

# **A qualitative content analysis of SME governance:**

## **Linking SME governance and growth research**

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### **Abstract**

We examined scholarly and practitioner work to identify a definition of governance relevant to the small business enterprise. In addition, we reviewed growth articles to identify frequently used growth indicators and make inferences to governance literature. In order to ensure that these terms and variables are embedded in practice we examined 12 cases of Dutch SME firms in the process of growth using a textual analysis methodology. In addition, we inquired 15 accountants/advisors on their experiences with Dutch SME firms as their clients. The combination of a thorough literature review with the collected surveys and interviews from two independent sources (SME owners/managers and SME accountants/advisors) allows us to triangulate data. We provide a tentative framework identifying nine preliminary governance categories.

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Keywords: *SMEs, governance, growth, small firms*

## **1. INTRODUCTION**

SMEs worldwide are challenged by internal and external changes that require the ongoing adaption of their organization. Increasing complexity of operations, administrative burdens, lack of competent personnel, innovation and good leadership are some of the issues SMEs are struggling with to date (Matser et al., 2013). This adaptation of the organization is discussed both in corporate governance literature as well as in growth research. However, a distinct link between these two fields to understand the development of SMEs as they go through various phases in the growth process has not been made. Governance literature and growth literature are separate research domains. Most corporate governance literature is aimed at studying the effects of boards. This seems to be the focus for large firms as well as small firms. Pugliese and Wenstøp (2007) for example examined how boards fit into the broader framework of governance mechanisms within small firms. Van den Heuvel, van Gils and Voordeckers (2006) similarly state in their paper on board roles within family SMEs that research on boards is “one of the major elements in the governance framework, influencing firm outcomes”. Although board roles may be important, in order to understand the governance configuration of SMEs one has to take a broader perspective and take other elements into consideration as well. This study contributes to existing literature by connecting governance mechanisms with firm growth, especially for small and medium-sized enterprises. By identifying ‘good’ governance mechanisms from literature and inquiring CEOs of growing SMEs whether they apply these mechanisms and finally inquiring to what extent accountants/advisors recognize these mechanisms at their growing SME clients, we aim to provide insights into the governance configuration of growing Dutch SMEs. Particularly as failing companies are

characterized by bad governance practices (de Boitselier, 2004; CBS, 2008; Hessels and Hooge, 2006). SMEs are the focus of our analysis as they are the drivers of the Dutch economy covering 99% of all Dutch firms (CBS, 2015). Our literature review shows nevertheless that very few SME governance studies are conducted in the Netherlands.

The contribution of this study is two-fold. First, we provide a definition of governance relevant to the small business enterprise. Our literature review illustrates that a clear definition of governance applicable to SMEs is lacking as current definitions of corporate governance are aimed at large firms dominated by agency theory. Second, we provide a framework that draws inferences between SME growth and governance studies identifying nine preliminary governance categories. An initial exploratory study is performed to determine to what extent the definition and the nine governance categories are recognized by 12 entrepreneurs and 15 accountants, all witnessing growth themselves.

## **2. THEORY DEVELOPMENT**

Our framework is built in three distinct steps. We start by examining corporate governance and SME governance literature and provide an overview of theoretical, empirical and practitioner work on commonly used governance definitions and governance mechanisms. Following, we review SME growth literature and identify possible inferences between the effects of governance mechanisms and the antecedents of firm growth. Finally, we summarize the theoretical findings in a preliminary governance and growth framework.

### *2.1 Corporate governance literature*

Corporate governance arose as a response to a range of corporate scandals aiming to win back the public's trust (Hessels and Hooge, 2006). The vast amount of corporate

governance literature is subsequently aimed at large listed firms. Corporate governance definitions mainly focus on the monitoring function of governance as a result of the agency problem between shareholders and board members or the independent management (e.g. Berle & Means, 1991; Shleifer & Vishny, 1997). This agency problem is less apparent within small firms where there often is no separation between ownership and management. CEOs generally make important (strategic) decisions within these firms indicating a centralized decision-making style (Daily and Dalton, 1992). Gedajlovic et al., (2004) argue that reducing the unique characteristics of SMEs to a smaller version of large firms based on monitoring the principal-agent relationship seems deficient. They conclude that research benefits more from a realistic conceptualization of governance that goes beyond the narrow view often used in corporate economics and finance. We aim to contribute to literature through conceptualizing SME governance by including the experiences of practitioners in our study. Our main research question is: How does the theoretical terminology of governance relate to the practical meaning of SME governance in the process of growth?

## 2.2 SME governance literature

Our literature review shows that a common agreed upon definition of SME governance is currently lacking as most articles did not include a definition at all. In papers defining governance, a variety of terms are used. Flowers et al. (2013) define governance in terms of *a guiding system*. Gill et al. (2012) on the other hand define governance based on its objectives. According to them governance within small businesses is aimed at *achieving successful operations*. Kyereboah-Coleman and Amidu (2008) and Mayegle and

Ngah (2014) similarly define governance based on its objectives. However, they argue that this objective is *monitoring the principal-agent relationship* to reduce agency costs. Uhlaner et al. (2007) contend that corporate governance is not only about monitoring agents, but also about facilitating entrepreneurship within the privately held firm.

The majority of Dutch SMEs (over 90%) have less than 50 employees (CBS, 2016). Firms of this size, even private limited firms and partnerships, have a light regime of conformance governance as defined by the Dutch Enterprise Law. Neither supervisory boards nor workings councils are mandatory nor actually in place (Matser et al., 2013). Agency problems generally do not occur between shareholders and managers in most small companies due to the fact that most SME owners are the sole or majority shareholders, or in cases of partnerships and sole proprietorship possess all assets.

To include both the principal-agent issues and the success facilitating aspects of governance, we turn to a more comprehensive definition of SME governance. The International Federation of Accountants (IFAC, 2009) defines governance as:

*“The set of principles and practices exercised by the board and executive management with the goal of (a) providing strategic direction, (b) ensuring that objectives are achieved, (c) ascertaining that risks are managed appropriately, and (d) verifying that the firm’s resources are used responsibly. **Conformance:** compliance with laws and regulations, best practice governance codes, accountability, and the provision of assurances to stakeholders in general. **Performance:** policies and procedures that (a) focus on opportunities and risks, strategy, value creation, and resource utilization, and (b) guide an organizations decision-making.”*

The definition entails two dimensions of governance. The conformance dimension, proposing a historical view of governance directed at compliance with laws and regulations, and the performance dimension of governance providing a more forward-looking and entrepreneurial view focused on opportunities and value creation. This is in line with studies by Uhlaner et al. (2007) and Keasey et al. (1997) who mention that corporate governance is, amongst others, directed at enhancing business prosperity. The

duality function of governance that Uhlaner et al. (2007) refer to is also reflected in this definition. However, we could not find published empirical studies that test this duality assumption within SMEs. Practitioner work does indicate that SMEs apply governance practices mainly to enhance performance (ACCA, 2015).

### *Governance mechanisms*

As previously mentioned, the majority of SME governance studies are on board roles. We do not aim to deliver a complete overview of all studies on board roles within SMEs. The list would be too exhaustive. Rather, we aim to identify important governance mechanisms and studies that increase our knowledge of SME governance. An overview of the literature in this field is provided in Appendix 3. De Maer, Jorissen and Uhlaner (2014) found that SMEs with an independent board chair and longer tenured directors with fewer outside directorships are less likely to become bankrupt. Dimitratos et al. (2009) measured the impact of management control systems on the average sales growth of Greek SMEs using a case study methodology and found that successful firms are characterized by situational decision-making, outcome-oriented incentive systems and performance monitoring mechanisms. Uhlaner, Flören and Geerlings (2007) found a positive relationship between owner attitudes, commitment and shared norms with the financial performance of 233 Dutch SMEs confirming stewardship theory and social capital theory. The studies are based on a variety of theoretical perspectives including agency theory, stewardship theory, the knowledge-based view, group-decision making literature and resource-dependence theory. Furthermore, they include either formal mechanisms of control (e.g. incentives) or informal mechanisms of control (e.g. trust). Spraggon and Bodolica (2015) present a framework of different governance modes arising from different

levels of moral reasoning such as formal-, relational- (informal) and self-regulatory governance mechanisms. Firms may choose one of these governance modes or a combination to guide their firms. We argue that these different levels of governance are contingent on the growth phase that firms go through. Filatotchev, Toms and Wright (2006) similarly state that research on adaptations of governance mechanisms to phases of the life-cycle should move away from the purely agency based monitoring function of governance towards a resource-based and resource-dependence view. As our literature review illustrates (see Appendix 3), the resource-based view and resource-dependence theory are prominently present in SME growth literature.

### *2.3 Growth literature and its connection to SME governance research*

Wiklund, Patzelt and Shepherd (2009) present an integrative model of small business growth based on the resource-based view (including human capital theory) that includes firm resources (e.g. board size), entrepreneur's resources (e.g. human capital of the CEO) and network resources (e.g. strategic alliances) influencing the entrepreneurial orientation and subsequently small firm growth. Delmar et al. (2003) argue that the manner in which small firms grow is dependent on the age of the firm, the firm size and the industry in which it operates. Greiner's growth model (1972) shows that firms go through different phases in the firm's life-cycle. Matser et al. (2013) have simplified Greiner's (1972) growth model and linked the phases that the firm goes through with the degree of professionalization of the family SME firm. Furthermore, literature on thresh-hold firms indicates that growing firms will at some point enter the professionalization phase as the way in which the company has been led since start-up is no longer future-proof (e.g. Daily

and Dalton, 1992; Gedajlovic et al., 2004). The more complex and larger business environment demands a different governance approach, including professionalization of processes, to ensure the continuity of the firm. Hence, both growth and governance literature indicate that a reciprocal relationship between SME governance and growth exists. For example, Penrose's theory of firm growth (1959) distinguishes between different types of growth in the growth phase, namely organic growth (through use of internal resources) and acquisitive growth. Penrose (1959) states that there are adjustment costs related to growth, such as integrating new operations. Later, Penrose's theory of firm growth was extended with a third form of growth by Lockett et al. (2011), namely hybrid growth (e.g. alliances, partnerships). Through network relationships firms can obtain complementary resources and new information to identify and act upon new growth opportunities. Although Greiner's growth model (1972) does not account for different modes of growth, it is important to consider as guiding a firm through an organic growth phase may be substantially different than guiding a firm through an acquisitive or hybrid growth phase where more formal governance mechanisms may be required (e.g. legally binding contracts, increased management control systems). An overview of growth literature and its connection to governance literature is presented in Appendix 4. We identified nine categories linking SME governance and growth research. These are integrated in our theoretical framework presented in Figure 1. The framework includes both formal and informal/relational governance mechanisms.

(Insert Figure 1 about here)

### **3. METHODOLOGY**



## **Sample**

In order to be included in the present study firms had to comply with the following conditions: (1) have less than 250 employees, a turnover smaller than EUR 50 million and/or a balance sheet total less than EUR 43 million (conform the EU definition of SMEs); (2) be headquartered in the Netherlands and (3) have grown in the past five years in terms of revenue and/or FTE. Employment growth and sales growth are important determinants of firm growth and have a high correlation as previous research implies (Delmar et al., 2003). Therefore, these figures are used interchangeably. The average turnover growth for Dutch SMEs over the past 5 years is 3% (CBS, 2015; SRA, 2017). We are not interested in examining high-growth firms as research indicates that high growth cannot be sustained in the long-run (Penrose, 1959). One firm in our sample has an incremental growth of 10% over the past 5 years. Although not a high-growth firm, the company exists for 82 years and can provide valuable insights to this exploratory study. The more as survival rates of Dutch SMEs are relative low compared to other European nations (Muller et al., 2014).

The selected sample in our study consists of 27 SME firms. These firms can be split into two sample groups, namely accounting/advisory SME firms and SME firms operating in other sectors. Snowballing, a non-probability sampling method, was used to obtain our data as access to partners of SME accounting firms can be challenging. In total 15 accountants/advisors participated in the study serving SME clients in seven out of the twelve provinces in the Netherlands. The accountancy/advisory firms consist of 53% small firms (10 to 50 employees) and 47% medium-sized firms (50 to 250 employees). The average firm age equals 24 years and the average number of employees 57.

We also conducted individual interviews with CEO's of 12 growing SMEs. Participants were also selected on a non-probability sampling method. We targeted SMEs that grew organically, through an acquisition or in a hybrid manner. It was challenging to find firms that grew in a hybrid or acquisitive way as most SMEs tend to grow in an organic fashion (Davidsson and Delmar, 1997). The average firm age equals 19 years and the average number of employees 43. The interviewed CEO's either founded the company (67%) or bought ownership (33%). The majority of them started an enterprise earlier (58%). Of the enterprises, 58% operates abroad whereas 42% operates domestically. Just 17% of the firms have a formal advisory board in place. Further descriptive information is included in Table 1.

(Insert Table 1 about here)

### **Research approach**

A qualitative content analysis is used to compare the concept of SME governance in theory to our research results. We started by examining governance literature to identify commonly used governance definitions. We searched for the following keywords and their Dutch translations in the search engine Google Scholar as well as the academic databases Science Direct, Business Source Complete, Academic Source Complete, Emerald Publishing, Kluwer Publishing and WorldCat: "SME governance", "SME management", "Smaller and medium-sized and governance", "Corporate governance and SMEs". Furthermore, we looked at the reference list of obtained papers to identify additional studies on the topic. The preliminary definition that we chose is the practitioner definition of the International Federation of Accountants (IFAC, 2009) which separates the conformance aspect of governance from the performance aspect of governance. The

definition links well with governance literature (e.g. Uhlaner et al., 2007; Keasey et al., 1997) as well as with growth literature (e.g. Penrose, 1959). Next, we organized a review session with three other senior researchers and three SME entrepreneurs and consultants to discuss the proposed definition. All participants agreed upon going forward with the IFAC definition. The next step was to create a preliminary framework integrating governance mechanisms with growth indicators. For this purpose we reviewed 50 articles on SME governance between 1998 and 2016. We excluded a total of 14 articles because these papers did not include SMEs as a sample group or did not provide relevant theoretical contributions to governance. A summary of our final overview of SME governance articles is presented in Appendix 3. Next, we reviewed 34 articles on SME growth between 1985 and 2014. Based on this review we identified and grouped frequently used governance and growth indicators into nine main categories and presented them in a preliminary framework in Figure 1.

### **Development of indicators**

Based on our total literature review we developed a coding scheme which is displayed in Appendix 2. The relevant themes and categories in our coding scheme were deductively derived from terms used in existing literature as stipulated by Strauss and Corbin (2008). The categories were inserted into Atlas.ti upfront. In total 22 coding labels were created (7 related to the definition of SME governance and 9 from the developed framework). Next, we developed a survey that included closed-ended questions and open-ended questions capturing our 22 predetermined indicators. A number of example questions are included in Appendix 1. Two versions of the survey were developed. The

first version was directed towards accountants/advisors and asked participants to fill out the survey based on their experiences with their growing SME clients. The second version was directed at CEOs requesting them to fill out the survey based on their own experiences within their firm. In this way we can compare the literature to the thoughts and experiences of SME entrepreneurs as well as the experiences of practitioners (accountants/advisors) with these SME entrepreneurs allowing for data triangulation. After the survey was adjusted we prepared an interview protocol for our semi-structured interviews. Topics included in the protocol were derived from our literature review in order to answer our main research question. For an impression of interview questions, refer to Appendix 1.

### **Data collection**

We organized two sessions with SME accounting/advisory firms to discuss the concept of governance and the preliminary framework. The first session included eight participants. The second session included seven participants. All participants signed a confidentiality agreement regarding the content of the discussion. At the start of each session we distributed the survey. The open-ended questions referred to the definition of governance and which elements of the definition the participants found important for growing SME firms. The closed-ended questions asked participants to rank the nine elements presented in Figure 1 on a scale of 1 to 10 to the extent to which they recognized these elements for SMEs in the process of growth. After the participants filled out the surveys we collected them and began the group discussion. The discussion was not recorded due to confidentiality agreements, but one researcher typed along during the discussion and the other researcher led the discussion.

After collecting the data from our first sample group, we prepared for our interviews with CEOs of Dutch SMEs. Semi-structured interviews were deemed an appropriate data collection technique as they are used in earlier research when trying to capture a latent concept, such as the multi-dimensional concept of Corporate Social Responsibility, in a participants' own words and experiences (Johnston & Beatson, 2005). We approached suitable candidates through LinkedIn or per e-mail explaining the background and purpose of the study. After the participants agreed to participate in the research, we sent them the survey per e-mail and asked them to fill it out and return the survey before the scheduled interview took place. At times it was difficult to schedule a one-hour interview due to the busy schedules of the CEOs and some interviews had to be rescheduled multiple times. This whole process from identifying suitable candidates to contacting them, scheduling an interview appointment to actual data collection was time consuming and limited the amount of interviews that could be conducted within a timeframe of three months.

Furthermore, from researching the internet we could not find key company facts (e.g. employees/revenue) as Dutch SMEs are not required to publish these figures. Hence, we relied on the interviews to learn about our target group. The interview questions had an open nature. Individual responses cannot be traced to the participants nor their firms as data is either presented in an aggregate form or made anonymous. Interviews were recorded and transcribed for further data analysis.

## **Data Analysis**

The collected qualitative data were entered into a qualitative data analysis program called Atlas.ti for further exploration. Atlas.ti can be applied to any form of text in order to analyze its content and make inferences from the data. The utilized method is especially appropriate when dealing with a multi-faceted latent concept that is difficult to measure using traditional quantitative methods (Miles & Huberman, 1994). The initial coding procedure was performed by the first author and reviewed by the second author. As the coding labels were developed upfront based on existing literature, the content analysis technique was straightforward whereby answers of the 27 respondents were matched to a total of 22 variables. This straightforward procedure resulted in minor differences between the first author and the second author. Differences were resolved by means of discussion or by going back to the respondent for further clarification in order to ensure the correct interpretation of the provided answers. The closed-ended survey questions were quantitatively analyzed using the statistical program SPSS.

#### **4. FINDINGS**

##### **Towards an applied definition of SME governance**

Our qualitative analysis indicates that the majority of our respondents found the performance dimension of governance the most essential, see Table 2. This confirms the literature review outcomes that the narrow view of corporate governance needs to be broadened in order to be relevant to SMEs. Table 2 presents the sub-categories of the proposed governance definition ranked on importance. The top 3 elements ranked by accountants/advisors are risk management, focus on opportunities and goal achievement. CEOs on the other hand rank strategic direction, value creation and risk management as

the most vital elements of governance. Results show that conformance aspects were ranked the lowest (e.g. best practice governance codes, compliance with laws and regulations). For a description of these elements refer to our coding scheme in Appendix 2.

(Insert Table 2 about here)

During the group discussion with accountants/advisors we asked what their thoughts were on the proposed governance definition from the perspective of their growing SME clients. The general perception was that respondents appreciated the definition being divided into practical pieces. Furthermore, accountants/advisors mentioned the element ‘focus on opportunities’ approximately 2.5 times more as SME entrepreneurs. One partner of an accounting firm that grew by taking over many small firms stated the following:

*“Growth is strongly determined by the entrepreneur. I see that in my practice. I have built an enterprise from 0 to 100 people. At first I was the only partner, now I have 5 next to me. I do not see those 5 when I am away, turning that 100 into 200 that easily. I have gone through all phases. I have also had to adapt, let things go. You have to do things differently at a given moment. You cannot manage the same way when you are alone as with 2 people. I take chances, if I see something then I will do it immediately.”*

This is in line with Penrose (1959) who states that firms can only grow when entrepreneurs and managers are able to identify and act upon new opportunities. Next, we asked CEOs how they would describe governance in their own words. The description was generally in line with the elements included in the proposed definition. The CEO of firm M stated:

*"I think it's managing the company. Seeing which direction you are headed as a company. Making decisions at a strategic level."*

Furthermore, we asked respondents what they thought of the proposed governance definition and the respondents agreed with the definition. When asked whether they consciously or unconsciously engaged with governance the responses varied. Firm H, a fast growing technology firm included in the Deloitte Fast 50 summarized this well and links the growth phase of the company to the governance configuration of the firm:

*"I think there is a phase in the beginning that you are not so consciously busy with it. Everyone wants the startup mentality and no rules, but as soon as you have a number of people on the payroll, you will not escape the fact that you also have responsibilities as an employer, especially towards your people. Then it becomes increasingly important to follow your company more on the basis of control mechanisms and a matrix. But that is never a goal on its own. In my opinion it should be supportive of your commercial activities and growth and not burdensome. It is a necessary evil to steer the growth in the right direction. If you do not know how your growth is established or you notice too late that the organization is not doing well on certain points. Well, that is of course a great sin. Companies that shout that they have no processes or procedures in place at all, I do not believe. Perhaps they call it differently."*

## **SME governance and growth framework**

### *Network resources*

The social capital theory suggests that network ties provide access to resources necessary for opportunity exploitation (Birley, 1985; Johannisson, 2000; Wiklund et al., 2009). SME accountants/advisors and CEOs on average recognize this mechanism being applied (mean = 8.0 on a 10-point rating scale for both groups). A partner of a medium-sized accounting argued that *"Clients that share/collaborate perform on average better"*. The CEO of firm F stated: *"Partners are important as they allow you to grow without using too much of your own resources. For example, because you can use their network."*

### *Ownership and board structure*

Numerous governance and growth studies focus on the role of boards and ownership (e.g. ownership spread, board independence, board composition, founder influence) supported by agency theory. The results indicate that accountants recognize this category on average more than CEOs (mean = 7.80 versus 6.6 respectively). One advisor argued that *"The board composition is essential to realize growth."* CEOs scored this



somewhat lower as they argued that ownership and board roles are “*pretty clearly divided*”. As only four SME governance studies are conducted within the Netherlands of which only one study linked governance boards with (sales) growth and found no relationship between them, more studies are needed to understand this relationship within the Dutch context.

#### *Responsible and efficient use of resources*

CEOs recognize this mechanism slightly more than accountants/advisors (mean = 7.6 versus 7.0 respectively). One partner stated that when “*resources are limited or not optimally used, this is per definition a constraining or delaying factor in the growth scenario.*” The CEO of firm A explained how they applied this mechanism:

*“The reason that I joined (the firm) is that I obviously saw potential in the company in terms of efficiency and margin improvements and the like. Well, that is one of the things we started working on. And we also said very clearly, we start by getting things in order internally. That there is flow again, that we are operating lean or that the internal scrap goes down. Scrap down and output up before we go out there. Well that is also apparent at the moment that you do more with a team less. That is ultimately an efficiency improvement of about 25 percent.”*

#### *Human capital of the entrepreneur*

Various growth and governance studies centralize the influence and characteristics of the CEO based on the resource-based view and the human capital theory as an extension of this view (e.g. Wiklund et al., 2009). Both accountants/advisors and CEOs recognize this mechanism in practice (mean = 8.3 and 7.8 respectively). A partner of a medium-sized accounting firm founded 20 years ago argued that the human capital of the entrepreneur is “*usually a decisive factor for company success.*” The CEO of firm G stated: “*Without the two entrepreneurs, our company unfortunately cannot continue to exist at the moment.*”

### *Stakeholder management*

Freeman (1984) describes stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. Both accountants/advisors and CEOs recognize this mechanism the least (mean = 5.7 and 5.6 respectively). One partner argued *“It is important, but practice teaches that companies are often internally oriented.”* The CEO of firm F argued: *“We do not do much with it. Perhaps we also have few stakeholders.”*

### *Human capital of the firm*

Various studies recognize the importance of the skills, experience and knowledge of their workforce for small business growth (Brush and Chaganti, 1998; Jennings and Beaver, 1997). CEOs recognized this mechanism more than accountants/advisors (mean = 8.7 versus 7.6). The CEO of firm G founded 7 years ago argued: *“The success of our company is determined to a very large extent by the quality of management and employees. A high level of knowledge is required, but also a lot of skills. The quality of the software with which we execute projects is really secondary.”* A partner commented: *“Human capital supports, but the owner-manager decides.”* Accountants/advisors generally recognize the importance of the human capital of the entrepreneur more than that of the firm whereas for CEOs it is the other way around.

### *Shared values, commitment, trust*

Within the governance literature, topics as shared values, commitment and trust are commonly referred to as relational or informal governance (e.g. Calabro and Mussolino,

Uhlaner et al., 2007). Davidsson (1989a) and Kolvereid (1992) argue that a motivated entrepreneur will perform better since the entrepreneur will dedicate more time and effort into guiding the firm to growth. Polasek (2010) states that employee relationships within SMEs are more family based than in large firms with greater cohesion. CEOs ranked this category higher than accountants/advisors (mean = 8.9 versus 7.5). One CEO argued:

*“We have a manual for new members of the club where our values and standards are described, how we deal with each other. Employees are also assessed on this, and for the most part this is also their annual bonus. A committed and motivated employee is crucial to our success. The trust is 100% until it is ashamed. This has never happened as far as I know.”*

An advisor argued: *“If there is trust in the CEO, people are willing to go the extra mile.”*

### *Strategic direction and renewal*

Having a clear direction for the company and being able to adapt to the changing environment is discussed in various studies (e.g. Witek-Crabb, 2014). All CEOs but one indicated that they have a clear direction for the future. Different authors found a positive relationship between strategic renewal/innovation and SME performance (e.g. Lisboa et al., 2011; Bierwerth et al., 2015). CEOs ranked this category higher than accountants/advisors (mean = 8.5 versus 6.9). A partner argued that SMEs *“have this in sight, but struggle with the how question”*. The CEO of firm G stated the following:

*“Our mission is satisfied employees who make the most out of themselves and satisfied customers. Our strategy is to provide the best price / quality ratio through low-threshold technology so that companies can take over the wheel in combination with high-quality training... We receive a subsidy for the innovations we work on and usually introduce them to the market as a product. If required, we can adapt reasonably quickly to the market and we do so. Sometimes it obviously works out better than other times. At the moment we are working on extending our proposition to customers where we work with new, better technology.”*

### *Management control*

According to Dimitratos et al. (2009) decision rights, incentives and performance monitoring affect SME performance. All interviewed CEOs indicated that important decisions are primarily taken by the board of directors and management confirming a centralized authority within SMEs (Daily and Dalton, 1992). Accountants/advisors ranked this category higher than CEOs (mean = 7.4 versus 6.3 respectively). The CEO of company I argued that: *“We do not do this in an objective way yet, more subjectively.”* A partner argued that the *“scale of the client clearly plays a role. The larger the more willing to delegate, the more Management Information Systems will be set up and used.”* Furthermore, Beuselinck and Manigart (2007) reason that young companies are characterized by a lack of formal information systems where a lot of information is in the head of the founder. Based on this we examined the results further and found a significant association ( $p < 0.05$ ) between the number of employees and management control systems as well as between firm age and management control for SME owners/managers based on Spearman’s rho ( $\rho = 0.672$  and  $\rho = 0.615$  respectively).

Finally, we asked participants whether there were any elements missing in the proposed framework. The most frequently named element was the financing structure of firms.

## **5. DISCUSSION**

Based on a thorough review of scholarly and practitioner work on SME governance and growth we identified a definition of governance relevant and useful to small business entrepreneurs. Furthermore, based on our review and surveys/interviews we identified nine interlinked concepts in both governance and growth studies: network resources, ownership

and board structure, responsible and efficient use of resources, HC of the entrepreneur, stakeholder management, HC of the firm, shared values, commitment and trust, strategic direction and renewal, and management control. To reduce the risk of biases occurring, we triangulated data from two different sources: SME accountants/advisors and SME owners. Our results indicate in line with literature on thresh-hold firms (Gedajlovic et al., 2004) that the focus on the monitoring function by agency theorists limits the usability of this theory for SMEs as ownership and control is assigned to one or a few actors. SME owners/managers mentioned that important decisions are ultimately made by them making agency problems less apparent. Furthermore, our results indicate that SMEs put higher importance on using governance to facilitate performance than using governance to conform to set rules and regulations. This confirms previous findings (Hessels and Hooge, 2006) that governance should be useful for the entrepreneur themselves to increase their overview and monitor the development of the firm. Hence, we propose a resource perspective in combination with a social networking perspective when dealing with governance and growth within SMEs. We do not suggest a one-best fit model of governance to exist for all firms. The governance configuration of the firm should be contingent on the institutional context (that may affect the formal/informal ratio of governance mechanisms applied), the growth phase the company is in the life-cycle as well as the growth mode. Our results confirm this as a significant correlation between management control, firm age and firm size was found based on Spearman's rho. Starting companies may rely more on informal governance mechanisms, but as the firm grows there is a need for professionalization of processes and more formal mechanisms of control as literature on threshold-firms confirms. Finally, respondents identified the "financing

structure” of the firm as an additional element to our framework. As firms grow, changes in the financial structure of the firm (equity versus debt financing) may occur as access to financing may improve.

### **Limitations**

Considering the relatively small sample size and the fact that the majority of the firms in our sample operate in the services sector, the results limit the generalizability of our findings. However, considering the nature of the study, a foundation is established on which future empirical studies using larger samples can be built upon in order to validate our preliminary framework and test the underlying factor structure of performance governance.

### **Future research**

We suggest to quantitatively test a large SME sample on the factors underlying performance governance. A longitudinal approach is needed to test the relationship between the configuration of performance governance mechanisms, growth modes (organic, acquisitive or networking) and firm survival. In addition sectors (for example capital versus labor intensive firms) may influence the types of performance governance mechanisms organizations use.

### **Practical relevance**

The practical relevance of our conceptual framework lies in the possibility to assess firms in the first two phases of the growth-cycle (start-up, growth). Comparing a firm’s profile by a set of growth-surviving firms in the same sector can act as an early warning and assist CEOs to put effective performance governance mechanisms in place.

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Table 1 - Sample description of SME firms in sample group 2

Firm	Sector	# of Employees	Average growth in past 5 years	Growth mode	Founded/ Bought ownership	# of people in Board of Directors
A	Manufacturing	35	36% revenue growth	Mainly organic (>75%), partly hybrid (joint venture)	Bought	2 (both owners)
B	Wholesale and retail trade	100	10% revenue growth	Mainly organic, partly hybrid (collaboration with foreign company)	Bought	1
C	Food and accommodation	100	38% revenue growth	Organic and through acquisitions	Founded	2 (both owners)
D	Information and Communication	127	113% revenue growth	Organic	Founded	4 (2 owners and 2 external members)
E	Information and Communication	3	50% in past half year	Hybrid	Founded	1
F	Electricity and gas	35	Stable incremental revenue growth of EUR 100k annually. 64% FTE growth in past 5 years.	Hybrid (currently in the process of merging 2 firms)	Founded	2 (both owners)
G	Information and Communication	7,5	Per employee around 100k in revenue growth. FTE growth over past 5 years is 600%.	Organic	Founded	2 (both owners)
H	Information and Communication	40	Over 100% revenue growth	Organic	Bought	3
I	Business services	8	50% revenue growth	Organic	Founded	2 (both owners)
J	Financial services	45	460% revenue growth over a 4-year period. Then sold the company.	Organic	Bought	3
K	Information and Communication	2	100% annual employment growth in past 2 years. Expected growth in 3 <sup>rd</sup> year is 200% and in 4 <sup>th</sup> year 200%.	Organic and hybrid	Founded	1
L	Information and Communication	17	1700% employment growth in 1 <sup>st</sup> year of operations. Expected revenue growth in 2 <sup>nd</sup> year is 400% and in 3 <sup>rd</sup> year 200%.	Hybrid	Founded	2

For categorization of firms into sectors, we used the sectors included in the study conducted on behalf of the European Commission (Muller et al., 2014)

Table 2 - Importance of governance elements identified from the governance definition

**2a: Relative importance of main categories of governance from coding scheme**

Cross-tabulation					
			Most important function of governance		N
			Performance	Conformance	
Occupation	accountant/advisor	% within Occupation	100%	6.7%	15
	CEO	% within Occupation	100%	41.7%	12
Total	Count		27	6	27

Percentages and totals are based on respondents.

CEOs were asked which elements of the proposed definition they found most important for their company. Accountants/advisors were asked which elements they found most important for SMEs experiencing a growth phase. We coded the answers based on what element was mentioned as primarily important. When respondents found both functions equally important, we coded it under both categories.

**2b: Relative importance of sub-categories of governance from coding scheme**

Cross-tabulation			
Most important sub-categories of governance	Occupation respondent		
	accountant/advisor	CEO	Total
Stakeholder assurance	0.0%	30.0%	13.0%
Goal achievement	38.5%	30.0%	34.8%
Focus on opportunities	53.8%	20.0%	39.1%
Resource utilization	23.1%	30.0%	26.1%
Decision-making process	15.4%	10.0%	13.0%
Compliance with laws and regulations	7.7%	10.0%	8.7%
Risk management	61.5%	50.0%	56.5%
Strategic direction	30.8%	60.0%	43.5%
Value creation	7.7%	50.0%	26.1%
Best practice governance codes	0.0%	10.0%	4.3%
Accountability	0.0%	20.0%	8.7%
Valid N	13	10	23

Percentages and totals are based on respondents.

Top 3 sub-categories of the proposed governance definition ranked on importance by accountants/advisors are risk management, focus on opportunities and goal achievement. Top 3 sub-categories ranked by CEOs are strategic direction, value creation and risk management.

Table 3 – Group statistics for indicators derived from theoretical framework

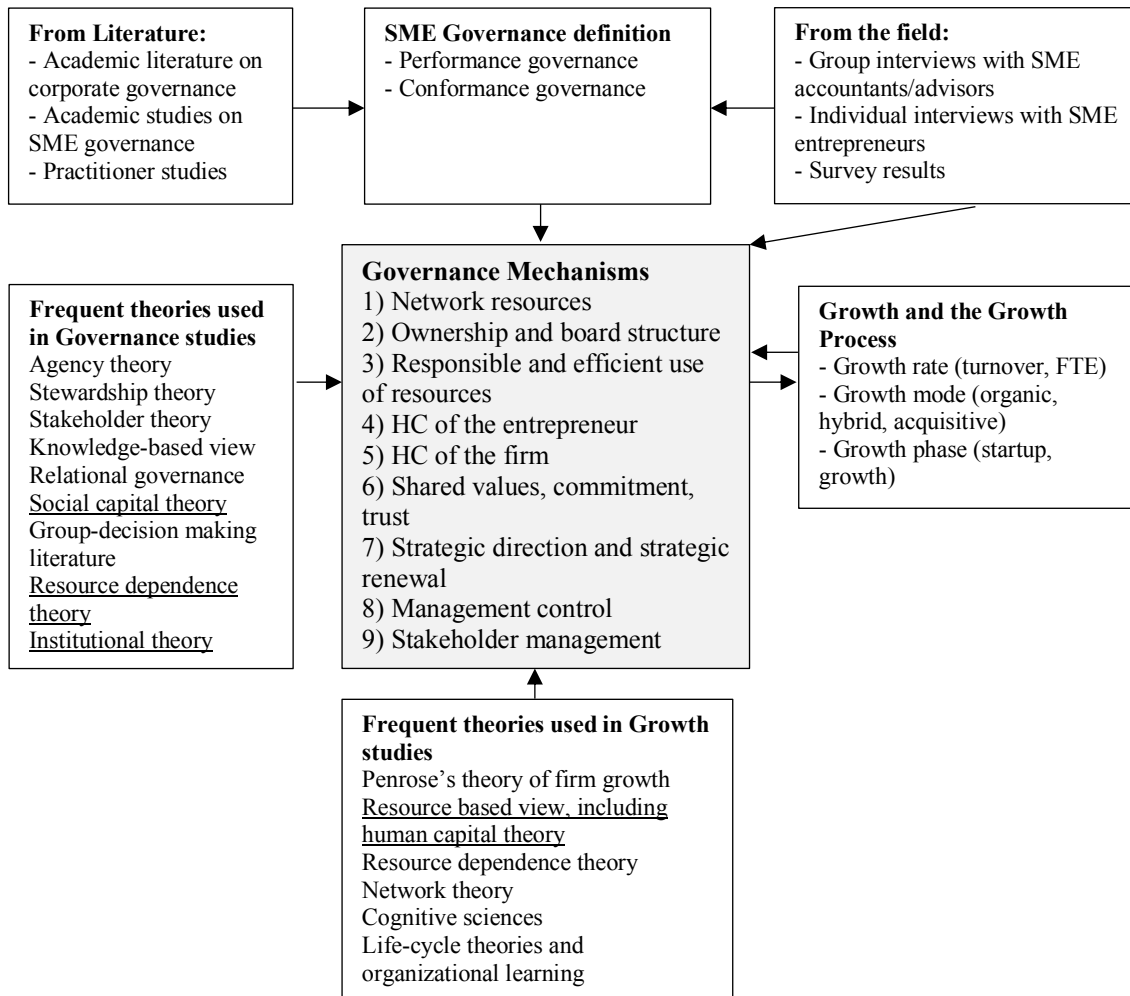
Occupation respondent		Network resources	Ownership and board structure	Responsible and efficient use of resources	HC of the entrepreneur	Stakeholder management	HC of the firm	Shared values, commitment, trust	Strategic direction and renewal	Management control
accountant/ advisor	Mean	8,00	7,80	7,00	8,27	5,69	7,62	7,50	6,93	7,43
	N	15	15	15	15	13	13	14	14	14
	Std. Deviation	1,000	1,265	1,512	1,163	2,016	,870	1,092	1,542	1,089
	Minimum	5	5	3	6	2	6	6	4	6
	Maximum	9	10	9	10	9	9	10	9	9
	Median	8,00	8,00	7,00	8,00	6,00	8,00	8,00	7,00	8,00
CEO	Mean	8,00	6,64	7,58	7,82	5,55	8,67	8,91	8,50	6,33
	N	11	11	12	11	11	12	11	10	12
	Std. Deviation	1,183	2,501	1,240	1,601	2,945	1,303	1,221	1,434	2,462
	Minimum	6	2	5	4	1	6	7	5	1
	Maximum	10	9	10	10	9	10	10	10	10
	Median	8,00	8,00	7,50	8,00	6,00	9,00	9,00	9,00	7,00
Total	Mean	8,00	7,31	7,26	8,08	5,63	8,12	8,12	7,58	6,92
	N	26	26	27	26	24	25	25	24	26
	Std. Deviation	1,058	1,934	1,403	1,354	2,428	1,201	1,333	1,666	1,896
	Minimum	5	2	3	4	1	6	6	4	1
	Maximum	10	10	10	10	9	10	10	10	10
	Median	8,00	8,00	7,00	8,00	6,00	8,00	8,00	8,00	7,50

Accountants/advisors: Rating scale of 1 to 10, where 1 = do not recognize this at all at my growing clients and 10 = recognize this extremely at my growing clients. CEOs: Rating scale of 1 to 10, where 1 = do not recognize this at all at my firm and 10 = recognize this extremely at my firm.



Figure 1

## Preliminary Framework of SME Governance and Growth



## Appendix 1: Survey questions and interview questions

### Example questions directed towards accountants/advisors

Can you indicate on a scale of 1-10 to what extent you recognize the 9 pillars of 'governance' for SMEs in the process of growth?

#### Responsible and efficient use of resources

This examines the extent to which SMEs use their resources responsibly, effectively and efficiently and whether there is room for improvement in order to prevent wastage of resources.

To what extent do you recognize this element on a scale of 1-10?

1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

---

What do you see at your clients?

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#### Management control

This element includes, among other things, the remuneration system within the organization, the way in which performance is measured and monitored, the use of management information systems, risk management and the way in which decisions are made (central vs. decentralized). To what extent do you recognize these elements on a scale of 1-10?

1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

---

What do you see at your clients?

---

### Example questions directed towards SME owner/managers

Can you indicate on a scale of 1-10 to what extent you recognize the 9 pillars of 'governance'?

#### Human Capital of the entrepreneur

This examines the influence of the entrepreneur on his organization. To what extent does his experience, tenure, education and training play a role? To what extent do you recognize this element on a scale of 1-10?

1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

---

What do you see at your own company?

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### Example interview questions

- If you think of governance yourself, what do you think of, how would you call it?
- And if you then look at that definition of the IFAC, what do you think of that?
- Do you consciously engage with governance or is this done more unconsciously?
- Are there any elements of the 9 pillars of governance that you find not relevant for your firm?
- Are there any missing elements that we did not include in the questionnaire?
- Can you explain your ranking behind category X?

## Appendix 2: Coding scheme

THEME		
SME GOVERNANCE DEFINITION		
Main category	Examples	Coding Rules
Performance governance	"For my company, performance is the most important (category). Given the fact that we often work with schools, we certainly need to comply with laws and regulations, especially when it comes to making videos with minors, but value creation and strategy are currently our priority."	Any aspect relating to the performance of the company.
Sub category	Examples	Coding Rules
Strategic direction	"It starts with (a: providing strategic direction), so this is the most important starting point. The SME practice teaches that (d) to check that the resources of the organization are being used in a responsible manner and (c) to establish that the risks are being managed in an appropriate way) will be leading."	Any aspect relating to strategy and the long-term orientation of the firm.
Goal achievement	"Hard to say", emphasis on performance to achieve the objectives, within the governance framework."	Any aspect relating to the firm's set objectives
Risk management	"The performance elements opportunities and risks."	Any aspect relating to risk and management of these risks
Resource utilization	"Strategic direction and having the right resources at your disposal."	Any aspect relating to how resources (e.g. physical resources, network resources, human capital resources, financial resources) are used. Any aspect relating to the responsible use of resources.
Focus on opportunities	"Performance specific: opportunities and value creation. Making profit."	Any aspect relating to opportunities
Value creation	"Manage risks and safeguard interests. Value creation."	Any aspect relating to how the firm creates value (e.g. in financial terms or non-financial terms).
Decision-making process	"Focusing on opportunities and risks, the use of resources, the quality of decision making, the profile of the entrepreneur."	Any aspect relating to how decisions are made.
Main category	Examples	Coding Rules
Conformance governance	"Goals linked to opportunities / risks. Compliance with laws and regulations."	Any aspect relating to conformance, compliance, assurance, accountability.
Sub category	Examples	Coding Rules
Compliance with laws and regulations	"Goals linked to opportunities / risks. Compliance with laws and regulations."	Any aspect relating to compliance (with rules, regulations, laws, internal quality standards).
Best practice governance codes		Any aspect relating to internal set governance codes (e.g. codes of conduct).
Accountability	"We had no external shareholders eh I was a shareholder and my colleagues were shareholders. So in that sense I was only accountable to those people. On the other hand we also had 3 franchise organizations and then we had franchise entrepreneurs and certainly to franchise entrepreneurs you have to be very transparent."	Any aspect relating to the accountability of the firm (e.g. meeting of obligations, transparency).
Assurances to stakeholders	"Manage risks and safeguard interests. I mean all stakeholders. Shareholders, employees, management etc. By doing this as much as possible, value creation also arises."	Any aspect relating to stakeholder assurance.

### Appendix 3: A review of articles on SME Governance

AUTHOR	N	THEORIES	INDEPENDENT VARIABLES	DEPENDENT VARIABLES	MAIN FINDINGS
AFRIFA & TAURINGANA (2015)	234 (UK)	<ul style="list-style-type: none"> <li>• Resource dependence theory</li> <li>• Life cycle theory</li> <li>• Market learning theory</li> </ul>	<ul style="list-style-type: none"> <li>• Board size</li> <li>• CEO age</li> <li>• CEO tenure</li> <li>• Directors remuneration</li> <li>• Proportion of non-executive directors</li> </ul>	Performance	Study on the effects of corporate governance factors on SME performance. Negative relationship with board size and remuneration (for small firms). Positive relationship with CEO age (for medium-sized firms) and tenure.
AL-NAJJAR (2015)	307 (UK)	<ul style="list-style-type: none"> <li>• Trade-off theory</li> <li>• Pecking order</li> <li>• Agency theory</li> </ul>	<ul style="list-style-type: none"> <li>• Governance index (board size, board independence, board meetings, audit size, audit independence, audit meetings, existence of nomination committee, nomination independence, existence of remuneration committee, remuneration independence)</li> <li>• Insider ownership</li> <li>• CEO compensation</li> <li>• Firm specific factors</li> </ul>	Cash holdings	No relationship between the firm governance index, insider ownership and cash holdings. Positive relationship between CEO compensation, R&D ratio and operating risk and cash holdings. Negative relationship between firm size, leverage, liquidity and cash holdings.
BARNIR & SMITH (2002)	149 (US)	Network theory			When networks form into associations then governance mechanisms develop based on similar goals and aims, and over time, an image and credibility status becomes attached to the network.
BEUSELINCK & MANIGART (2007)	270 (BE)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Economic theory</li> </ul>	Proportion of ownership by the private equity investor	Financial reporting quality	Negative relationship. Financial reporting quality has a relationship with PE monitoring, governance and ownership.
BENNEDSEN ET AL. (2008)	7,000 (DK)	Agency theory	<ul style="list-style-type: none"> <li>• Board size</li> <li>• CEO age</li> </ul>	Performance	Study on good corporate governance guidelines. Negative relationship found when board size was larger than 6.
BRUNETTO & WHARTON (2007)	158 (AU)	<ul style="list-style-type: none"> <li>• Relational governance</li> <li>• Network theory</li> </ul>	<ul style="list-style-type: none"> <li>• Trust</li> <li>• Perception of network benefits</li> </ul>	Network collaboration	Positive relationship. Informal control mechanisms enhance trust among alliance members.
BRUNNINGE, NORDQVIST & WIKLUND (2007)	800 (SE)	Agency theory	<ul style="list-style-type: none"> <li>• Spread of ownership</li> <li>• Outside directors</li> <li>• Size of TMT</li> </ul>	Strategic change	Study on corporate governance, consisting of ownership spread, board composition and top management teams, and strategic change within SMEs. Positive relationships found.
CALABRO & MUSSOLINO (2013)	101 (NO)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Relational contract theory</li> </ul>	<ul style="list-style-type: none"> <li>• Independent board behavior (formal governance)</li> <li>• Trust (informal governance)</li> <li>• Relational norms (informal governance)</li> </ul>	Export intensity	Positive relationship
CLARYSSE, KNOCKAERT & LOCKETT (2007)	225 (BE)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Resource dependence theory</li> <li>• Social network theory</li> </ul>	Presence of powerful external stakeholders; (VC, public research organization)	Board composition	Study on governance, relating to the presence of outside board members, in high tech start-up firms. Relationship depends on the type of external stakeholder (–) VC, public research organization (+)

AUTHOR	N	THEORIES	INDEPENDENT VARIABLES	DEPENDENT VARIABLES	MAIN FINDINGS
COWLING (2003)		<ul style="list-style-type: none"> <li>• Theory of production</li> </ul>	<ul style="list-style-type: none"> <li>• Founding entrepreneur</li> <li>• Board of Directors</li> <li>• Management team</li> </ul>	Productivity	Study on how corporate governance structures affect small firm productivity. Positive relationships found.
CUCCULELLI & BETTINELLI (2016)	2,722 (IT)	Organizational learning	<ul style="list-style-type: none"> <li>• Sales growth 2003 (1st crisis)</li> <li>• Family vs non-family CEO</li> <li>• CEO tenure</li> <li>• CEO turnover</li> </ul>	Sales growth 2009 (2nd crisis)	Study on corporate governance in family firms. Positive relationship between past performance and current performance. CEO turnover improved learning when the new CEO was from the owning family and after a certain amount of time (i.e., longer tenure).
DASILAS & PAPASYRIOPOULOS (2015)	231 (GR)	<ul style="list-style-type: none"> <li>• Pecking order theory</li> <li>• Trade-off theory</li> </ul>	Corporate governance variables (board size, board composition, auditor, leadership structure, duality)	Capital structure	The impact of corporate governance variables on the capital structure of SMEs is less apparent in comparison to large firms.
DE MAERE, JORISSEN & UHLANER (2014)	232 (BE)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Resource dependency theory</li> <li>• Group-decision making literature</li> <li>• Resource based view</li> </ul>	<ul style="list-style-type: none"> <li>• Independent board chair</li> <li>• CEO tenure</li> <li>• Number of outside directorships</li> </ul>	Bankruptcy	Study on governance antecedents of bankrupt firms. SMEs with an independent board chair and longer tenured directors with fewer outside directorships are less likely to become bankrupt.
DEVOS, VAN LANDEGHEM & DESCHOOLMEESTER (2012)	8	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Theory of institutional trust</li> </ul>	<ul style="list-style-type: none"> <li>• Trust</li> <li>• Structured controls</li> <li>• Out-come based contracts</li> </ul>	IT Governance	Trust is an important driver of IT governance.
DIMITRATOS ET AL. (2009)	14 (GR)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Knowledge-based view</li> <li>• Organizational learning</li> </ul>	<ul style="list-style-type: none"> <li>• Decision rights (centralized vs situational)</li> <li>• Incentive scheme (behavioral vs outcome oriented)</li> <li>• Performance monitoring scheme (behavioral vs outcome oriented)</li> </ul>	Performance (average sales growth in 4 years)	Situational decision-making and outcome-oriented incentive and performance monitoring mechanisms prove to be successful.
EISENBERG ET AL. (1998)	900 (FI)	Agency theory	Board size	Profitability	Negative relationship
FLOWERS ET AL. (2013)	36 (ZA)				Exploratory research on corporate governance practices in small and micro fast moving consumer goods enterprises.
GABRIELSSON (2007)	135	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Resource dependence theory</li> </ul>	Contingency factors (e.g. board size, external directors)	Board empowerment	Study on boards and governance within small firms. External actors exercise pressure to empower the board.
GILL ET AL. (2012)	142 (IN)	Capital structure theory	<ul style="list-style-type: none"> <li>• CEO duality</li> <li>• Board size</li> <li>• Small business growth</li> <li>• Family</li> <li>• CEO tenure</li> </ul>	Capital structure (level of financial leverage that minimizes bankruptcy, maximizes cash inflows, improves performance, indicates survival)	Study on corporate governance and capital structures of small business service firms indicating a positive relationship for all variables but CEO tenure (not significant).

AUTHOR	N	THEORIES	INDEPENDENT VARIABLES	DEPENDENT VARIABLES	MAIN FINDINGS
GÜNAY & APAK (2014)	18 (TR)	Stakeholder theory	<ul style="list-style-type: none"> <li>Public SMEs</li> <li>Non-public SMEs</li> </ul>	Good corporate governance principles (e.g. company policy towards stakeholders)	Public SMEs perform better than non-public SMEs in terms of their corporate governance scores.
HESSELS & HOOGE (2006)	100 (NL)	<ul style="list-style-type: none"> <li>Agency theory</li> <li>Stewardship theory</li> </ul>			31.2 percent of the owner-managers confirmed to have a governance board whereas 68.8 percent did not have a board.
KYEREBOAH-COLEMAN & AMIDU (2008)	44 (GH)	Agency theory	<ul style="list-style-type: none"> <li>Board size</li> <li>Size of audit committees</li> <li>Corporate ethics</li> <li>Outsiders on audit committees</li> <li>Board independence</li> <li>Presence of audit committees</li> </ul>	Performance (RoA)	Board size, size of audit committees, corporate ethics and the proportion of outsiders on the audit committees have a negative impact on performance while independence of the board and the presence of audit committees enhance the firms' financial performance.
MATSER & GERRITSEN (2010)	33 (NL)	<ul style="list-style-type: none"> <li>Resource based view</li> <li>Stewardship theory</li> <li>Agency theory</li> </ul>	Governance boards	<ul style="list-style-type: none"> <li>Formal strategic plans</li> <li>Expected marketability of the firm</li> <li>Expected sales growth</li> </ul>	Positive relationship between presence of governance boards and strategic plans and marketability of the firm. No relationship with short-term sales growth. Positive relationship between marketability and sales growth.
MAYEGLE & NGAH (2014)	40 (CM)	Agency theory	<ul style="list-style-type: none"> <li>Independent directors</li> <li>Ownership structure (concentrated)</li> <li>Employee ownership</li> <li>Financial incentives</li> </ul>	Business value (dividend distribution, shareholder/partnership value)	Study on the relationship between internal governance mechanisms and value creation. Positive relationship with independent directors and ownership structure for SMEs and large enterprises. Only a positive relationship with incentives for large enterprises.
MILADI (2014)	120 (TN)	Stewardship theory	Leader profiles (goals, experience, education, external/internal leader)	Organizational culture (adaptability, consistency, implication, mission)	Study on the antecedents of organizational culture as important governance mechanisms. Experience and education of SME leaders influence the organizational culture.
NORDQVIST, SHARMA & CHIRICO (2014)		Configuration approach	<ul style="list-style-type: none"> <li>Advisory board</li> <li>Board of directors</li> <li>Family meetings</li> <li>Shareholders' assembly</li> <li>Family council</li> <li>TMT</li> </ul>	Performance	The best-fit governance characteristics can be expected to vary across family firms at a point in time and in a firm over time.
PUGLIESE & WENSTØP (2007)	497 (NO)	<ul style="list-style-type: none"> <li>Agency theory</li> <li>Resource based view</li> <li>Cognitive theory</li> </ul>	<ul style="list-style-type: none"> <li>Board working style</li> <li>Board quality attributes</li> </ul>	Board strategic involvement	Study on how boards fit into the broader framework of governance mechanisms. Positive relationships.
RUS & IGLIC (2005)	494 (SI, BA)	Institutional theory	<ul style="list-style-type: none"> <li>Interpersonal trust (between actors)</li> <li>Institutional trust (in government, banks, chamber)</li> </ul>	Performance	When the choice of trust as a governance mechanism is based on institutional trust, its effect on company performance is positive as new business opportunities are identified. Negative relationship with interpersonal trust.
SPRAGGON & BODOLICA (2015)		Theory of moral reasoning	Level of moral reasoning of the Leader (pre-conventional, conventional, principled)	Governance mode (formal, relational, self-regulatory)	Framework of governance integrating different modes of governance as a result of different levels of moral reasoning.

AUTHOR	N	THEORIES	INDEPENDENT VARIABLES	DEPENDENT VARIABLES	MAIN FINDINGS
STEL (2013)	32 (LB)		Hybrid governance (diverse and competing authority structures)	Entrepreneurial development	Fragile governance environment limits the entrepreneurial development of SMEs.
UHLANER, FLÖREN & GEERLINGS (2007)	233 (NL)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Organizational social capital</li> <li>• Social exchange</li> <li>• Social identity</li> <li>• Stewardship</li> </ul>	Owner attitudes (perceived organization rewards, commitment, shared norms)	Financial performance	Study on owner commitment and relational governance. Positive relationship.
UHLANER, WRIGHT & HUSE (2007)			<ul style="list-style-type: none"> <li>• Ownership</li> <li>• Board of directors</li> <li>• Other governance mechanisms (financial reporting, executive remuneration)</li> </ul>	Quality of governance	Framework for corporate governance of privately held firms.
VAN DEN HEUVEL ET AL. (2006)	286 (BE)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Resource based view</li> <li>• Resource dependence</li> <li>• Cognition theory</li> </ul>		<ul style="list-style-type: none"> <li>• Board performance</li> <li>• Importance of board tasks</li> </ul>	Study on the governance mechanism, board of directors of family SMEs. CEO's perceive the service role as more important than the control role.
VAN GILS (2005)	110 (NL)	<ul style="list-style-type: none"> <li>• Strategic leadership theory</li> </ul>	<ul style="list-style-type: none"> <li>• Executive tenure</li> <li>• Functional experiences</li> <li>• Formal education</li> <li>• Supervisory board</li> <li>• TMT</li> </ul>	Good governance practices	The TMT and supervisory board can provide strategic knowledge and networking advantages to Dutch SMEs
ZAHRA, NEUBAUM & NALDI (2007)	384 (US)	<ul style="list-style-type: none"> <li>• Agency theory</li> <li>• Knowledge-based view</li> </ul>	<ul style="list-style-type: none"> <li>• TMT ownership</li> <li>• Outside director ratio</li> <li>• VC ownership</li> </ul>	Knowledge based resources dedicated to internationalization	Study on the impact of SME ownership and governance systems on the development of knowledge-based resources required for internationalization. Positive relationships.
ZEKRI (2012)	90 (MENA region)		<ul style="list-style-type: none"> <li>• Transparency and information disclosure</li> <li>• Board of directors</li> <li>• Consideration of shareholders' rights</li> </ul>	Good corporate governance	Lack of governance can be explained by a conflict of interest between stakeholders and the family and the power misuse by the CEO and family leaders. There is a preference for informal structures and monitoring mechanisms.

#### Appendix 4: Identified categories from governance and growth research

CATEGORY	LINK WITH DEFINITION	THEORIES	LINK WITH SME GROWTH RESEARCH	LINK WITH SME GOVERNANCE RESEARCH
Network resources	Resource utilization, Focus on opportunities Value creation	Social capital theory Resource based view Relational governance Network theory Penrose's theory of firm growth	<i>e.g. Birley, 1985; Johannisson, 2000; Wiklund et al., 2009; Street &amp; Cameron, 2007; Halme &amp; Korpela, 2013; Lockett et al., 2011; Barringer et al., 2005; Almus &amp; Nerlinger, 1999; Zhao &amp; Aram, 1995; Lorenzoni &amp; Ornati, 1988</i>	<i>e.g. Barnir &amp; Smith, 2002; Brunetto &amp; Wharton, 2007; Mesquita &amp; Lazzarini, 2008</i>
Ownership and board structure	Principles and practices exercised by the board	Agency theory Resource dependence Resource based view Group-decision making literature Economic theory Configuration approach	<i>e.g. Wiklund et al., 2009</i>	<i>e.g. Afrifa &amp; Taurigana, 2015; de Maere et al., 2014; Gabrielsson, 2007; Beuselinck &amp; Manigart, 2007; Brunninge et al., 2007; Matser &amp; Gerritsen 2010; Zahra et al., 2007; Al-Najjar, 2015; Mayegle &amp; Ngah, 2014; Uhlaner et al., 2007; Pugliese &amp; Wenstop, 2007; Van den Heuvel et al., 2006; Calabrò &amp; Mussolino, 2013; Clarysse et al., 2007; Eisenberg et al., 1998; Bennedsen et al., 2008; Cowling, 2003; Dasilas, &amp; Papasyriopoulos, 2015; Gill et al., 2012; Hessels &amp; Hooge, 2006; Kyereboah-Coleman &amp; Amidu, 2008; Nordqvist, 2014; Van Gils, 2005; Zekri, 2012</i>
Responsible and efficient use of resources	Resource utilization	Stakeholder theory Resource based view	<i>e.g. Halme &amp; Korpela, 2013</i>	<i>e.g. Polasek, 2010</i>
HC of the entrepreneur	Focus on opportunities	Resource based view Penrose's theory of firm growth Competency approach	<i>e.g. Wiklund et al., 2009; Davidsson, 1989a, b; Man, Lau &amp; Chan, 2002; Nishantha, 2011; Barringer et al., 2005</i>	<i>e.g. Afrifa &amp; Taurigana, 2015; Cucculelli &amp; Bettinelli, 2016; de Maere et al., 2014; Gill et al., 2012</i>
Stakeholder management	Assurances to stakeholders	Stewardship theory Stakeholder theory	<i>Berman et al., 1999</i>	<i>e.g. Hessels &amp; Hooge, 2006; Spielmann, 2012; Clarysse et al., 2007; Günay &amp; Apak, 2014; Zekri, 2012</i>
HC of the firm	Focus on opportunities	Resource based view Penrose's theory of firm growth Strategic leadership theory	<i>e.g. Wiklund et al., 2009; Choo &amp; Trotman, 1991; Tyler &amp; Steensma, 1998; Bosma, Van Praag, Thirik &amp; De Wit, 2004; Brush &amp; Chaganti, 1998; Jennings &amp; Beaver, 1997; Barringer et al., 2005</i>	<i>e.g. Van Gils, 2005; Brunninge et al., 2007; Nordqvist et al., 2014</i>
Shared values, commitment, trust	Goal achievement	Relational governance Cognitive science Relational contract theory Theory of institutional trust	<i>e.g. Davidsson, 1989a; Kolvereid, 1992; Barringer et al., 2005; Davidsson, 1991; Cooper &amp; Artz, 1995</i>	<i>e.g. Uhlaner et al., 2007; Calabro &amp; Mussolino, 2013; Devos et al., 2012; Polasek, 2010</i>
Strategic direction and strategic renewal	Strategic direction Value creation	Porter Resource based view Stewardship theory Agency theory	<i>e.g. Witek-Crabb, 2014; Wiklund et al., 2009; Tirfe &amp; Kassahun, 2014; Leitner &amp; Guldenburg, 2010; Lisboa, Skarmas &amp; Lages, 2011; Nkongolo-Bakenda, Anderson, &amp; Garven, 2010; Barringer et al., 2005; Heunks, 1998; Roper, 1997</i>	<i>e.g. Matser &amp; Gerritsen, 2010</i>
Management control	Decision-making process Risk management	Knowledge-based view Agency theory Organizational learning	<i>e.g. Barringer et al., 2005; Reid &amp; Smith, 2000; Bracker &amp; Pearson, 1986; Barringer &amp; Greening, 1998</i>	<i>e.g. Dimatros, 2009; Mayegle &amp; Ngah, 2014; Flowers et al., 2013; Devos et al., 2012; Uhlaner et al., 2007</i>

Note: A detailed description of the categories can be obtained from the author.