond the board is especially useful in the SME context.

A broader lens also resonates with behavioural and process-oriented views of governance. Roberts et al. (2005) place accountability at the centre of governance effectiveness, while Huse (2005a) similarly treats governance as an accountability-creating process rather than as formal compliance alone. This emphasis is especially relevant in SMEs, where governance often operates through interaction, justification, and informal discipline rather than through elaborate formal structures. In a similar spirit, Hambrick et al. (2008) argue that the domain of corporate governance is itself evolving, and Filatotchev and Wright (2017) explicitly call for governance research to move toward a "governance as process" perspective. Taken together, these contributions support a move away from an organ-based view of governance and toward a more functional and practice-based one.

Adopting this broader lens has two implications. First, the key research question shifts from whether an SME has a board to which governance mechanisms become salient under different ownership structures, funding conditions, and transition pressures. Second, it allows for the analysis of governance adoption as a gradual, uneven process. Governance mechanisms may accumulate, overlap, and change function over time. In some firms, board creation is a late-stage formalization step. In others, governance evolves without a strong board at all, through more robust reporting, greater role

differentiation, advisory structures, or clearer accountability routines. This view is consistent with the transition-based literature discussed earlier, including the possibility that governance adoption may be reactive or proactive rather than following a single deterministic sequence (Ingley et al., 2017; Lepage and Tarillon, 2025; Gabrielsson et al., 2020).

In this way, the board paradox is not simply an inconsistency in the literature; it is a sign that the field has reached the limits of a board-centred vocabulary for understanding SME governance. The problem is not that boards have received attention, but that other governance mechanisms have received too little. A more adequate conceptualization must therefore begin from governance functions such as decision structuring, accountability creation, strategic support, conflict mediation, and resource access, and only then ask which formal and informal arrangements perform those functions in different SME settings. That move, in turn, allows governance research to engage more seriously with the actual diversity of SMEs rather than implicitly treating either the large-firm model or the venture-backed entrepreneurial model as the hidden benchmark (Gabrielsson et al., 2020; Handley and Molloy, 2022; Li et al., 2020).

This broader perspective also helps bridge the long-observed gap between academic research and practitioner developments. Governance codes and guidance for unlisted firms and SMEs increasingly focus on how firms can structure decision-making, improve accountability, and sustain long-term value creation without presupposing a listed-company template. In that sense, practitioner developments have, in some respects, advanced faster than academic theory in recognizing that governance in SMEs must be wider than boards alone². A conceptual framework that incorporates both formal and informal mechanisms is therefore not only theoretically justified but also closer to the governance problems that SME owners, managers, and advisers confront (Gabrielsson et al., 2020; Roberts et al., 2005; Huse, 2005a).

5. Conclusion

This paper addresses a question that remains insufficiently resolved in the corporate governance literature: how should governance be conceptualized in SMEs when governance mechanisms are heterogeneous, frequently informal, and likely to change across organizational transitions? The central argument advanced here is that governance in SMEs cannot be adequately understood through a static and board-centred framework derived from large, listed corporations. The SME context is marked by ownership–management overlap, substantial variation in funding structures and organizational

² Gabrielsson et al. (2020) lists a series of Governance codes specifically targeting unlisted firms and/or SMEs produced by associations across Europe, beginning with the Buysse Code (Belgium, 2005), the ecoDA₁₂ Code (2010), the AIdAF Code (Italy, 2017) or the QCA Code (UK, 2018), among others, to which we would add Dubai’s SME Code (2011) and IFC’s 2019 SME Corporate Governance Guidebook. The emergence of so many SME CG codes is in line with the calling for the development of CG codes for privately held-firms, which could set CG guidance while considering the heterogeneity of SMEs (Uhlener et al., 2007a).

maturity, and frequent reliance on informal or relational mechanisms of coordination and control. Under these conditions, governance is better understood as a dynamic configuration of formal and informal mechanisms of decision-making and accountability mechanisms than as a fixed, formal architecture.

The paper makes three main contributions. First, it shows that agency-based and board-centred approaches are too narrow to provide a general conceptual foundation for SME governance. The board's persistence as the dominant analytical reference point, despite evidence that many SMEs have no active board at all, reveals the limits of transplanting large-firm governance categories into small-firm settings. Second, it integrates the heterogeneity and organizational life-cycle literatures to explain why governance arrangements vary both across firms and within firms over time. Ownership structure, degree of external funding, proximity relations, organizational maturity, and transition pressures jointly shape the governance problems SMEs face. Third, and most importantly, it advances a broader conceptualization of governance in SMEs. Building especially on Gabrielsson et al. (2020), the paper treats governance as a dynamic configuration of formal and informal mechanisms through which authority is structured, decisions are influenced, and accountability is created in small-firm settings.

A key implication of this argument is that governance in SMEs should not be studied as a binary condition. The relevant question is not whether a firm has governance in the narrow sense of a formal board, but which mechanisms become relevant under different ownership structures, transition pressures, and development paths. Governance adoption may therefore be reactive in some firms and proactive in others.

The paper also suggests that practitioner developments have, in some respects, moved faster than academic theory. Governance codes and guidance for SMEs and unlisted firms already reflect the practical need for governance frameworks that are broader and more context-sensitive than the listed-company template.

Several implications for future research follow from this review. More work is needed on governance mechanisms beyond the board, especially in owner-managed, family-controlled, and non-VC-backed SMEs, and greater attention should be paid to how governance arrangements emerge, accumulate, and change function across transitions. Methodologically, this points toward a stronger role for qualitative, longitudinal, and mixed method designs and, more broadly, toward theoretical pluralism rather than the search for a single dominant model.

This paper has the limitations inherent to a conceptual review. It does not test the proposed framework empirically, nor does it claim to resolve the long-standing question of whether, and under which conditions, governance improves SME performance. Indeed, the literature reviewed here suggests that empirical evidence on that link remains fragmented and inconclusive. The contribution is therefore primarily conceptual: to reframe the discussion and to provide a more adequate basis for future empirical work.

In sum, the paper argues that corporate governance in SMEs is best understood not as a reduced version of listed-firm governance, but as an evolving and context-dependent

configuration of mechanisms through which authority is structured, decisions are disciplined, and accountability is created. Moving beyond board-centred and agency-dominant conceptions is therefore more than a matter of nuance. It is a necessary step if governance research is to engage seriously with the actual organizational realities of SMEs and with the ways in which these firms navigate growth, transition, and survival.

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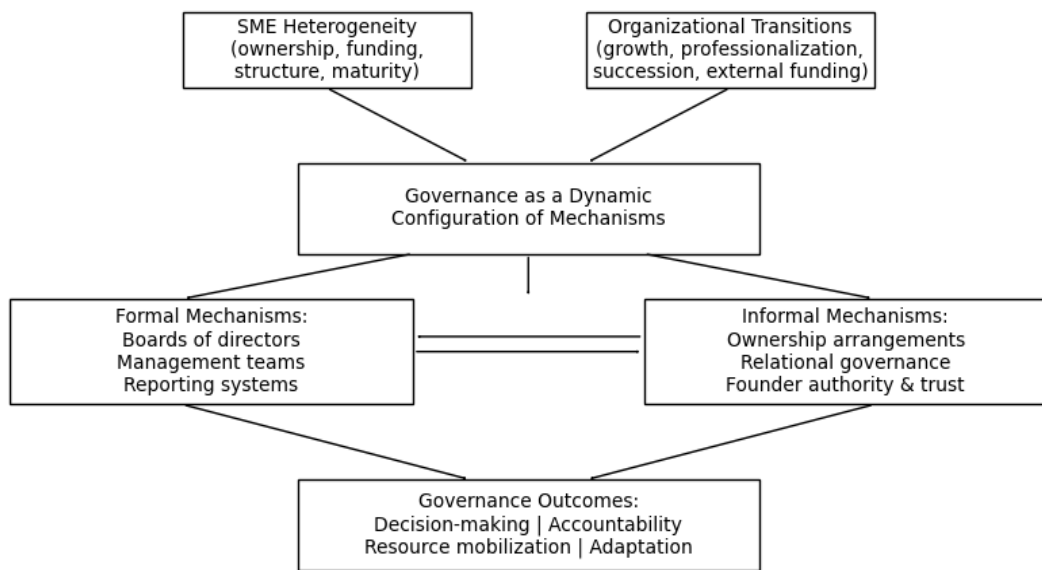
Appendix A. Definitions of corporate governance

Table A1. Representative definitions of corporate governance

AUTHOR	YEA	DEFINITION (CONCEPT/ROLE)
Charreaux	1996	We prefer the definition according to which the CG system covers all the mechanisms that govern the managers' behaviour and delineate their discretionary latitude
Gedajlovic et al.	2004	Governance of an organizational form can be usefully conceptualized as a coherent system of incentives, authority relations and norms of legitimacy.
Huse	2005b	The interaction among internal stakeholders, external stakeholders and the board members in directing a firm for value creation.
Uhlener et al.	2007	'We adopt a broader perspective to encompass the full scope of governance dimensions, which include, in addition to boards and outside directors, the role of owners (both formally and informally), and other governance mechanisms such as executive remuneration, and financial reporting and auditing.'
Larcker & Tayan	2011	Corporate governance is "the collection of control mechanisms that an organization adopts to prevent or dissuade potentially self-interested managers from engaging in activities detrimental to the welfare of shareholders and stakeholders"
Wirtz	2011	[Charreaux's] definition is not focused on the corporate board alone but comprises such diverse mechanisms as instances of direct shareholder control, the top management team (TMT) surrounding the CEO, interpersonal trust, the market of corporate control, the managerial labor market, and legal rules for instance, which all may have a bearing on the chief executive's conduct.'
Zahra	2014	Corporate governance is the set of rules, systems and regulations intended to protect stakeholders', especially shareholders', interests. These rules: define rights and responsibilities of the firm's managers and directors, define how a company is managed, articulate the mechanisms by which directors and stakeholders monitor managers, ensure organizational solvency, and protect corporate assets.'
Tihanyi et al.	2014	We refer to governance as leadership systems, managerial control protocols, property rights, decision rights, and other practices that give organizations their authority and mandates for action.
Gabrielsson	2017	While definitions of corporate governance vary, they typically include the set of systems, principles and processes by which an enterprise is directed and controlled ((...))
Li et al	2020	We follow Charreaux (1997, p. 421) in defining corporate governance as the set of mechanisms that define powers and influence decisions of the chief executive and therefore includes corporate boards, shareholders, and top management teams.

Note: The table summarizes selected definitions of corporate governance discussed in the literature and illustrates the shift from narrower board- and shareholder-centred views toward broader conceptions emphasizing decision-making, accountability, organizational relationships, and value creation.

Figure 1. Corporate governance in SMEs as a dynamic configuration of formal and informal mechanisms



Note: The figure is the authors' own elaboration. It conceptualizes governance in SMEs as an evolving configuration of formal and informal mechanisms shaped by firm heterogeneity and organizational transition pressures