

Universidad Pontificia Comillas

**Doctorate of Business Administration in  
Management and Technology**

## **AN APPROACH TO GOVERNANCE IN SMEs: Evidence from Iberia**

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## ABSTRACT

This study advances the convergence between the Governance and Organizational life cycle theories by exploring how decision frameworks emerge as firms gain dimension over time and which elements are key to make those decision frameworks more robust and accountable.

The study draws on a qualitative study of 19 Iberian SMEs with long-term journeys of consistent entrepreneurial and financial growth, using a narrative enquiry design along with Reflexive Thematic Analysis.

Findings indicate that effective governance frameworks can be implemented in concentrated ownership contexts provided key elements related to the founders' culture, finance and talent are embedded in the earlier states of firm development. Specifically, the transition between the Growth / Development states appears critical given the combination of organizational and leadership style challenges.

Entities operating in the SME ecosystem should sponsor the access to mentorship pools and emphasize the importance of the early development of a robust finance function. Corporate legislation could be reviewed in order to incentivize the adoption of advisory bodies prior to the implementation of formal boards.

The originality of this thesis lies in the premise that, within the governance field, we need to go beyond the Board as the sole decision framework relevant for SMEs. In parallel, from the perspective of OLC theories, the 'decision framework' element must be added as another dimension that may explain why growing firms succeed and others fail. The study blends insights from theoretical models with ongoing practitioner initiatives in the field of SME Governance.

## RESUMEN

Este estudio avanza en la convergencia entre las teorías de Gobernanza y del Ciclo de Vida Organizacional al explorar cómo surgen los marcos de decisión a medida que las empresas adquieren dimensión con el tiempo, y qué elementos son clave para hacer que dichos marcos de decisión sean más sólidos y responsables.

El estudio se basa en una investigación cualitativa de 19 pymes ibéricas con trayectorias a largo plazo de crecimiento empresarial y financiero constante, utilizando un diseño de indagación narrativa junto con un Análisis Temático Reflexivo.

Los hallazgos indican que los marcos de gobernanza efectivos pueden implementarse en contextos de propiedad concentrada, siempre que elementos clave relacionados con la cultura de los fundadores, las finanzas y el talento estén integrados en las primeras etapas del desarrollo empresarial. En particular, la transición entre los estados de Crecimiento / Desarrollo parece crítica debido a la combinación de desafíos organizacionales y de estilo de liderazgo.

Las entidades que operan en el ecosistema de las pymes deberían patrocinar el acceso a redes de mentoría y enfatizar la importancia del desarrollo temprano de una función financiera robusta. La legislación corporativa podría ser revisada para incentivar la adopción de órganos consultivos antes de la implementación de juntas formales.

La originalidad de esta tesis radica en la premisa de que, dentro del campo de la gobernanza, es necesario ir más allá del Consejo como único marco de decisión relevante para las pymes. Paralelamente, desde la perspectiva de las teorías del ciclo de vida organizacional, el elemento 'marco de decisión' debe añadirse como otra dimensión que puede explicar por qué algunas empresas en crecimiento tienen éxito y otras fracasan. El estudio combina ideas de modelos teóricos con iniciativas prácticas en curso en el ámbito de la Gobernanza de Pymes.

### **Use of Artificial Intelligence Tools**

Artificial intelligence (AI) - based tools were used to support language editing, stylistic refinement, and the summarization of text authored by the candidate. Since interviews were carried in Portuguese and Spanish, with the final report written in English, AI tools were also used for translation purposes always subject to supervision by the Author. The use of AI was therefore limited to editorial assistance and did not replace engagement with the academic literature or compromise the originality or integrity of the research.

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## Acronyms

AIDAF: Italian Family Business.  
 AI: Artificial Intelligence.  
 BA/VC: Business Angels / Venture Capital.  
 BoP: Beginning of Period.  
 BRP: Business Roundtable Portugal.  
 CBG: Código de Buen Gobierno de las sociedades cotizadas (Spain’s listed-company good governance code).  
 CEO: Chief Executive Officer.  
 CFO: Chief Financial Officer.  
 CG: Corporate Governance.  
 CLC: Christian Life Community.  
 CMO: Chief Marketing Officer.  
 CNMV: Comisión Nacional del Mercado de Valores (Spain’s securities market regulator).  
 COO: Chief Operating Officer.  
 CSC: Código das Sociedades Comerciais (Portugal’s commercial companies code).  
 CSR: Corporate Social Responsibility.  
 DBA: Doctorate of Business Administration.  
 DED: Department of Economic Development (Government of Dubai).  
 ECGI: European Corporate Governance Institute.  
 EDBAC: Executive Doctorate in Business Administration Council.  
 EoP: End of Period.  
 ERL: Emprendedor de Responsabilidad Limitada (“Limited Liability Entrepreneur”, Spain).  
 ESG: Environmental, Social, and Governance.  
 EU: European Union.  
 G20: Group of Twenty.  
 GDP: Gross Domestic Product.  
 IFC: International Finance Corporation (part of the World Bank Group).  
 IPCG: Instituto Português de Corporate Governance.  
 Lda.: Limitada (designation used by Portuguese Sociedade por Quotas entities).  
 LIBOR: London Interbank Offered Rate.  
 LHS: Left-hand side (used in chart-labelling conventions).  
 LSC: Ley de Sociedades de Capital (Spanish capital companies act).  
 MIS: Management Information System(s).  
 NDA: Non-Disclosure Agreement.  
 NVivo: NVivo (qualitative data analysis software).  
 OECD: Organisation for Economic Co-operation and Development (referenced repeatedly, including via OECD corporate governance principles).  
 OLC: Organisational/Organizational Life Cycle.  
 PhD: Doctor of Philosophy.  
 QCA: Qualitative Content Analysis.  
 RHS: Right-hand side (used in chart-labelling conventions).  
 ROC/EA: Revisor Oficial de Contas / External Auditor (used as a combined reference to the statutory/external auditor function; “Revisor Oficial de Contas” is explicitly mentioned in the governance structures discussion).  
 S.A.: Sociedade Anónima (Portugal; public limited company form).  
 SA: Sociedad Anónima (Spain; public limited company form).

SABI: SABI INFORMA (financial database provider used for extracting firm financial data).  
SAU: Sociedad Anónima Unipersonal (Spain; single-member SA).  
SC: Sociedad Civil (Spain; civil partnership).  
SComA: Sociedad Comanditaria por Acciones (Spain; partnership limited by shares).  
SL: Sociedad de Responsabilidad Limitada (Spain; limited liability company).  
SLU: Sociedad Limitada Unipersonal (Spain; single-member SL).  
SMEs: Small and Medium Enterprises.  
SSM: (Corporate Governance) Self-Scoring Model.  
SUQ: Sociedade por Quotas (Portugal; private limited liability company by quotas).  
S. Coop.: Sociedad Cooperativa (Spain; cooperative).  
TMT: Top Management Team.  
USD: United States Dollar.  
VC: Venture Capital.  
ecoDa: European Confederation of Directors' Associations.  
COVID-19: Coronavirus disease 2019.

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## CHAPTER I: INTRODUCTION

### 1.1. Research objective and context

Portugal's recent economic performance after the Covid pandemic has generated praise from various entities, including The Economist, which elected the country as the best performing economy in 2025<sup>1</sup>. It finally put an end to the two decades of stagnation which followed the entry into the European Monetary Union, when GDP grew at compounded rates slightly above 1%. Despite a heavy reliance on EU structural funds, Portugal was steadily surpassed by less developed countries from Eastern Europe in terms of relative purchasing power, GDP per capita metrics and EU convergence rates. While the tourism sector finally gained a long-sought importance and became a key contributor to the stability of Portugal's external accounts, this has also meant less job opportunities for qualified workers, leading high numbers of college graduates to emigrate, which does not bode well for a country in the World Top 5 of oldest populations<sup>2</sup>.

Against this background, some domestic think-thanks, such as SEDES<sup>3</sup> or Business Roundtable Portugal ('BRP')<sup>4</sup>, launched reflections on what could be done to reposition Portugal's growth trajectory. While SEDES released in 2022 a book focusing on how Portugal could double its GDP in 20 years, BRP focused specifically on the reasons why Portugal has so many Small and Medium Enterprises ('SMEs') that never become Large, sustainable companies. After a round of conversations with experts, both academic and practitioners, the lack of adequate Governance practices was identified as one of the major issues. As a result, BRP launched the 'Metamorfose' program<sup>5</sup> in July/23, which includes a corporate governance scoring model for SMEs ('Scoring Model' from now on), conceived as a self-assessment tool which may help identify the most critical areas in need of improvement. The Metamorfose model has been entirely inspired by the groundwork carried by the International Finance Corporation (IFC) with its 2019 SME Governance Guidebook (International Finance Corporation, 2019)<sup>6</sup>. Chapter III will include a general overview of both projects.

Finally, my own *alma mater* Nova SBE also launched in late October/23 a certified executive education program called Voice Leadership<sup>7</sup>, specifically targeting SMEs, which are allowed to enroll

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<sup>1</sup> <https://www.economist.com/finance-and-economics/2025/12/07/which-economy-did-best-in-2025>

<sup>2</sup> <https://www.euromonitor.com/article/the-top-5-oldest-countries-in-the-world>

<sup>3</sup> <https://sedes.pt/>

<sup>4</sup> <https://www.abrp.pt/pt/> - includes Portugal's 42 largest companies

<sup>5</sup> <https://metamorfose-governance.pt/>

<sup>6</sup> <https://www.ifc.org/en/insights-reports/2010/sme-governance-guidebook>

<sup>7</sup> <https://voicelership.novasbe.pt/>

at discounted fees. The training program is to last 18 months and includes blended learning modules along with a mentoring program. Topics encompass Growth and internationalization, Finance and project management, Digitalization and technology, People management, Innovation and Entrepreneurship and Operations. More importantly, the Voice Leadership program is being tracked for the purpose of three long-term research projects aiming at understanding the mediating impact of training and mentorship as independent variables on the long-term performance of SMEs.

The initiatives described above, both in terms of their contents as well as the relevance of their sponsors, are evidence that the topic of SME governance is a key matter for the Portuguese economy at this juncture.

## **1.2. Personal motivation**

Having worked in banking for the last 30 years, I was a direct witness to the major regulatory revamp triggered by the 2008 Great Financial Crisis. The failures of Bear Stearns and Lehman Brothers along with the several financial scandals endured by many top global firms, such as the Libor rates rigging and financial products misselling, triggered an ample reflection on the ‘way of doing things’ in the industry, including the robustness of decision making processes, risk management practices, internal control mechanisms and financial accountability – a bundle of things which came to be understood, as time evolved, as key *governance* levers for the good management of financial institutions. All of this has materially changed the operating environment of banks.

As an industry practitioner holding Board positions for most of the last decade, I was personally impacted by those regulatory changes and I have become fascinated by all topics surrounding good decision making. Nowadays, as an Adjunct Professor of Banking in the Master programs of Nova School of Business and Economics (Lisbon/Portugal), as I have the opportunity to revisit some of those banking failures through case studies, I cannot but emphasize to my students how important it is to develop well-grounded and accountable decision processes.

When I first felt called to undertake my DBA in the field of governance in SME contexts, I was unaware of the complexity of this academic domain and far from imagining I was about to enter a quasi-black box. My professional background in the banking industry along with so many discussions among practitioners about the importance of governance for sustainable SME growth had shaped my understanding of Governance as a synonym for ‘ensuring robust decision-making’, irrespective of its specific content.

Discovering that, in academic terms, governance is not primarily about how decisions are *made* but rather how they are *controlled*, as derived from the well-established Agency theory paradigm, was intellectually challenging. More than once, I found myself dwelling on this subtle

paradox: is not ‘controlling decisions’ a decision in itself? Is not the Board the ‘apex of a firm’s decision-making’ (Machold et al., 2011), a statement entirely consistent with my past professional experience?

As I delved through literature, I began to realize this ‘conceptual mismatch’ is actually a reflection of a more profound divide between the finance and management academic fields. It ultimately reflects fundamentally different research paradigms in ontological terms (what is there to be known: causal relationships or unfolding processes?) but also epistemological (must findings be probabilistically true or is there room for context dependency and researcher reflexivity?). This then impacts methodological choices, with a majority of governance research resorting to quantitative methodologies (Li et al., 2020) although empirical evidence linking governance and performance remains elusive. Hambrick et al (2008) offer a summary of this tension: ‘The extant literature has typically viewed governance as a principal–agent problem between shareholders and management. But useful insights about governance must inevitably have a broader scope, encompassing such quite complex matters as multiple stakeholders, boardroom dynamics, managerial processes, managerial values and motives, and national systems (including culture, legal legacies, and so on)’, a call which kept reverberating over the last decade.

Bearing this ‘decision-making versus decision-control’ divergence in mind, my initial intuition was to locate the governance of SMEs within the broader research stream of decision-making. However, a brief literature review revealed the field is predominantly focused on individual players and behavioural processes – an approach far away from the collective and institutional mechanisms that had motivated my journey.

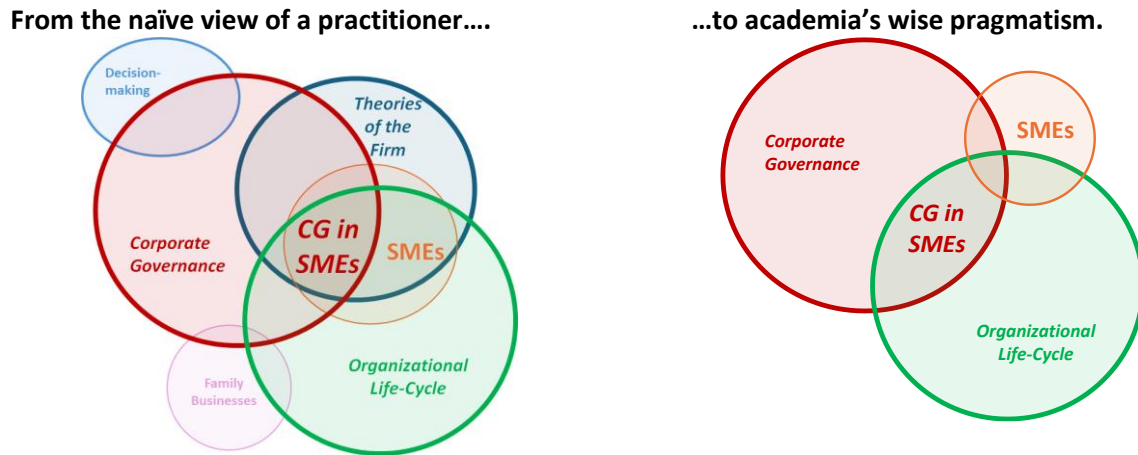
Therefore, I concluded that the most appropriate point of departure would have to be the traditional corporate governance literature, although keeping in mind that the essence of what I was seeking had more to do with decision-making: what elements help firms evolve towards more disciplined and traceable, i.e. accountable, decision-making processes, as they gain dimension?

In conceptual terms, my ambitious – and very naïve - vision was therefore to place SME governance in the intersection of several theoretical domains: i) on one hand, a block composed by SMEs, decision-making, corporate governance and organizational life-cycle theories and; ii) on the other, some complementation from theories of the firm – a discussion on how a firm should be ‘governed’ requires clarity about what a firm and its purpose are in the first place – and of family businesses, because they are the ‘next in kin’ to an SME.

Fortunately, academia has agreed long ago that depth must always take precedence over breadth. As a result, I ultimately chose to frame governance in SME contexts as the interplay between two domains: governance and organizational life-cycle, with some insights from the SME field. This

narrowing allowed for a more focused analysis of how governance mechanisms in SMEs evolve and adapt in relation to the firm's structural trajectory.

**Figure 1: Governance in SMEs: Theoretical paradigms**



Source: Author's own elaboration.

Finally, it is worthwhile to remember that the specificity of a DBA thesis is precisely its “engaged scholarship” model that focuses on topics at the intersection of theory and contemporary business issues.’ (EDBAC)<sup>8</sup>. At its core, it is about building bridges between academia and practitioners, something which requires solid foundations on both sides of the river. By blending established theoretical frameworks with ongoing practitioner initiatives, this thesis hopes to offer a modest contribution to the building of that bridge.

### 1.3. Research gap

Despite the generous research volumes produced about CG in SME contexts over the last two decades, the perception that significant gaps remain in our understanding of what Governance means for SMEs and how it correlates with performance is unavoidable. Gabrielson (2017) believes this may be an unintended outcome of the increasingly multidisciplinary nature of CG research, a feature also acknowledged by Filatotchev and Wright (2017): with outputs dispersed through so many fields (finance, economics, accounting and law), it is difficult to assemble a comprehensive perspective on the topic.

At this point, we would highlight the following issues:

<sup>8</sup> The complete definition provided by the Executive Doctorate in Business Administration Council is: ‘Executive doctoral degrees are terminal, doctoral degrees that are designed for working professionals. The research approach for an executive doctoral program is the “engaged scholarship” model that focuses on topics at the intersection of theory and contemporary business issues’. (<https://edbac.org/degree#info>).

1. **In general, there is a persistent absence of links between theoretical papers and empirical validation** (Filatotchev & Wright, 2017; Habib & Hasan, 2019; Li et al., 2020). While the 2000's were prolific in terms of new theoretical models, reflecting the call to find alternative models to the Agency paradigm, there was little subsequent validation of those models, leading Habib & Hasan (2019) to state that 'Interestingly, studies largely ignore empirical validation of the chosen theory', extending the concerns already expressed by Filatotchev & Wright (2017).
2. **This theory-empirical evidence gap is especially evident in the cases of Lynall et al. (2003)'s discussion on the evolution of Boards as a function of OLC stages, Filatotchev et al. (2006)'s model on Strategic Thresholds and Governance Functions and Ingley et al. (2017)'s Integrative model**, despite their intuitive appeal. Aside from O'Connor & Byrne (2015)'s study of listed Asian firms nearly a decade after Filatotchev et al. (2006)'s model was published and Lepage and Tarillon (2025)'s work over Ingley et al. (2017), it remains a largely inhabited space. Gabrielsson (2017) referred in his systematic literature review on CG and Entrepreneurship covering four decades since the 80's that only 5% of the studies actually focused on the interplay between CG and OLC (the so-called 'threshold firms'). However, Uhlaner et al. (2007) had already mentioned the importance of understanding the types of challenges firms face in transitioning between life stages while Zahra et al. (2009) hit the crux of the matter by stating that 'although previous research on the role of the firm's absorptive capacity and knowledge management has established important links between learning, decision-making and organizational outcomes, it largely ignores the way decisions may be shaped by corporate governance factors' (our underline).
3. **There is a recurrent focus on Boards as the main CG construct**, even though most authors agree that the formal structure of a Board may lack relevance in SME contexts. Similarly to the use of Agency Theory as the main theoretical framework for Governance in SMEs, this focus on Boards remains a striking aspect of the literature over the past last two decades (Handley & Molloy, 2022). A sideline consequence of this bias is that the Board construct, in its various representations (size, composition, independence, diversity, compensation) is always treated on a '*ceteris paribus*' basis, again in contradiction with the frequent calls to analyze CG in terms of interactions between different mechanisms (Filatotchev and Wright, 2017; Li et al., 2020)<sup>9</sup>.
4. **There are data issues, which then affect methodologies.** Uhlaner et al (2007) indirectly advanced a possible explanation for the 'Board bias', related to difficulties in data collection, which is far

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<sup>9</sup> There is a very interesting empirical study by Misangyi & Acharya (2014) addressing to what extent the traditional CG mechanisms developed in the context of Agency Theory work as substitutes or complements in terms of improving firm performance. However, not only the study relies entirely on an Agency paradigm as the sample covers only S&P1500 companies, therefore it is not immediately applicable to the scope of our thesis.

more difficult and time-consuming to carry in privately-held firms. Ingley et al. (2017) also recognize that the heterogeneous nature of SMEs poses challenges in terms of definition and measurement. Filatotchev & Wright (2017) discuss possible alternative data sources to counteract simplistic approaches sometimes pursued in some quantitative studies. In general, there is consensus that the field could gain from developing qualitative approaches (Bonn & Pettigrew, 2009; Filatotchev & Wright, 2017; Handley & Molloy, 2022; Li et al., 2020; Roberts et al., 2005), not only to reflect the multidisciplinary character of CG but also as a mean to improve data collection.

#### **1.4. Research question and methodology**

The overarching question underlying this thesis relates to the identification of the elements that help firms evolve towards more disciplined and traceable decision frameworks, under the following formulation: ‘An approach to Governance in SMEs: How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?’. For that purpose, we selected a sample of 19 Iberian firms, all having in common material increases in specific financial indicators over a minimum 10 to 20 year period, and interviewed their founder-managers and C-level officers.

Despite the reliance on financial data as sampling criteria, this study is firmly positioned in qualitative territory because its focus is placed on processes and perspectives, features which can be hardly quantified. As in any qualitative study, our aim is not to challenge pre-defined hypotheses but to unearth patterns out of the selected sample, while accepting that those findings will have limitations in terms of generalization/extrapolation. Our starting point in the interviews was to ask respondents about moments in their firms’ journeys which required disruptive decisions aimed at taking the firm to the next level. Narrative research thus emerged as the most appropriate design given the study’s longitudinal focus on how decision-making patterns evolve over time.

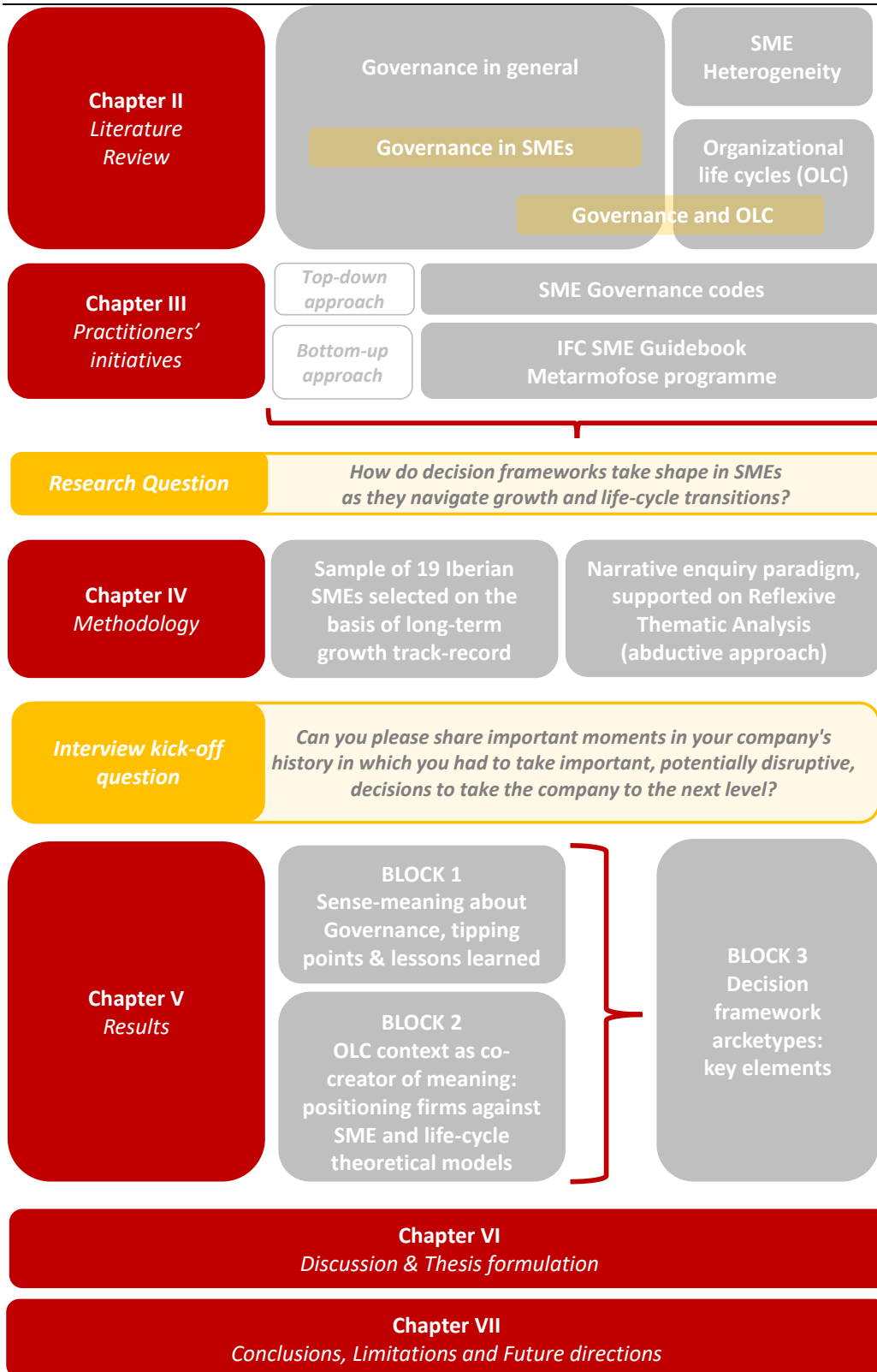
This said, two very important methodological clarifications are required. The first is that the unit of analysis of our research is the firm and not the person; i.e., we were interested on objective events and underlying processes in the firm’s timeline and not on the personal experience of the respondents. The second has to do with the flow between data and analytical interpretation. Since the research focus is placed on processes, which are dynamic by definition, the underlying context in which those processes occurred (i.e., the firm’s specific life-cycle state) became a constitutive analytical dimension, not in the form of control variables but rather as an essential component to give meaning to the narratives. In practical terms, the narratives are always situated accounts whose meaning is anchored in archetypes of organizational development.

Once research paradigm and design were defined, a methodological approach was required to help us navigate through the data. The literature review had allowed us to conclude that, although

there is not yet a single theoretical paradigm that can be directly applied to governance in SMEs, research has nonetheless identified relevant elements of existing theories that can be applied to SME contexts. On the other hand, while extant literature has shown a bias towards quantitative paradigms, there have been calls for the governance field to be approached from a qualitative viewpoint, to ground the discussion in empirical evidence drawn from practitioners' experiences (Filatotchev & Wright, 2017; Handley & Molloy, 2022; Roberts et al., 2005). The combination of these two perspectives therefore called for an abductive approach, whereby extant literature provides a preliminary reading lens into the data which then helps enrich theoretical aspects which may have been insufficiently explored until now. As result, we resorted to Thematic Analysis to review and structure data as this approach allows for an interactive dialogue between theoretical paradigms and data, while still consenting sufficient freedom to capture all relevant insights emerging from the interviews.

The thesis will therefore provide an overview of the main academic discussions in the SME Governance and OLC fields in Chapter II while adding the perspective of practitioners in Chapter III. Chapter IV will describe the methodologies used to approach the sample with results presented in Chapter V and discussed in Chapter VI. In addition to the main conclusions, chapter VII will also present the main limitations entailed in this research while suggesting further possible courses of action for future research. The figure below illustrates the main components and how they interact with each other.

Figure 2: General framework of this thesis



Source: Author's own elaboration.

## 1.5. Contributions

The core finding of this thesis relates to the fact that effective governance frameworks can be implemented in concentrated ownership contexts provided key elements related to i) the founders' culture as well as to ii) finance and talent are embedded in the earlier states of firm development. The transition between the Growth/Development states appears particularly delicate given the convergence of organizational and leadership challenges whereas the transition between Development/Maturity requires the emergence of more visible challenging mechanisms in order to avoid stagnation. From a purely academic perspective, the thesis indicates that existing governance theoretical paradigms provide adequate explanatory power to account for the nature of the governance challenges faced by SMEs once life-state contexts have been fully recognized and embodied in the analysis.

In its aim of identifying elements which may help improve decision frameworks as firms navigate transitions between organizational life states, a moment literature has identified as critical for long-term survival (Gedajlovic et al., 2004; Ingley et al., 2017; Uhlaner et al., 2007), this thesis is therefore positioned in the mere 5% segment Gabrielson (2017) identified as the sub-field of governance research focusing on the intersection between the governance and organizational life cycle fields. Within this small segment, the originality of this thesis lies in assuming that, from the governance field, one must go beyond the Board as the sole decision framework relevant for SMEs, following up on Handley & Molloy (2022)'s challenge, and, on the side of OLC theories, the 'decision framework' element must be considered as another dimension that may explain why some firms decline and ultimately fail. In fact, our analysis suggests that the robustness of decision frameworks may be a more relevant factor in determining successful transitions than more classic sectorial or country considerations. This said, the thesis also adds to the scarce cross-country analysis of governance practices by exploring an Iberian sample (Teixeira & Carvalho, 2024).

Overall, by advancing the convergence between the governance and organizational life-cycle academic fields, we expect this effort will also help ground Filatotchev and Wright (2017)'s intuition that 'there is scope for governance research to develop a subfield of "governance as process" too'.

By pursuing a qualitative approach, our study contributes to reducing the imbalance between quantitative and qualitative approaches in the governance field (Filatotchev & Wright, 2017; Handley & Molloy, 2022; Li et al., 2020; Roberts et al., 2005). Its findings, driven by an exploratory stance (Handley & Molloy, 2022) and based on empirical evidence, also validate extant research calls for a more holistic understanding of Governance as the interaction between different mechanisms and constructs supporting decision-making (Filatotchev and Wright, 2017; Li et al., 2020).

Empirical evidence from the sample also helped illuminate and better ground the theoretical approaches proposed by Torrès and Julien (2005) and Ingley et al (2017), a refinement of which may provide better diagnostic tools to practitioners working in the field of SME governance. In fact, the blending of established theoretical frameworks with ongoing practitioner initiatives may well be one of the most original contributions of this thesis.

## CHAPTER II: LITERATURE REVIEW

### 2.1. Introduction

Reviewing the literature on Corporate Governance (CG) in the SME context over the last two decades leads us to three main initial observations. The first is that the field has gained significant momentum since 2000, something that Gabrielsson (2017), Filatotchev and Wright (2017) and Li et al. (2020), the latter of which the most comprehensive systematic literature review we could find on the topic<sup>10</sup>, all recognize. The second is that there seems to be some consistency in the main line of criticism and research gap identification: most of the literature relies on Agency Theory as its main theoretical paradigm (56 papers out of the 137 analysed by Li et al., 2020), even though the limitations of that theory for the purpose of studying CG in an SME context have been abundantly discussed. Whether in general terms or specifically focusing on SMEs, Charreaux (2001), Blair & Stout (1999), Daily et al. (2003), Aguilera & Jackson (2003), Gedajlovic et al. (2004), Huse (2005), Roberts et al. (2005), Ulahner et al. (2007), Hambrick et al. (2008), Hillman et al. (2009), Garg (2013), Tihanyi et al. (2014) and Zahra (2014) rank among those who considered the understanding of Governance as the separation between ownership and control limited.

The third aspect relates to the outcome of academic production in this field: despite the growing interest generated both in academic circles and wider public on CG courtesy of the early 2000's corporate scandals (Enron, Worldcom) and the 2008 Great Financial Crisis, there remains a certain inability to demonstrate the validity of positive links between CG, whatever the construct used for modelling purposes (most recurrently, the board of Directors), and firm performance. Daily et al. (2003) stated that research until then had been unable to provide sufficient evidence of 'systematic relationships in these areas'; Lynall et al. (2003) also highlight the 'lack of empirical support for theoretical models of boards and firm performance'; Bhagat & Bolton (2008) did not find any correlation between CG variables and future price performance; Filatotchev & Boyd (2009) observed that 'empirical findings on this causal link between CG factors and firm performance have been mixed and inconclusive'; Larcker and Tayan (2020), as quoted by Stevens (2024), 'conclude that the current body of research has been unsuccessful at documenting positive correlations between heralded features of corporate governance and the sought after outcomes of governance quality and organizational performance'. More recently, however, an extensive longitudinal, quantitative study

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<sup>10</sup> There are three other, more recent, systematic literature reviews on the topic of CG in SMEs by Singh & Pillai (2022), Handley & Molloy (2022) and Teixeira & Carvalho (2024), which will be discussed in later chapters, but they are not specifically focused on theoretical paradigms.

by Bagh et al. (2025), focusing on CG practices<sup>11</sup> of US listed companies in the 2013-2022 period, suggested there is a positive correlation between the improvement of a firm's CG framework and its value, especially 'when corporate governance disclosures exceed industry and year-adjusted averages' (Bagh et al., 2025).

Filatotchev & Wright (2017), writing from their perspective as editors of some of the main journals in the field of CG, recognize a large number of issues surrounding academic production in CG in general (i.e. not exclusively in SME contexts). Their review points to issues related to theorisation versus empirical evidence as well as weaknesses in methodological terms, both in quantitative and qualitative (proportionately, much smaller) approaches. More specifically, they argue there is a disconnect between theory / context and the empirical evidence being tested and that most studies tend to focus on specific, individual CG mechanisms on a *ceteris paribus* basis, ignoring that governance mechanisms tend to interact with each other. Against this background, Filatotchev & Wright (2017) think that 'future research needs to address the connections between the methodological recognition of heterogeneity and configurations and the implications for theorizing'. To support this finding, they highlight the fact that CG research has absorbed inputs from other areas, notably related to Behaviour sciences, and is thus becoming much more interdisciplinary than was the case before. This aspect had already been emphasized by Hambrick et al (2008), when they recognise that governance encompasses 'complex matters as multiple stakeholders, boardroom dynamics, managerial processes, managerial values and motives and national systems (including culture, legal legacies and so on) and therefore cannot be reduced to a simple principal-agent problem.

The systematic literature review undertaken by Li et al. (2020) on CG in entrepreneurial firms continues to identify 'the quite fragmented nature of the field and the substantial knowledge gaps'. Li et al. (2020) also coincide with Filatotchev & Wright (2017) in that CG needs to be understood in terms of various mechanisms interacting with each other and their combined impact on firm performance, therefore requiring new theoretical paradigms as well as methods, a statement later corroborated by Handley & Molloy (2022).

In a way, one could be tempted to repeat Daily et al. (2003)'s statement that 'the field of corporate governance is at a crossroads. Our knowledge of what we know about the efficacy of corporate governance mechanisms is rivalled by what we do not know.' While empirical evidence on the links between performance and Governance have remained scarce, two decades of mushrooming CG research, to paraphrase Filatotchev & Wright (2017), have unearthed many possible future avenues. As such, we will now move to provide context in terms of the main CG theories as well as the

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<sup>11</sup> In this study, Refinitiv's governance scores were used as a proxy to measure the construct 'CG practices'.

main trends observed in the specific field of CG in an SME context, before identifying the specific research gap this thesis will try to address.

## 2.2. Corporate Governance Theories: revisiting the Great Debate around Agency Theory

The seminal works by Jensen & Meckling (1976) on the Theory of the Firm and, later on, by Fama & Jensen (1983) on the ‘Separation of Ownership and Control’, discussing ‘the survival of organizations in which important decision agents do not bear a substantial share of the wealth effects of their decisions’, resulted in CG being seen as a framework of checks and balances between the owners of capital (shareholders or principals) and those who control it (CEO, Management team, or ‘agents’). Since the Agency theory had a clear focus on the need to minimize losses to the shareholders, as holders of the residual claims over capital<sup>12</sup>, it opened the door for the development of CG mechanisms related to incentives alignment (such as executive compensation, stock options, etc) and improved control mechanisms, such as the need for independent, non-executive, directors in the board. The Fama and Jensen framework ultimately resulted in CG being understood essentially as a value sharing discussion between only two categories of economic agents (shareholders and managers), forcing a split between ‘decision management’ and decision control’ (Fama and Jensen, 1983).

However, the dominance of Agency Theory, or at least the bias towards understanding CG as a matter between owners and managers and, consequently, an issue affecting only mature, large, listed companies, began to be disputed over the last two decades.

Looking in retrospect, Charreaux & Desbrieres (2001)<sup>13</sup> stand among the first researchers to summarize the discomfort by assuming that the ‘dominating shareholders’ point of view appears to be too limited to build a relevant theory of CG’. Charreaux & Desbrieres (2001) invested in developing a novel theoretical framework to demonstrate that there is value to be created by the firm (‘the difference between the sales evaluated at opportunity prices and the sum of the opportunity costs for the various resource suppliers’), therefore expanding Agency theory’s central view that only shareholder value is effectively created as all other resource providers are remunerated at their respective opportunity cost<sup>14</sup>.

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<sup>12</sup> Fama & Jensen (1983): *The residual risk - the risk of the difference between stochastic inflows of resources and promised payments to agents - is borne by those who contract for the rights to net cash flows.*

<sup>13</sup> *The original paper was written in French in 1997; for the purpose of this paper, we will use the 2001 English translation.*

<sup>14</sup> *For a very detailed overview of Charreaux’s model, please refer to Wirtz (2011).*

In doing so, Charreaux & Desbrieres (2001) innovate in the way they formulate the ‘stakeholder value’<sup>15</sup> concept and its implications for what Charreaux calls the ‘organizational game’, ie the way managers and the various remaining stakeholders interact in the context of the firm, and the creation/destruction of organizational rents those interactions may generate. Charreaux (1996) thus defines CG as ‘all the mechanisms that govern the managers’ behaviour and delineates their discretionary latitude’<sup>16</sup>, while emphasizing its ultimate goal: ‘the function of a governance mechanism (...) is to contribute to the efficiency of the firm. (...) only efficient systems that ensure the regulation of firms leading to the creation of sustainable value, survive on the long term’.

Three broad implications can be inferred from Charreaux’s approach: it expands the concept of CG beyond the owner/manager relationship; it establishes CG as a key driver in the creation of value, which is different from the way that value is ultimately shared (Agency’s theory main concern) and; ultimately, it brings behavioural/cognitive topics into the table.

More or less at the same time as Charreaux, but approaching the topic from their legal background, Blair & Stout (1999) also felt the need to find an alternative CG theoretical framework, which they based on the insights of Alchian & Demsetz (1972) (“Production, Information Costs, and Economic Organization”). Assuming that “1) several types of resources are used ... 2) the product is not a sum of separable outputs of each cooperating resource . . . [and] 3) not all resources used in team production belong to one person’ (Blair & Stout, 1999), the authors posit a Team Production theory which they feel better describes the reality of enterprises – in which a number of actors far larger than the ‘principal-manager’ pair continuously contribute to the firm’s productive activity, whose scope extends beyond the basic profit maximisation assumption. Having a clear understanding of property rights economic theory, the authors address potential misaligned incentives, like shirking (lack of willingness to contribute to team efforts or free-riding) or rent-seeking, where the conflict between individual efforts to get a piece of the pie destroys the size of the pie due to transaction costs. The nature of the ‘governance problem’, seen from the perspective of Blair & Stout (1999), lies, therefore, on the impossibility of drawing explicit contracts to avoid those behaviours and ensure the rents generated by the common economic activity are adequately distributed. In their view, this will ultimately require a ‘mediating hierarchy’ – the board.

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<sup>15</sup> *It is important to note that, while Charreaux’ suggests that governance discussions should consider a larger number of stakeholders, his research has no visible links to the Stakeholder Theory of the Firm, as developed by Freeman since 1984. “Stakeholder theory” or “stakeholder thinking” has emerged as a new narrative to understand and remedy three interconnected business problems—the problem of understanding how value is created and traded, the problem of connecting ethics and capitalism, and the problem of helping managers think about management such that the first two problems are addressed.’ (Parmar et al., 2010)*

<sup>16</sup> *Original in french: ‘Une théorie de gouvernement des entreprises est également une théorie du pouvoir discrétionnaire managerial, c’est-à-dire de la latitude dont disposent les dirigeants pour gérer les différents contrats’ (G. Charreaux, 1996). English formulation taken from Li et al (2020).*

It may have been a coincidence that the two approaches described above were developed shortly before corporate scandals in the early 2000's threw into question the governance paradigms prevailing at the time<sup>17</sup>. However, it is a fact that CG research exploded from then on, guided by an appeal to broaden the comprehension of CG frameworks and definitions beyond the Agency Theory paradigm.

Aguilera & Jackson (2003), writing about comparative corporate governance practices, highlight the bias of Agency theory towards Anglo-Saxon contexts, which limits its ability to describe corporate governance frameworks in other geographies such as Continental Europe and Japan. Drawing heavily on Institutional theory, they emphasize the 'embeddedness' of such practices around 'a nexus of formal and informal rules' between various groups of stakeholders, both internal (such as employees) and external, along with institutional and legal arrangements (Aguilera & Jackson, 2003).

Gedajlovic et al. (2004), writing in the context of founder-managed firms, 'defines governance, not only in terms of incentives, as do agency theorists, but also in terms of authority structures and norms of legitimacy'.

Huse (2005b) expands Charreaux's formulation to emphasize the importance of informal sources, cultural and contextual settings in the shaping of CG practices, aspects which 'theoretical modelling from financial economics have only to limited extent been able to grasp'.

Filatotchev & Wright (2005), as quoted in Uhlener et al. (2007), reinforce Charreaux's perspective that CG is also about value creation by stating that 'there is increasing recognition that CG is not only about holding management accountable – and thus minimizing downside risks to shareholders – but also about enabling management to exercise enterprise in order to assure that shareholders benefit from the upside potential of firms'. Filatotchev et al. (2006) would describe these two CG roles in terms of 'wealth protection' (the perspective of Agency Theory) and 'wealth creation'.

Among the various ongoing attempts to reframe the discussion, the note from the editors of Academy of Management Journal's Vol. 57, 2014 (Tihanyi et al., 2014), titled 'Rethinking Governance in Management Research', stands out. It begins by rephrasing in a concise expression the core of what Governance is: '*decision-making* by boards of directors, chief executives, and senior managers' (Tihanyi et al., 2014) (our italic) and goes on to highlight the need for the research field to expand beyond the narrow financial perspective and embody leadership and stewardship considerations. While recognising that Governance revolves around the board and is therefore different from the day-to-day activities of the managers, the authors call for more attention to emerging topics such as

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<sup>17</sup> The UK government commissioned a special report on board dynamics ('Higgs review'), based on Roberts et al (2005) – it will be analysed in more depth in section 2.3.3.

‘managerial roles, organizational contexts, internal and social processes, and changes in governance over time’ along with ‘stakeholder engagement, the implications of big data, social impact, global dimensions, and comparative analysis of governance’ (Tihanyi et al., 2014). Filatotchev et al. (2020) moved further in this line by introducing an ‘open-systems’ model, arguing that governance (perceived as ‘decision-making’), on one hand, and strategy and innovation, on the other, are inter-dependable fields, interacting in a continuous feeding loop – which then requires a broader span of attention to the internal and external contexts in which firms operate. In other terms, governance affects and is affected by strategy and innovation pushes and cannot be singled out of the various dimensions affecting a firm’s development over time<sup>18</sup>.

In a certain way, both Tihanyi et al. (2014) as well as Filatotchev et al. (2020) are in themselves a reflection of Hambrick et al. (2008)’s prescient words: ‘the domain of corporate governance is itself in flux; as corporations and societal norms evolve, so do the boundaries of what constitutes governance’.

Table 1 below provides an overview of some CG definitions found in the main theoretical papers published over the last two decades:

**Table 1: CG Definitions 2000-2020**

<b>AUTHOR &amp; YEAR</b>	<b>CG DEFINITION (CONCEPT/ROLE)</b>
(G. J. Charreaux & Desbrières, 2001, p. 108)	We prefer the definition according to which the CG system covers all the mechanisms that govern the managers' behavior and delineate their discretionary latitude
(Gedajlovic et al., 2004, p. 910)	Governance of an organizational form can be usefully conceptualized as a coherent system of incentives, authority relations and norms of legitimacy.
(Huse, 2005b, p. 42)	The interaction among internal stakeholders, external stakeholders and the board members in directing a firm for value creation.
(Uhlaner et al., 2007, p. 226)	'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 (Keasey et al., 2005).'
(Larcker & Tayan, 2011, p. 8)	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, p. 432)	[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.'

<sup>18</sup> Filatotchev et al. (2020) present various examples of recent case studies and corporate developments, such as the impact of digital and AI technologies on governance processes, to exemplify the interdependable nature of the governance, strategy and innovation dimensions.

- (Zahra, 2014, p. 79) 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 (Desender, Aguilera, Crespi, & García-Cestona, 2013; Kumar & Zattoni, 2013).<sup>1</sup>
- (Tihanyi et al., 2014, p. 1535) 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 et al., 2020, p. 83) While definitions of corporate governance vary, they typically include the set of systems, principles and processes by which an enterprise is directed and controlled (Thomsen and Conyon, 2012; Tihanyi et al., 2014). (...)
- This encompasses a range of various institutional arrangements within firms, such as structures and forms of ownership (e.g., Pedersen and Thomsen, 2003), the board of directors (e.g., Forbes and Milliken, 1999), compensation systems for managers (e.g., Conyon, 2006), financial reporting systems (e.g., Beusenlinck and Manigart, 2007) and auditing (e.g., Cohen et al., 2010). However, it also includes a wider set of institutional arrangements surrounding the firm, such as state legislation and regulations (e.g., La Porta et al., 2000), corporate networks and managerial labor markets (e.g., Sinani et al., 2008) and competition on product markets (e.g., Giroud and Mueller, 2011), as well as pressure from the media (e.g., Bednar, 2012). In this respect, the study of corporate governance can be described as a relatively broad area of research where multiple social science disciplines collectively contribute to the scholarly understanding of the antecedents and consequences of the various institutional arrangements that conditions corporate governance in different organizational and geographical contexts.
- (Li et al., 2020, p. 44) 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.

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*Source: Author's own elaboration.*

As shown in the table, even though the basic formulation derived from the Agency Theory remains a cornerstone of most understandings, the broad concept of CG as a far more complex system of entities and roles/functions appears well-established at this date<sup>19</sup>. Even if Charreaux's input is rarely mentioned in the literature over the last two decades<sup>20</sup>, his formulation has proved prescient looking at the future research directions suggested by Filatotchev & Wright (2017) and Li et al. (2020). Curiously enough, despite the increasingly multidisciplinary character of CG research, researchers with finance backgrounds have continued to find it difficult to depart from pure Agency Theory definitions

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<sup>19</sup> *Outside the academic world, it is worth mentioning the OECD paper 'Principles of Corporate Governance', originally published in 1999, subsequently revised in 2004 and 2015 and formally endorsed by the G20 in 2023 (OECD, 2023). The OECD proposes the following definition of CG: 'Corporate governance involves a set of relationships between a company's management, board, shareholders and stakeholders. Corporate governance also provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined.'*

<sup>20</sup> *Other than Li et al. (2020) and Gabrielsson (2020)'s brief references, we have only found one paper which extensively discusses Charreaux's contribution: 'The cognitive dimension of corporate governance in fast growing entrepreneurial firms' (Wirtz, 2011).*

(Bhagat & Bolton, 2008; Habib & Hasan, 2019). Two main factors appear to underlie this observed resistance: on one hand, there is a recurrent focus on linking CG and performance, an objective which has proved elusive even in the context of listed companies, where information is abundant; on the other, the lack of familiarity with qualitative research tools may restrict the available paths to better understand Governance as a complex, interwoven and interactive system in which behaviours do play a role.

### **2.3. Corporate Governance in an SME Context**

The lack of a widespread consensus on the precise definition and implications of CG along with the scarce empirical evidence of positive links between governance and firm performance create significant challenges when trying to frame a discussion on Governance within SME contexts. As noted by Li et al. (2018) and Handley & Molloy (2022), it is certainly problematic to see that a significant part of this domain continues to rely heavily on the Agency paradigm even though its main ‘principal-agent’ tenet may be absent given the frequent management-ownership overlap observed in SMEs (Handley & Molloy, 2022; Uhlaner et al., 2007). While this paradox has led to frequent calls for novel theoretical frameworks, the field remains fragmented (Handley & Molloy, 2022; Li et al., 2020; Teixeira & Carvalho, 2024). In their systematic literature review focusing on CG and SME performance, Teixeira & Carvalho (2024) could not find articles ‘addressing the benefits of CG in the context of SMEs’.

However, in contrast to academic circles, various entities related to the reality of entrepreneurial settings and SMEs actively began to work on Governance guidance for SMEs long time ago, notably encouraged by the release of the Cadbury Report (UK, 1992) and the subsequent Greenbury (1995) and Hampel reports (1998)<sup>21</sup>. 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 ecoDA<sup>22</sup> Code (2010), the AldAF 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. Chapter III will provide a comprehensive analysis of some of these codes, aiming at understanding which governance elements are more recurrently emphasized. In any case, the emergence of so many SME CG codes is actually in line with a recommendation put forward by Uhlaner et al. (2007), calling for the development of CG codes for privately held-firms, which could set CG guidance while taking into account the *heterogeneity* of SMEs.

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<sup>21</sup> Huse & Gabrielsson (2012) are among the first to notice the divergence between the paths taken by practitioners vis-à-vis the academic world, in the context of their discussion about the contribution of Team production theories to CG discussions.

<sup>22</sup> EcoDA: European Confederation of Directors’ Associations.

In fact, the ‘heterogeneity issue’ has sometimes been described as a material obstacle to the development of CG theories in SMEs. It arises both from sectorial as well as life-stages diversity: until it becomes a full-fledged corporation, a firm will face various stages with inherently different challenges in terms of various management dimensions as well as ownership and stakeholder management, among other. This may require different governance arrangements, effectively preventing a ‘one-size fits all approach’ (Handley & Molloy, 2022). The next two sections will therefore address the heterogeneity issue in SMEs and Organizational Life-cycle (OLC) theories, before moving on to the discussion of the most prevalent CG perspectives in SMEs and, then, their intersection with OLC theories.

### **2.3.1. The SME heterogeneity paradigm**

Discussing CG in an SME context must start by the recognition that SMEs – be it entrepreneurial or privately-held firms - comprehend an extremely large and heterogeneous group of companies, with many specificities, in terms of ownership structure and management arrangements, which then cross with various organizational stages, each one with its own challenges (Ingley et al., 2017; Karoui et al., 2017; Uhlaner et al., 2007; Zahra & Filatotchev, 2004). The implication here is that the SME reality is very different from that of mature listed entities, where management practices and governance formalities are clearly established (and, we would dare saying, where public data is also more abundant, making the life of researchers much easier). In particular, we think the distinction proposed by Garg & Furr (2017) between venture capital (VC)<sup>23</sup>, professionally funded firms, on one hand, and small businesses and family businesses, on the other, is very pertinent. While VC firms may also be small in size, at least in their early stages, the ‘external capital source’ factor imposes accountability mechanisms which may naturally be absent in the latter case.

Garg & Furr (2017) also add that it is frequent for such companies not to have a board or, if they do, the roles will be filled in by family members related to the founder (that would certainly be the case in family businesses), a corporate body Karoui et al. (2017) describes as a ‘legal fiction’ board. As an example, and as quoted by Uhlaner et al. (2007), ‘based on a large stratified random sample of Dutch SMEs with between 1 and 99 employees (n = 1469), Hessels and Hooge (2006) find that only three percent of such companies have a board of directors. Even among the larger SMEs (those with between 50 and 99 employees), less than a third (29%) have a board of directors’. This evidence supports the notion that SMEs operate in a ‘decision-making / internal control processes / interaction

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<sup>23</sup> Garg (2013) defines VC firms as follows: ‘ventures as small, privately held, young entrepreneurial firms with significant external equity investment from professional investors. Ventures often focus on the development of new products or services that are based on innovation’. This segment will be out of scope of the current thesis.

between stakeholders' framework which is radically different from the paradigm of large, mature companies.

As such, from a CG viewpoint, the reality of SMEs raises issues in terms of decision-making accountability but also of strategical renewal capabilities (Brunninge et al., 2007; Zahra & Filatotchev, 2004). Singh & Pillai (2022) summarize the CG challenges faced by SMEs in four dimensions: 'centralized decision-making, retention of skilled manpower, succession and standardized internal control procedures'. All of these factors are critical for the firm's success; if inadequately dealt with, each one of them may endanger the viability of the business at some point in the future.

While the most common definition for an SME is a statistical one, based on quantitative parameters such as business volume, number of employees and asset size<sup>24</sup>, these guidelines prove clearly insufficient to determine the most adequate CG dimensions required by the business. Quoting Ingley et al. (2017), the challenge of discussing CG in SME contexts is that it is 'difficult to encapsulate theoretically their governance needs in a comprehensive model'.

To help solve this heterogeneity paradox, Ingley et al. (2017) proposed an interesting development of the model originally introduced by Torrès & Julien (2005). Instead of a quantitative categorization of SMEs, the model defines SMEs in terms of 'proximity' around three elements: 'shareholding proximity', meaning the very close relationship between owner and managers, translating into very fluid communication routines; 'ecological proximity', meaning the small and very interconnected ecosystem of external stakeholders, including institutional ones, in which the firm operates; 'hierarchical proximity', meaning the central role played by the founder/general manager in terms of defining management style and firm culture. Finally, there is an aspect related to organizational maturity, which is not correlated to chronological age but is a function of the degree of power decentralization, specialization of labour / tasks, complexity of information systems and strategic decision-making<sup>25</sup>. By going beyond the numerical dimension, which is normally insufficient to fully grasp the reality of a firm, Torrès & Julien's model provides a more refined analytical frame to help us understand a firm's nature and operational context. In fact, the model may also help explain why some small firms fail to evolve into larger corporations, regardless of their age.

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<sup>24</sup> The SME definition widely accepted in Portugal and aligned with the European Union's definition is the following:

- less than 250 employees;
- annual turnover below € 50 million;
- total assets below € 43 million.

<sup>25</sup> The relevance of this conceptual framework will be made clearer in the section discussing the intersection between OLC and CG theories.

### 2.3.2. Organizational life-cycle (OLC) theories

Another of the aspects that tends to complicate researching the reality of SMEs is related to their growth dynamics and the challenges firms must overcome when moving from a start-up stage to a more mature setting. Amin et al. (2021) provide a detailed overview of the evolution of OLC theories and the various stages considered by each of them, which range from three to ten, depending on the author, with the average standing at five. Please refer to Table 2, which has been adapted to also include Churchill & Lewis (1983).

**Table 2: OLC Theories: stages**

Authors	# stages	Life cycle definitions
<b>Adizes (1989)</b>	<b>10</b>	Ten stages: Courtship, infancy, go-go, adolescence, prime, stable, aristocracy, early bureaucracy, bureaucracy and death
<b>Baird and Meshoulam (1988)</b>	<b>5</b>	Initiation, functional growth, controlled growth, functional integration and strategic integration
<b>Flamholtz (1986)</b>	<b>7</b>	New venture, expansion, professionalization, consolidation, diversification, integration and decline
<b>Galbraith (1982)</b>	<b>5</b>	Proof of principle/prototype, model shop, start-up/volume production, natural growth and strategic maneuvering
<b>Greiner (1972)</b>	<b>5</b>	Creativity, direction, delegation, coordination and collaboration
<b>Kazanjian (1988)</b>	<b>4</b>	Conception and development, commercialization, growth and stability
<b>Quinn and Cameron (1983)</b>	<b>4</b>	Entrepreneurial, collectivity, formalization and elaboration of structure
<b>Miller and Friesen (1984)</b>	<b>5</b>	Birth, growth, maturity, revival and decline
<b>Smith et al. (1985)</b>	<b>3</b>	Inception, high growth and maturity
<b>Scott and Bruce (1987)</b>	<b>5</b>	Inception, survival, growth, expansion and maturity
<b>Antony and Ramesh (1992)</b>	<b>5</b>	Growth, (growth/maturity), maturity, (maturity/stagnant) and stagnant
<b>Moore and Yuen (2001)</b>	<b>5</b>	(Miller and Friesen, 1984): Birth, growth, maturity, revival and decline
<b>DeAngelo et al. (2006)</b>	-	Speaks only of early/late in the life cycle of the firm
<b>Yan and Zhao (2010)</b>	<b>4</b>	Growth, maturity, decline and revival
<b>Dickinson (2011)</b>	<b>5</b>	(Gort and Klepper, 1982): Introduction, growth, maturity, shake-out and decline
<b>Churchill and Lewis (1983)</b>	<b>5</b>	Existence, survival, success, take-off and resource maturity

Source: Amin et al. (2021), adapted to include Churchill & Lewis (1983).

The most common pattern involves moving from an early, resource-scarce, stage when firms struggle to prove the viability of their business proposition to intermediate stages where organizational processes become increasingly critical to support business and improve external

credibility to, ultimately, i) either become a mature corporation with stabilized structures and decision-making processes or ii) decline and death. Critical dimensions include strategy, access to resources (cash, to begin with but also talent, for instance), managerial style, organization and processes and ownership structure. The triggers identified for the firms to move from one stage to the other may relate to growth crises (Greiner, 1989), strategic considerations (Chandler, 1962; Churchill & Lewis, 1983; Miller & Friesen, 1983) and leadership styles (Adizes, 1979).

Phelps et al. (2007), in their systematic literature review of the field, discuss at length the limitations of several of these models, arguing that the evolution of a firm is seldom unidirectional, linear or even predictable, opting to use the word ‘states’ as opposed to ‘stages’. They also suggest there is scant evidence to support what a ‘stage’ means, in terms of its main features. As result, Phelps et al. (2007) developed an alternative approach in which ‘stages’, as understood by extant literature, are replaced by ‘problem categories’ which firms must overcome in order to continue growing<sup>26</sup>, better described by the concept of ‘tipping point’ (Gladwell, 2006)<sup>27</sup>. These problem categories include the fields of people management, strategic orientation, formalized systems, new market entry, obtaining finance, and operational improvement, all of which are classical management issues. The authors discuss at length the notion of ‘absorptive capacity’, or the ability to find knowledge inputs to help solve the various problems, through external networking or external experts, for instance, as a key requirement for the firm to ‘navigate the *tipping point* successfully’ (Phelps et al., 2007).

These two findings were later confirmed in Levie and Lichtenstein (2010)’s extensive revision of OLC models published to date, leading them to opt for a ‘dynamic states’ formulation, defined as ‘a network of beliefs, relationships, systems, and structures that convert opportunity tension into tangible value for an organization’s customers/clients, generating new resources that maintain that dynamic state. Once emerged, a dynamic state is viable as long as its business model continues to create value that sustains the existence of the organization’ (Levie & Lichtenstein, 2010). This ‘dynamic’ perspective also owes to the notion that it is the shifts (either positive or negative) in the resource base that ultimately support a firm's competitive advantage, explaining why a firm’s evolution is not always a straight path to stable and profitable maturity (Helfat & Peteraf, 2003).

Ultimately, Phelps et al. (2007) and Levie and Lichtenstein (2010) complete a long list of authors emphasizing the need to depart from models based on biological terminology, linearly deterministic paths and exclusive focus on ‘growth’, in favor of alternative ways to frame the tensions faced by firms as they evolve over time.

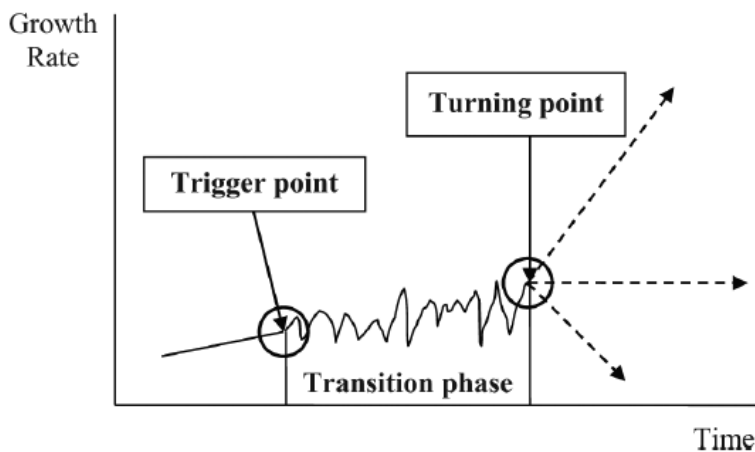
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<sup>26</sup> The authors state their model was built having in mind firms pursuing organic growth options, making it especially pertinent for the context of this thesis.

<sup>27</sup> Gladwell (2006): *The tipping point: How little things can make a big difference*.

Having said this, it is fair to say that neither the six problem categories identified by Phelps et al (2007), representing classic management issues, nor Levie and Lichtenstein (2010) embody governance considerations in their analysis, i.e. there are no references to the underlying mechanisms supporting decision-making at those tipping points. While the interlocking of the two academic fields (OLC and governance) was ultimately addressed by other authors, we still think the concept of ‘tipping point’ (Gladwell, 2006) or ‘trigger point’ (Brown & Mawson, 2013) – that juncture where a firm can make it or break it - is critical to understand the importance of Governance in the context of SMEs looking to grow. As Ingley et al. (2017) have put it: ‘Transitions are decisive periods in the life of companies, bringing significant challenges (...). Failure to address these challenges may eventually result in the total collapse of the firm’.

**Figure 3: The growth ‘trigger point’ process’**



Source: Brown & Mawson (2013).

### 2.3.3 CG general theories applied to SMEs

In the initial section, we have discussed the evolution of CG’s theoretical paradigm in general terms over the last two decades. It is now time to move further in the positioning of CG in SME contexts. The most consensual observation seen across literature is that heavy reliance on Agency Theory led researchers to concentrate on mature, listed firms, despite most companies in the world actually being privately-held (Filatotchev et al., 2006; Uhlaner et al., 2007). A strong geographical bias towards Anglo-Saxon models is also frequently noted, with corporate boards, executive compensation and (disperse) ownership being the most frequent researched CG dimensions (Filatotchev et al., 2006; Huse, 2005b; Uhlaner et al., 2007), even though those parameters may be less relevant or even inapplicable in SME contexts. In general, the discussion starts by the listing of the arguments why

Agency Theory falls short of providing an acceptable theoretical framework for SMEs: the frequent overlap between the roles of owners and managers (Uhlener et al., 2007), which eliminates the value allocation issue central to Agency Theory; and the excessive weight given to the monitoring and control functions of the board, in detriment of the knowledge/strategic and networking capabilities (also called ‘enterprising’ role) that a board may add in privately-held and entrepreneurial settings (Garg & Furr, 2017; Huse, 2005b; Zahra & Filatotchev, 2004).

In fact, most authors writing in the mid-2000s agreed that literature attributed excessive importance to corporate boards as the sole governance mechanism. The criticism was valid for all types of firms but even more so for privately-held/entrepreneurial firms (Brunninge et al., 2007; Uhlener et al., 2007). In the words of Brunninge et al. (2007): ‘In many SMEs, top management consists of one person – the CEO, who is most often also the business owner.’ Against such a background, studying the CG framework of SMEs through the sole lens of boards will either reduce the available sample or ignore other, less formal but equally important, mechanisms. Oddly, the bias towards corporate boards in SME contexts remained at the forefront of the problems Li et al. (2020) and Handley & Molloy (2022) have identified in their systematic literature review undertaken more than 10 years after the issue was identified.

Lang & Wirtz (2022) attempted to deviate slightly from this paradigm when they tried to identify the factors leading to the implementation of a formal board structure in the context of German venture capital funded firms (unlike other geographies, German legislation does not impose such a formal structure even when external shareholders are already present). Their analysis suggests that the board becomes an indispensable tool to manage the increasing relationship complexity of a multiple shareholder base as funding rounds evolve; they also acknowledge that the creation of the board is an irreversible step in the life of the firm and a move that tends to speed up the firm’s formalization level. However, ultimately, their contribution is still heavily reliant on Agency Theory principles, as the need for Governance results from a differentiation between managers and (increasingly diverse) owners.

In this section, we will analyse the main CG theories which have applicability in an SME context. Not all of them have been developed because of SMEs but it is fair to say that the discomfort about the potential unsuitability of the Agency Theory paradigm to SME / Entrepreneurial settings certainly helped foster the discussion. For the purpose of simplicity, we will stick to the categorization proposed in Li et al. (2020)’s systematic literature review: in addition to Agency Theory, the most commonly proposed theoretical frameworks include the Resource-based, Contingency and Institutional frameworks. Li et al. (2020) also pointed four emerging trends: ‘contingency theory,

institutional theory, upper echelon perspective, and team production theory'. We will now provide a succinct overview of each of these theories:

i) **Resource-based theories:** the starting point draws on Grant (1996)'s perspective that the firm is an entity designed to integrate knowledge and is therefore on permanent interactions with external actors with a view to exchange resources, 'thereby creating resource dependencies' (Gabrielsson & Huse, 2017). This CG group of theories revolves around the role played by CG in the context of resource-starved entrepreneurial firms and can be split into two main sub-fields: the 'resource-dependence' view, in which CG elements, such as outside directors (Brunninge et al., 2007; Gabrielsson & Huse, 2005) or the board itself (Hillman et al., 2009) emerge as direct providers of resources (expertise, networking) key to the Firm's development; and the 'knowledge-based approach', which focus on the learning processes of entrepreneurial firms, with CG tools perceived as an enabler of that process (Zahra et al., 2009; Zahra & Filatotchev, 2004)<sup>28</sup>. Lynall et al. (2003) summarize the four roles that can be performed by the board under a Resource-dependence perspective as follows: (1) advice and counsel, (2) legitimacy, (3) channels for communicating information between the firm and external organizations, and (4) assistance in obtaining resources or commitments from important elements outside the firm'.

ii) **Institutional theory:** approached by Aguilera & Jackson (2003), it emphasizes the importance of nation-wide institutional arrangements in the shaping of forms of control of corporations. Aspects like culture, legal frameworks, corporate ownership formats and funding options (Zattoni & Cuomo, 2008) tend to impact CG models, influencing the adoption of certain CG features in detriment of others, therefore leading to different frameworks across countries. Millar (2014) talks about the importance of 'informal institutions' as key to understand the functioning of corporate governance. Bell et al. (2014), discussing the protection of minority shareholders, also refer the influence of institutional factors in setting boundaries to the implementation of CG mechanisms.

iii) **Contingency theory:** Li et al. (2020) summarize Schoonhoven's approach by stating that 'there is no universally optimal organizational structure – as the best structure is contingent on external and internal contexts'. Bell et al. (2014) validated this perspective in their analysis of 'Investors' perceptions of foreign IPO Value' by concluding that different combinations of CG mechanisms appear to result in similar investor IPO valuations.

iv) **Team production:** again drawing on findings from Strategic Management, in this case those of Alchian & Demsetz (1972) in their seminal paper "Production, Information Costs, and

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<sup>28</sup> For a very interesting debate on the differences and implications between these two sub-theories, please refer to Gedajlovic et al. (2004).

Economic Organization’, the theory was originally framed from a CG viewpoint by Blair & Stout (1999) and then recovered by Kaufman & Englander (2005) in the aftermath of various corporate scandals. In broad terms, the theory presents the firm as a *cooperative* entity, to which various stakeholders have contributed with various assets (shareholders, board members, managers, employees and others), with the aim of creating value. Machold et al. (2011) then apply the Team Production framework to SME contexts to conclude that boards can provide valuable strategic insights to small business owners and managers, therefore becoming ‘the apex of the firm’s decision-making’ (Machold et al., 2011) and exercising a mediating role in addition to the more traditional control/monitoring/enterprising functions. As referred by Machold et al. (2011), this theory appropriates elements of stakeholder and resource-based theories and is therefore adequate for SME contexts, given their frequent informal managerial infrastructure. Huse & Gabrielsson (2012) expand the theory further to emphasize the importance of boards in fostering value creation as the condition that ensures ‘survival and success of a firm’<sup>29</sup>.

v) **Upper echelons:** The original theory was introduced by Hambrick & Mason (*“Upper Echelons: The Organization as a Reflection of Its Top Managers”*, 1984) and focused on the importance of the personal profiles and decision-making styles, as driven by personal history, experience and cognitive lens, of senior managers as key factors shaping the way the firm operates. While this framework opened a prolific research field bringing together management and psychology, literature linking this concept and CG remains scarce.

Given the prevalence of Agency and Resource dependence theories as the main theoretical paradigms in CG research, Gabrielsson & Huse, 2017 have undertaken a comparative analysis of the two streams, of which the main conclusions are displayed below:

**Table 3: ‘Resource dependence theory and agency theory compared’ – Gabrielsson & Huse (2017)**

Similarities	Complementarities	Differences
Managers are assumed to be driven largely by self-interest	Resource dependence theory is externally focused – agency theory is internally focused	Resource dependence assumes incomplete contracting setups among all stakeholders – agency theory assumes ex ante contracting between all stakeholders except between shareholders and managers
The board of directors is identified as a cornerstone in the governance system of the firm, especially outside board members	Resource dependence theory identifies a resource provision role for the board – agency theory identifies a monitoring role for the board	Resource dependence theory identifies need for boards to increase managerial discretion – agency theory identifies need for boards to constrain or control managerial discretion

Source: Gabrielsson & Huse, 2017.

<sup>29</sup> Huse and Gabrielsson have maintained a successful collaboration over the years, increasingly supportive of Team Production theory and the importance of boards’ contribution to value creation dynamics in entrepreneurial settings.

The authors posit that neither theory appears fully capable of capturing the specificities of CG in SME contexts but they try to propose some convergence nonetheless:

*“Perhaps the easiest way to deal with this situation when combining the two theories is to relax at least two basic assumptions in agency theory. (...) The first assumption to be relaxed is that of efficient markets, which means that stakeholders may not have freedom of entry and exit from contractual relationships (Hill and Jones, 1992). (...) The second assumption to be relaxed is that of fully rational economic actors. (...) The result of the two relaxations above is a slightly modified version of agency theory. (...) This creates the need for a mechanism, such as a board of directors, which can coordinate resource allocations and reduce costly and potentially value-destroying bargaining processes” (Gabrielsson & Huse, 2017, p. 49).*

At the time of this writing, the discussion on the most adequate CG theoretical paradigms for SME contexts, on its own, has not seen significant developments, keeping Li et al (2020) and Handley & Molloy (2022)’s calls to find alternative lens to the governance of entrepreneurial firms based on grounded theories, through qualitative and mixed methods, still valid. In particular, Handley & Molloy (2022)’s emphasis on the need to persevere on ‘exploration mode’, so as to avoid narrowing the scope prematurely, seems very pertinent.

In a way, this call had already been made by Roberts et al. (2005), in a paper commissioned by the UK government with a view to reform the UK’s Corporate Governance framework in the aftermath of the early 2000’s corporate scandals (Higgs Review). The research involved extensive interviewing of company directors, with a focus on the role of non-executive board members. The authors concluded that the traditional governance research lacked an adequate understanding of the real-life experience of people engaged in board activities and that ‘primary qualitative research’ was essential to close that gap.

Durst & Brunold (2017) also tried to deviate from the ‘conceptualization bias’ of extant literature by pursuing a qualitative, grounded theory approach to the field of governance in small firms. With a specific geographical focus (Rhine Valley in Europe), the authors began by assessing what the term ‘governance’ meant to their interviewees. The findings revealed a perspective based on simple structures but where the trust built out of long-term team interaction proved essential, this in turn leading to faster decision-making (Durst & Brunold, 2017). As such, Durst & Brunold (2017) pointed out the importance of the role played by employees to argue that, in the case of small firms, relational models of governance, as proposed by authors more engaged in Family Businesses

Governance, such as Mustakallio et al. (2002), appear more adequate<sup>30</sup>. In a way, their work reinforces the perspective that any discussion on governance in SME contexts must start by accepting that no single theoretical framework will be enough to accommodate the complexity of SME heterogeneity; in this case, insights from the Family Business research domain were instrumental in framing their conclusions. Instead, a combination of selected elements of different theoretical perspectives – what Roberts et al. (2005) designates as ‘theoretical pluralism’ - may provide more clarity on the tools that help SMEs grow and create value. Not many authors have ventured to bridge Governance and OLC theories but the ones who did may have opened potential avenues for future research which deserve to be looked at.

#### **2.3.4 On the intersection between organization OLC and CG theories**

From a general CG perspective (i.e., beyond the specific context of SMEs), the adoption of more expansive CG definitions, notably those rooted in the resource-dependence stream, alongside greater recognition of SME heterogeneity, opened the door for the incorporation of OLC considerations in the discussion: to what extent does CG play a role in helping firms manage the transitional challenges between different life stages? After all, these are the ‘thresholds’<sup>31</sup> that *make it or break it* for many companies and which will ultimately determine the odds of future success/viability. Gedajlovic et al. (2004) postulated that poor CG arrangements are the ‘root cause’ behind the difficulties in navigating transitions, or, put the other way around, that adequate CG mechanisms in each turning point are a pre-requisite to enhance learning processes and capabilities’ improvement as firms move from one stage to another and, therefore, ensure the transition is successful. This transitional challenge is especially evident in the cases of fast growing founder-managed firms, which start facing increasingly complex business landscapes for which the founder’s strategic and leadership capabilities no longer prove sufficient (Gedajlovic et al., 2004; Ingley et al., 2017; Zahra et al., 2009).

Lynall et al (2009) rank among the first to invest in understanding the interplay between OLC and CG fields with their theoretical study ‘board Composition from Adolescence to Maturity: A Multitheoretic View’. It is important to clarify that this is not a study about CG in SME contexts – in fact, the authors state clearly that the focus of the study is on ‘CEO-led firms’ where there is no overlap with business ownership, so that the ‘principal/agent’ tension remains in place in tandem with Agency

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<sup>30</sup> This finding finds echo in the Buysse SME code developed in Belgium, which views the relationship with employees as a crucial pillar of the governance model of unlisted companies (please refer to Chapter III for more detail).

<sup>31</sup> According to Gedajlovic et al. (2004), the concept of ‘threshold’ was originally introduced by Daily and Dalton (1992) to identify firms which have stagnated and whose resources are no longer sufficient to help them take advantage of growth opportunities.

Theory, and on boards ‘with accountability to external investors’ (Lynall et al., 2003). However, drawing from the theoretical frameworks provided by various CG theories, the study addresses the power tensions that may emerge between two important stakeholders – the CEO and the external financiers – as the firm evolves over time (until a pre-IPO stage) and how that combination of ‘power and life stages’ ultimately impacts the board’s formation timing, composition and *modus operandi*. Lynall et al., (2003) consider four relevant CG theories (Agency, Resource-dependence, Institutional and Social Network); as for OLC theories, they stick to Greiner’s four stages of development (entrepreneurial; collectivity; formalization and control; structure). Therefore, despite not focusing specifically on SMEs and despite assuming the board as the sole CG construct, we still believe Lynall et al. (2003) bring interesting insights into the discussion of CG in SME contexts by suggesting that ‘the four dominant theories of boards all have predictive and explanatory power, but at different stages in the organization's development and depending on the balance of power’ (Lynall et al., 2003). Table 4 summarizes the main propositions set by Lynall et al. (2003).

**Table 4: Board Composition from Adolescence to Maturity: A Multitheoretic View - Main propositions (Lynall et al., 2003)**

Stage	Proposition	Theories
<b>Stage: Entrepreneurial</b>		
<b>Proposition 1a</b>	Boards established during the entrepreneurial stage, and when the CEO has dominant power, will reflect the social network of the CEO.	Social network
<b>Proposition 1b</b>	Boards established during the entrepreneurial stage, and when the external financier has dominant power, will reflect the social network of the external financier.	Social network
<b>Stage: Collectivity</b>		
<b>Proposition 2a</b>	Boards established during the collectivity stage, and when the CEO has dominant power, will reflect the resource dependence needs of the firm	Resource Dependence
<b>Proposition 2b</b>	Boards established during the collectivity stage, and when the external financier has dominant power, will reflect the requirements of the institutional environment.	Institutional
<b>Stage: Formalization and control</b>		
<b>Proposition 3a</b>	Boards established during the formalization and control stage, and when the CEO has dominant power, will reflect the resource dependence needs of the firm.	Resource Dependence
<b>Proposition 3b</b>	Boards established during the formalization and control stage, and when the external financier has dominant power, will reflect agency perspectives.	Agency

Source: Lynall et al (2003).

The contributions of both Lynall et al. (2003) and Gedajlovic et al. (2004) led Filatotchev & Wright (2005) to reject the notion of a universal governance template – a finding which is consistent with the Contingency and Institutional theories, even if for a different reason. However, it also paved the way for Filatotchev et al. (2006) to develop a novel theoretical framework, aggregating OLC

elements to the resource-dependence theory, the main line of argument being that ‘changes in a firm’s strategic positioning may be associated with rebalancing between the wealth-protection and wealth-creation functions of governance’. In particular, Filatotchev et al. (2006) argue that the right balance between the wealth-protection (control and monitoring, as per Agency Theory) and the wealth creation (enterprising, networking, as per Resource-dependence theory) roles of the board may actually require changes in board composition and profiles, in order to bring in the right skills’ combination that empowers the firm to address the specific challenges it is facing in a given moment in time. Figure 4, extracted from Filatotchev et al. (2006), condenses the model’s approach, highlighting which governance functions, to be performed by the board, can be more important in each dynamic state.

**Figure 4: ‘Strategic Thresholds and the roles of the Corporate Governance’ - Filatotchev et al. (2006)**

		Governance Objectives	
		Wealth Creation	Wealth Protection
Strategic Environment	High "Velocity"	<b>Quadrant 1</b> <i>Founder/IPO threshold</i> <b>Governance functions:</b> <ul style="list-style-type: none"> <li>• Monitoring: low</li> <li>• Resource: high</li> <li>• Strategy: high</li> </ul>	<b>Quadrant 2</b> <i>IPO/maturity threshold</i> <b>Governance functions:</b> <ul style="list-style-type: none"> <li>• Monitoring: medium</li> <li>• Resource: medium</li> <li>• Strategy: high</li> </ul>
	Low "Velocity"	<b>Quadrant 4</b> <i>"Re-invention" threshold</i> <b>Governance functions:</b> <ul style="list-style-type: none"> <li>• Monitoring: low</li> <li>• Resource: medium</li> <li>• Strategy: medium</li> </ul>	<b>Quadrant 3</b> <i>Maturity/decline threshold</i> <b>Governance functions:</b> <ul style="list-style-type: none"> <li>• Monitoring: high</li> <li>• Resource: low</li> <li>• Strategy: low</li> </ul>

Source: Filatotchev et al. (2006).

The conceptual work carried by Filatotchev et al. (2006) saw further developments in papers such as Bonn & Pettigrew (2009) and Ingley et al. (2017), both focusing on the specific value added by the board on the transitions faced by a firm over time, an approach which helps shed light on the nature of the decision-making processes underlying those challenges.

Despite recognising the misconceptions around a firm’s linear evolution path, Bonn & Pettigrew (2009) still opted for a four-stage model, including a ‘decline’ stage. They identify the most typical ‘problems’ in each stage, as per Phelps et al (2007), and describe the main roles that should be performed by the board to address those ‘tipping points’ (Gladwell, 2006). In doing so, they rely essentially on insights from Agency and Resource-dependence theories, as can be seen in the table 5,

identifying three main board roles: monitoring, strategy definition ('enterprising', as per Resource-dependence theory) and networking.

**Table 5: Roles of the board as a function of life-stages (Bonn & Pettigrew, 2009)**

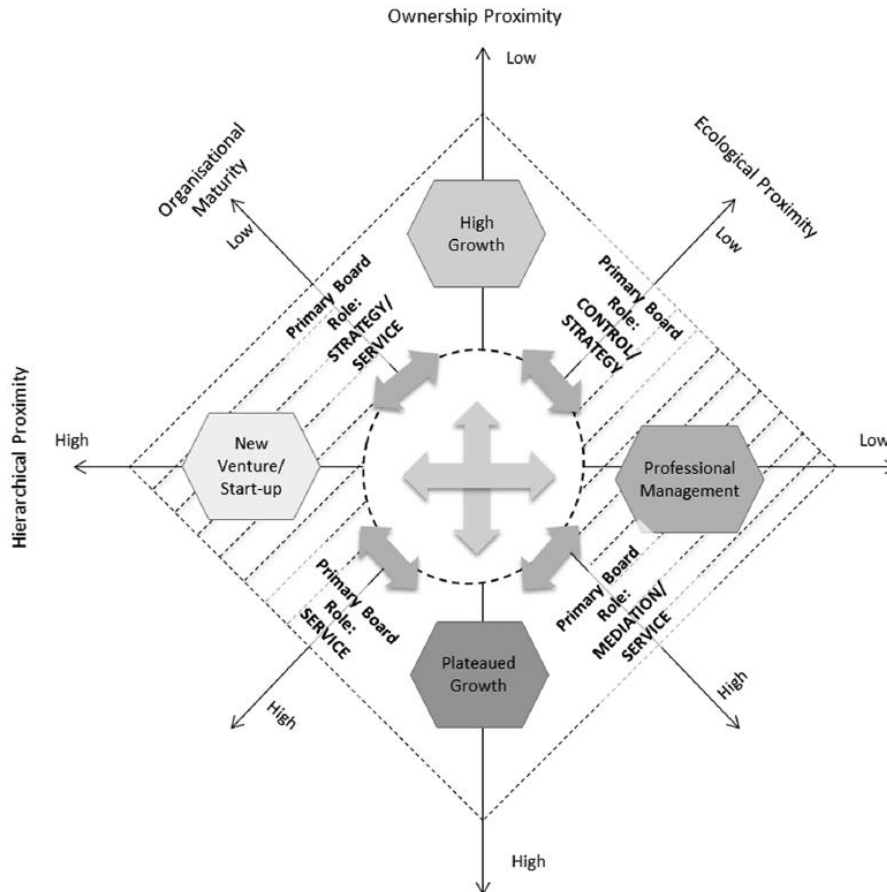
State	Key strategies	Key Board roles	Underlying Theories
<b>Start-up</b>	Securing financial resources Gaining customer acceptance Establishing legitimacy	Ensure access to resources through networking; Support shaping strategy	Resource-dependence
<b>Growth</b>	Stabilising production /service reliability Maintaining cash-flow Formalising company structure	Help demonstrate organisational legitimacy to potential investors; initiate strategies; Exercise control-related activities	Resource-dependence Agency
<b>Mature</b>	Improve efficiency by consolidating formal controls, budgets and performance measures	Maintain regular dialogue with shareholders/ stakeholders; Assist CEO in shaping strategy; Perform control-related activities	Resource-dependence Agency
<b>Decline</b>	Firm survival	Persuade directors to stay on board or appoint new ones, able to secure support from investors Initiate strategies able to reverse course Ensure effective control and monitoring mechanisms are in place	Resource-dependence Agency

Source: Adapted from Bonn & Pettigrew (2009); 'Underlying theories' column added by the Author.

Ingley et al (2017) made a similar attempt with three main differences to Bonn & Pettigrew (2007): i) drawing from Levie and Lichenstein (2010)'s work on 'dynamic states', they are consequential in assuming that a firm does not always evolve linearly over time, setting various possible scenarios based on a four-state paradigm (new venture, high growth, plateaued growth and professional management); ii) they describe in significant depth the transition challenges implied in moving from one state to the other and; iii) regarding the roles of the board, they add the Mediation and Service functions, the latter including three different components: legitimisation, networking and advice/counsel, in what could be considered a slightly mixed-expanded definition of the Resource-dependence perspective (the authors concede the frontier between some of those concepts may be blurred in practical terms). The analysis is further enriched by the 'Proximity' dimensions that characterize an SME (ownership, ecology and hierarchy), as borrowed from Torrès & Julien (2005). It is important to note that Ingley et al (2017)'s starting and end points in each profile have a general correspondence with life states described by the various OLC theories ('Ventures' could broadly equate to 'inception' and 'Professional Management' to 'stability/maturity', for example). What is specific about the model is the identification of the triggers behind each transition profile and, in particular, the contributions the Board can give depending on those triggers, as proposed by theoretical paradigms such as Agency and Resource-Dependence theories. Figure 5, extracted from Ingley et al. (2017), is a graphic representation of the various possible movements for a start-up to

evolve over time while Table 6 summarizes the nature of the main transitioning challenges in each of those scenarios.

Figure 5: Ingley et al. (2017) – An integrative model of SME trajectories, transition and board roles



Source: Ingley et al. (2017).

**Table 6: Ingley et al. (2017)'s integrative model: selected transitions and respective challenges**

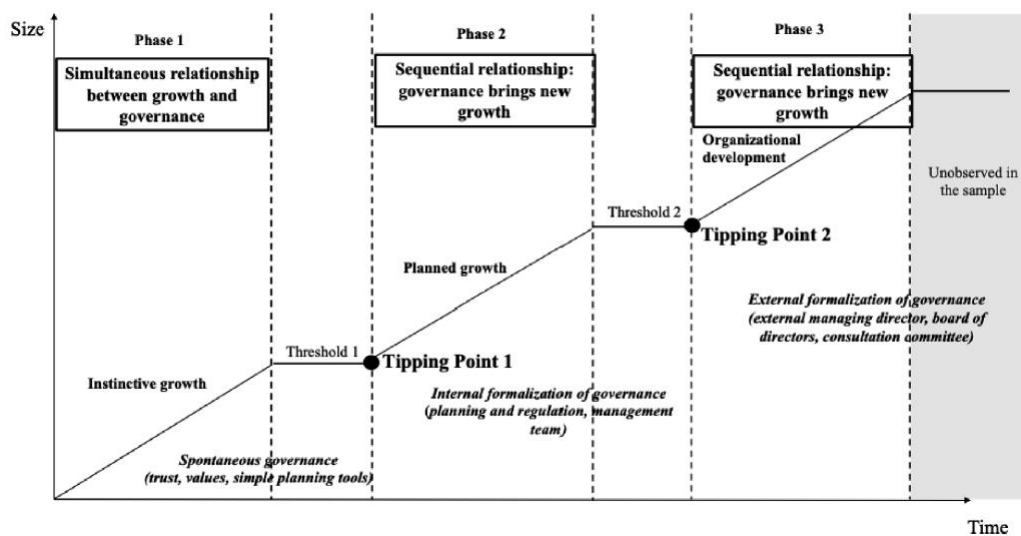
State Transitioning	Key challenges			
	@ Starting point	Triggers forcing transitioning	Roles of the Board	Underlying Theories
<b>New venture -&gt; High growth</b>		<ul style="list-style-type: none"> <li>. Access to external capital in order to scale the business</li> <li>. Strategy clarity / solid investment case aimed at attracting investors</li> </ul>	<ul style="list-style-type: none"> <li>. Outside directors may provide networking capabilities</li> <li>. Board supports strategic definition</li> </ul>	Resource-dependence
<b>New venture -&gt; Plateaued growth</b>	<ul style="list-style-type: none"> <li>. Identifying market opportunity</li> <li>. Developing products and services</li> <li>. Acquiring customers' legitimacy</li> <li>. Acquiring financial resources</li> </ul>	<ul style="list-style-type: none"> <li>. Strengthening financial independence and firm legitimacy</li> </ul>	<ul style="list-style-type: none"> <li>. Board provides counselling to founder along with networking so as to improve external legitimacy</li> </ul>	Resource-dependence
<b>New Venture -&gt; Professional management</b>		<ul style="list-style-type: none"> <li>. Increased business and organizational complexity</li> </ul>	<ul style="list-style-type: none"> <li>. Board exerts control so as to avoid agency conflicts</li> <li>. Independent board members may be recommended</li> </ul>	Agency
<b>High growth -&gt; Professional Management</b>	<ul style="list-style-type: none"> <li>. Extending product lines</li> <li>. Developing market penetration/position</li> <li>. Diversifying customers</li> </ul>	<ul style="list-style-type: none"> <li>. Market pressure for innovation pushes</li> </ul>	<ul style="list-style-type: none"> <li>. Board provides entreprising capacity in order to identify growth opportunities</li> <li>. Board exerts control to keep risk management under check</li> </ul>	Resource-dependence Agency
<b>High growth -&gt; Plateaued growth</b>	<ul style="list-style-type: none"> <li>. Assuring operational reliability</li> <li>. Raising external capital/finance</li> </ul>	<ul style="list-style-type: none"> <li>. Consolidation at a new level after radical reconfiguration of the business model.</li> </ul>	<ul style="list-style-type: none"> <li>. Board should balance all four roles (entreprising, networking, control, mediation) until new stabilised state is reached</li> </ul>	Resource-dependence Agency
<b>Plateaued growth -&gt; Professional management</b>	Coming from a stable environment and simple organizational structures,	<ul style="list-style-type: none"> <li>. Externally imposed market / competitive positioning changes</li> <li>. Succession issues</li> <li>. Going public</li> </ul>	<ul style="list-style-type: none"> <li>. Board provides mediation role</li> </ul>	Team production

Source: Adapted from Ingley et al. (2017). Analysis was restricted to 'growth positive' moves to match the reality of the interview sample selected for the purpose of this thesis.

Other papers dealing with the intersection between CG and OLC theories include O'Connor & Byrne (2015) and Amin et al. (2021), whose findings validate the notion that more mature firms tend to show better CG frameworks. While the latter observes that the exact combination of which tools at which point in time varies considerably across countries and industries, therefore aligning by a Contingency perspective, the former validated Filatotchev et al. (2006)'s findings regarding the different preponderance of Governance functions (as measured by board's monitoring/ resource/ strategy roles) depending on the life stage of the firm. However, both studies concentrate on listed companies, meaning the focus is on the more traditional CG constructs such as board (size, composition, diversity, independence) and executive compensation, which are not directly transposed to SME realities. In their systematic literature review on OLC theories done from a finance/accounting angle, Habib & Hasan (2019) also conclude that CG practices tend to evolve as a firm matures but recognize there is not yet clarity on how those developments create value over the long term.

Nearly a decade later, Lepage & Tarillon (2025), in their qualitative study of governance practices of midsize family farms in Canada, concluded that 'changes in governance can occur simultaneously with or sequentially in relation to growth. Governance is also not necessarily a prerequisite for growth, as both can evolve concurrently'. Coming from a Contingency perspective, where both disciplinary and cognitive dimensions can co-exist, their analysis suggests that governance adoption can occur prior to ownership/management separation, with the lack of adequate human and organisational resources to support growth playing a pivotal role in that process. (Lepage & Tarillon, 2025).

Figure 6: Lepage & Tarillon (2025)'s: Growth and governance phases of small/midsize family farms



Source: Lepage & Tarillon (2025).

Table 7: Lepage & Tarillon (2025)'s: Phases, Tipping points & Motivations for Governance adoption

Phases	Key challenges		
	Main features	Triggers forcing transitioning ('tipping point')	Motivations for improving governance
<p><b>Instinctive growth and unplanned governance</b></p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Governance adoption is reactive</p> <p style="text-align: center;">↓</p> <p><b>Formal internal governance and planned growth</b></p> <p style="text-align: center;">↓</p> <p style="text-align: center;">Governance adoption is proactive</p> <p style="text-align: center;">↓</p> <p><b>Formal external governance and organizational development</b></p>	<p>Minimal planning Informal rules aimed at facilitating getting to consensus on decisions</p>	<p>Stabilised /stalled growth rates Lack of adequate human and organizational resources to pursue growth</p>	<p>Essential for maintaining sector leadership as well as pursuing new opportunities.</p> <p>Necessity of developing solid growth plans, which then requires stepping away from day-to-day management duties</p>
	<p>Delegation of operational tasks Creation of a management team including professional managers More rigorous decision-making processes</p>	<p>Stabilised /stalled growth rates Generational changes, either because new generations look for clearer decision-making structures or because younger generations are not yet ready to assume leadership and some transitional arrangement is required Ownership changes</p>	<p>Delegating decision-making to professional managers allows time for new generation to be prepared to assume leadership</p> <p>Avoiding conflicts through clear decision-making rules, in the case of disperse ownership within same family</p> <p>Perception that second generation is unfitted/unwilling to assume leadership leads to professional management structures, requiring monitoring mechanisms</p>
	<p>Consultive committees, board of directors, outside directors</p>	<p>-</p>	

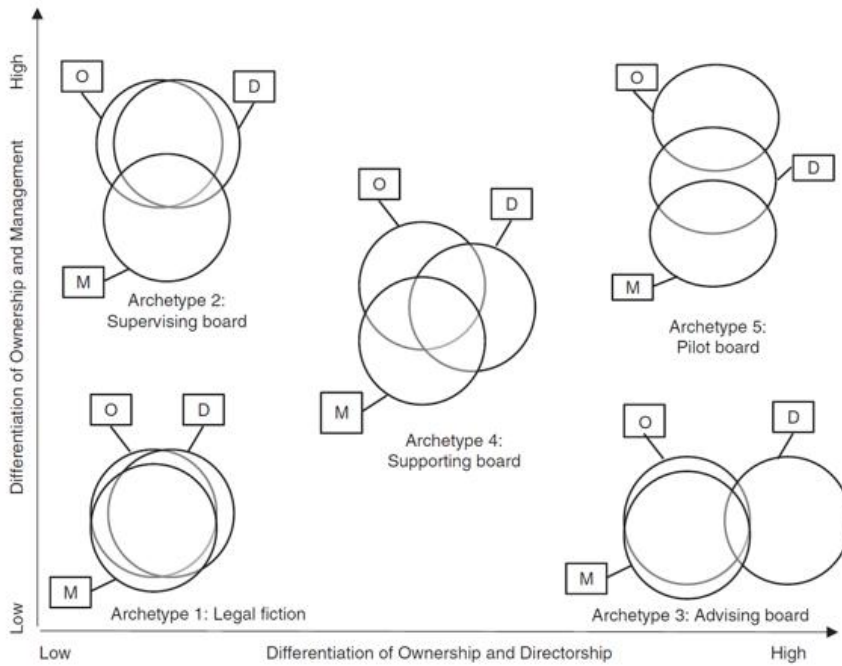
Source: Adapted from Lepage & Tarillon (2025).

### 2.3.5. The board: the last paradox

Having got here, it is clear from the various theoretical streams that, despite their differences, there is one common element: in different capacities, the board always appears as the main decision-making body within the firm. This is paradoxical in that extant literature also recognizes that most SMEs have either no board at all or have what Karoui et al. (2017) have called the 'legal fiction', i.e., a board required in legal terms, most of the time composed by relatives of the owner-manager (Garg & Furr, 2017; Handley & Molloy, 2022; Karoui et al., 2017; Uhlaner et al., 2007).

While still abiding by the importance of the board, Karoui et al (2017)'s study, based on an extensive sample of French firms, explored the main services that can be performed by a board in private SMEs. While the nature of the 17 tasks identified is broadly aligned with extant literature (monitoring and resourcing functions), the study concluded the weight given to those functions is determined by the power balance established between the owner, managers and external directors, leading to six possible different board configurations, as displayed in the figure and table below. In the extremes, Karoui et al (2017) describe the previously mentioned 'legal fiction' board (archetype 1) as the case where there is no segregation between ownership, management and external directors (who are appointed based on family relationship in the majority of cases). This is opposed to the Pilot board, applicable to cases of disperse ownership, where there is full segregation between ownership and management, with directors playing an intermediate role (archetype 5). The intermediate archetypes, involving various overlap degrees between owners, managers and external directors, reflect different intensities of the advising, supporting and supervising capacities of a board.

Figure 7: Archetypes of boards in private SMEs



Notes: O, owners; D, directors; M, managers

Source: Karoui et al (2017).

Table 8: Board archetypes based on organisational characteristics

Board configuration	1	2	3	4	5
SME characteristics	Legal fiction	Supervisory	Advisory	Supporting	Pilot
Ownership	Highly concentrated	Concentrated	Concentrated	Open with a few dominant owners	Open/Public
Management	Dominated by owners	Professionals with low ownership	Dominated by owners	Mixed	Professionals
Key stakeholders influence	Limited	Limited	High influential	Moderate influence	High influential
Governance relationship	Dominated by owners	Dominated by owners	Dominated by outsiders	Mixed	Mixed

Source: Karoui et al (2017).

While Karoui et al (2017)'s approach sheds relevant light on the nature of boards in private SMEs contexts, the conundrum about the elements that support decision-making in SMEs without a board remains unaddressed, making Handley & Molloy (2022)'s view that 'a broad definition extending CG past the limits of a board of directors is helpful in the SME context' very pertinent.

Therefore, it may be useful to return to Gabrielsson et al. (2020)'s definition of Governance in SME contexts:

*“Corporate governance is here broadly understood as the set of principles and practices by which the enterprise is directed and controlled. In SMEs this refers to various mechanisms defining and influencing the power and decisions of the CEO, including structures and forms of ownership, the composition and functioning of management teams and boards, executive compensation, financial reporting systems, and auditing. However, it also relates to the regulatory environment of SMEs, including guidelines of best practices formalised into corporate governance codes.”* (Gabrielsson et al., 2020, p. 83).

Building on Charreaux's original formulation, this definition helps reposition what Governance may mean in SME contexts: an ample set of mechanisms and stakeholders that collectively contribute to more disciplined and accountable decision-making frameworks. It retains the more traditional Governance blocks (ownership, boards, executive compensation) but adds elements that help emphasise the essential nature of Governance as a decision-making process (mechanisms influencing decisions) which must be accountable (financial reporting, auditing).

As Chapter III will clarify through the review of CG SME Codes, this approach also helps bridge the gap between academia and practitioners, who have spent considerable effort in the past two decades to develop Governance codes for unlisted and SME firms anchored in the importance of sound decision-making as a key driver behind long-term, sustainable, value creation.

In this regard, Roberts et al. (2005)'s paper 'Beyond Agency Conceptions of the Work of the Non-Executive Director: Creating Accountability in the boardroom' is particularly helpful: one of the findings refers specifically to the central role of accountability in improving the board's effectiveness, therefore suggesting 'accountability'<sup>32</sup> is indissociable from sound decision-making, a view shared by (Huse, 2005a).

Another interesting corollary stemming from Gabrielsson's definition is the close connection established between governance and management, which have so far been seen as different, independent domains in traditional Governance research. While Hambrick et al. (2008) had already included 'managerial processes, values and motives' in their definition of Governance, a formulation broadly recovered by Tihanyi et al. (2014), Liljestrom et al. (2025) suggests the two fields may have evolved too separately for too long and that, in the specific case of SMEs with active owners directly

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<sup>32</sup> 'According to Giddens, 'to be "accountable" for one's activities is to explicate the reasons for them and to supply the normative grounds whereby they may be justified' (Roberts et al., 2005). Still according to Roberts et al. (2005), this should be differentiated from formal compliance with regulation or 'box ticking'.

interacting with boards and management teams, it is certainly more difficult to disentangle the two dimensions.

At this point, it may be helpful to recover Hambrick et al (2008)'s remark: 'the domain of corporate governance is itself in flux; as corporations and societal norms evolve, so do the boundaries of what constitutes governance'. It may also be time to endorse Filatotchev & Wright (2017)'s challenge: "As strategic management has developed a growing field focused on strategy as process, there is scope for governance research to develop a subfield of 'governance as process' too".

## CHAPTER III: THE EXPERIENCE ON THE SIDE OF PRACTITIONERS

### 3.1. Introduction

As already mentioned in the Literature Review section, the last 20 years were fertile in attempts to discuss Governance in SME contexts on the side of practitioners. The influence of the Cadbury Report was felt in the various initiatives undertaken by corporate, state-related and multilateral entities to develop specific Corporate Governance codes for unlisted, family and SME players, in different geographical contexts. In this chapter, we will provide an overview of the main developments in this front, ranging from formal codes (section 2), the majority of them pursuing a ‘principle-based approach’ meant to be adopted on a voluntary basis, to more pedagogical approaches such as the IFC’s SME Governance Guidebook (section 3) and Business Roundtable Portugal’s Metamorfose programme (section 4). Generally speaking, there are some common features transversal to all documents: i) the notion that governance in small business contexts has essentially to do with discipline in decision-making processes, which then leads to ii) the recognition that governance is critical to ensure sustained growth and value creation, even if iii) there remains a need to clarify the incentives that may lead small business owners to adopt governance practices at earlier stages in their firms’ development path.

### 3.2. Corporate Governance Codes

Aguilera & Cuervo-Cazurra (2009) carried out an exhaustive review of codes published on a worldwide basis until that date, noticing a steep increase since the Cadbury report was published in 1992 even if ‘academic research has lagged behind in analysing this topic’ (Aguilera & Cuervo-Cazurra, 2009). However, their work focused mostly on codes issued for large, listed companies. Gabrielsson et al (2020) refined the focus to consider codes targeting SMEs, privately-held and family businesses in Europe, as available in the European Corporate Governance Institute (ECGI) website at the time. The paper concludes that, while target audiences may vary from listed SMEs to privately-held companies, regardless of size, and family businesses, listed or not, the codes have recurrent elements, such as ‘ownership issues, how to contribute to long term value creation, adapting to the context, and ethics and social responsibility’ (Gabrielsson et al., 2020). There is also a wide recognition that Governance in such contexts should abide more by general principles rather than enforceable legal rules – all codes are voluntary. There is also a common notion that ‘corporate governance<sup>33</sup> challenges

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<sup>33</sup> Given this is a thesis focusing on Governance on SMEs, we have deliberately used the single word ‘Governance’ instead of ‘Corporate Governance’ throughout the document because SMEs cannot, in most cases, be considered fully-fledged

in various life cycle phases must be understood and that SMEs will often have more need for flexibility than large corporations will’ (Gabrielsson et al., 2020). Despite that recognition, the monitoring paradigm coming from Agency Theory is tangibly obvious in most of the Codes (Karoui et al., 2017)

**Table 9: ECGI-listed Corporate Governance codes in SMEs (illustrations)**

Country	Year	Code Name	Audience and Objectives
Albania	2008	<b>Corporate governance code for unlisted joint-stock companies</b>	Unlisted joint-stock. Simplifying. Similar also for Slovenia, Slovakia, and Spain.
Belgium	2005	<b>Code Buysse</b>	Non-listed enterprises. Future success.
Finland	2006	<b>Improving corporate governance for unlisted companies</b>	Unlisted. Improving corporate governance.
France	2009	<b>MiddleNext code</b>	Specificities of SMEs.
Ireland	2016	<b>Code for community, voluntary and charitable organisations</b>	Community, voluntary, and charitable.
Italy	2017	<b>AIdAF code</b>	Unlisted family-controlled. Objective?
Switzerland	2006	<b>Continuum Code</b>	Business families. Growing family businesses.
UK	2018	<b>QCA code</b>	Small and mid-size. Growing companies.
European Confederation of Directors’ Associations	2010	<b>ecoDa Code for Unlisted Companies in Europe</b>	All SMEs. Long-term continuity.

Source: Gabrielsson et al (2020).

Out of those, and keeping in mind the scope of this thesis, we have excluded from our analysis: i) Albania, because it is a preview of the more substantial ecoDa Code, published two years later; ii) France’s Middennext and UK’s QCA, given their focus on already listed companies and; iii) Ireland, because it deals with a very specific category of organizations. We then added Dubai’s ‘The Corporate Governance Code For Small and Medium Enterprises: Building the foundations for growth and sustainability’, published in 2011.

The tables in the following pages provide a quick overview of the main features of each code, including direct quotes on their perspective about what Corporate Governance means in an SME context and the perceived incentives for early adoption of Governance practices. The year mentioned in the first column refers to the original publishing date even though several of the codes have been regularly updated over the years (for instance, the Buysse code was originally launched in 2005 but is already on its fourth edition, dating from 2025). It is curious to note the diversity of sponsoring entities, involving state-related bodies to corporate associations, academia and professional firms – a proof the topic of Governance in SME contexts is indeed very ample in its reaching.

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corporations. However, in this Chapter, the full expression ‘Corporate Governance’ may be used either because of direct article quotes or to respect the titles of the various Codes described therein.

Moving to the contents, the weight given to the various topics is a direct function of the target audiences. Whereas family codes place significant importance on succession planning, for obvious reasons, the Dubai SME code speaks plainly about the criticality of adequate financial reporting and controls. Generally speaking, there are two recurrent themes across all codes: i) the link between governance and long-term value creation, also expressed as the need to ensure continuity (again, especially visible in the case of codes targeting family businesses), and ii) the need for rules which support decision making processes, so as to improve global accountability and the general credibility of the firm.

The link between these two themes becomes more evident when we go through the list of incentives and benefits stemming from an early adoption of governance practices, as proposed by the codes: the notion that good governance is key to support the firm's credibility in its relation with various internal (owners, managers, employees) and external (banks and funding partners, clients, society at large) stakeholders, all of which are seen as critical for the viability of a business. In this regard, the codes are very consistent, as governance is always positioned against a vast ecosystem of internal and external stakeholders and never seen as a bilateral relationship between owner and manager. As an example, while the Buysse code gives significant importance to the relationship with employees<sup>34</sup>, the Swiss Code G speaks explicitly of 'public governance', referring to the interaction of a family enterprise with society, politics, and regulatory authorities, emphasizing legitimacy, public trust and sustainable societal impact.

Ultimately, the tone from most of these codes appears to suggest that Governance brings a necessary element of *adequate personal/corporate conduct* to what would otherwise be mere management actions. In this regard, we find the definition suggested by the ecoDa code particularly assertive in its reference to 'a framework of (...) *attitudes*', while emphasising the value creation and long-term success elements at the same time:

*'Most unlisted enterprises are owned and controlled by single individuals or coalitions of company insiders (e.g. a family). In many cases, owners continue to play a significant direct role in management. Good governance in this context is not a question of protecting the interests of absentee shareholders. Rather, it is concerned with establishing a framework of company processes and attitudes that add value to the business and help ensure its long-term continuity and success' (ecoDa Code, 2010; our underline).*

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<sup>34</sup> This aspect is corroborated by Durst & Brunold (2017)'s finding about the importance of employees in the knitting of a small firm's governance as perceived by owners-managers.

Table 10: Codes for Unlisted companies – Snapshot (I)

	Sponsoring Entity	Target audience	Overview	Approach to Corporate Governance definition (direct quotes)	Incentives for adoption (direct quotes)
<b>Buyse (2005)</b>	Baron Buyse	Unlisted companies	The Buyse Code provides voluntary corporate governance guidance for non-listed companies in Belgium, especially SMEs and family businesses. It promotes a phased development model, evolving from informal entrepreneurship to formal boards with committees. The Code emphasizes pragmatism, proportionality, and long-term value creation, encouraging the use of advisory councils, external board members, and professionalized management. It uniquely includes detailed guidance on family governance, succession, and stakeholder engagement. Unlike listed-company codes, it avoids rigid structures, offering flexible practices aligned with a company's size, complexity, and lifecycle stage.	This Code includes recommendations on how enterprises are governed and monitored. The interaction between shareholders, the board of directors and the management of an enterprise are central to this. (...) <b>The most important objective of corporate governance is long-term value creation.</b>	<ul style="list-style-type: none"> <li>- gives a company a professional image in the eyes of all parties concerned, especially banks and financiers;</li> <li>- is an advantage in the recruitment market;</li> <li>- plays an important role in guaranteeing the continuity of a company, especially family businesses;</li> <li>- can contribute to increasing the profitability of a company.</li> </ul>
<b>Switzerland – Code G (2006)</b>	Continuum (Independent advisory firm focusing on family businesses) and Prager Dreifuss (law firm)	Family companies	The Swiss Code G is a comprehensive governance guide tailored to family-owned businesses, integrating three dimensions: family governance, business governance, and public interface. Structured as a diagnostic checklist, it supports a phased, “inside-out” implementation model starting from personal/family clarity to formal legal instruments. Key instruments include family charters, succession plans, shareholder agreements, and risk management systems. The code uniquely incorporates public perception, employee engagement, and environmental responsibility, making it ideal for multi-generational firms seeking long-term cohesion, professionalization, and stakeholder trust. It is non-prescriptive and modular, enabling families to customize adoption based on readiness and culture.	<b>Good governance covers the rules and mechanisms for making decisions</b> in families and their businesses. This regulatory framework for management and control is intended to identify the needs and expectations of the family (the internal dimension), the company and important stakeholders (the external dimension) <b>to promote clear and optimal conditions.</b>	Best practice, parallel and open decision making processes within the family first and then the company, as well as transparent communication, reinforce certainty and trust within the family and the company to increase external credibility.

Source: Summarized from Code Buyse (Belgium, 2005) and Continuum Code (Switzerland, 2006).

**Table 11: Codes for Unlisted companies – Snapshot (II)**

	Sponsoring Entity	Target audience	Overview	Approach to Corporate Governance definition (direct quotes)	Incentives for adoption (direct quotes)
<b>Finland (2006)</b>	Finland Chamber of Commerce	Unlisted companies	The code builds on Finnish corporate legal framework and is structured as a practical self-assessment tool, combining legal commentary, best practices, and board evaluation prompts. Key themes include board duties, risk management and internal control/audit, succession, remuneration and stakeholder communication, while also covering family governance (family councils, generational transition) and CSR.	-	The idea is to help a company concentrate on its core operations through efficient corporate governance. Efficient corporate governance also improves the information flow, which makes it easier to take care of matters and increases the confidence of interest groups. Good corporate governance also improves the credibility of the company and its access to financing. It may increase interest in owning company shares and joining the board of directors.
<b>ecoDa (2010)</b>	EcoDa, the European Confederation of Directors' Associations, is a not-for-profit association acting as the European voice of board directors, active since March 2005 and based in Brussels. Through its 10 national institutes of directors, ecoDa represents around fifty-five thousand board members from across the EU,	Unlisted companies	ecoDa's pan-European guidance addresses unlisted companies, offering a three-tiered model (basic, intermediate, advanced) to reflect different governance needs by size and maturity. It promotes board effectiveness, transparency, stakeholder dialogue, and family business governance, while encouraging proportional implementation. The guide complements national legislation and EU principles, aiming to professionalize SMEs across Europe. Its practicality and scalability make it a reference point for companies evolving toward structured governance while remaining unlisted.	Most unlisted enterprises are owned and controlled by single individuals or coalitions of company insiders (e.g. a family). In many cases, owners continue to play a significant direct role in management. <b>Good governance in this context is not a question of protecting the interests of absentee shareholders. Rather, it is concerned with establishing a framework of company processes and attitudes that add value to the business and help ensure its long-term continuity and success.</b>	<ul style="list-style-type: none"> <li>a. Performance and internal efficiency</li> <li>b. Managing patient capital and illiquidity risk</li> <li>c. Building corporate reputation in line with societal expectations</li> </ul>

Source: Summarized from 'Improving corporate governance for unlisted companies' (Finland, 2006) and 'ecoDa Code for Unlisted Companies in Europe' (2010).

**Table 12: Codes for Unlisted companies – Snapshot (III)**

	Sponsoring Entity	Target audience	Overview	Approach to Corporate Governance definition (direct quotes)	Incentives for adoption (direct quotes)
<b>Dubai (2011)</b>	Dubai SME (division of the Department of Economic Development (DED) of the Government of Dubai, developed as a resource for support, information and outreach for the growing small and medium enterprise sector).	SMEs	This Code targets SMEs in Dubai, offering 9 Pillars of governance tailored to growth, informality, and family ownership. It focuses on foundational elements like succession planning, advisory boards, risk control, family charters, and stakeholder relations. Designed for gradual adoption, it accommodates varying company maturity levels. The Code bridges international best practices with the local legal and business context, serving as a capacity-building tool for entrepreneurs transitioning toward more structured and investable business models.	<b>Corporate Governance is ultimately concerned with the decision making processes, procedures, and attitudes that assist the company in achieving its objectives.</b> The understanding and implementation of a good corporate governance framework presents SMEs a structured path to better management practices, effective oversight and control mechanisms which lead to opportunities for growth, financing and improved performance. This is the essence of the Corporate Governance Code for SMEs.	Corporate governance supports the sustainability of SMEs and facilitates the transition from a small to medium and finally to a large company. It also makes them more bankable and investable, thus increasing their access to capital, talent, management, know-how and markets.
<b>Italy (2017)</b>	AIDAF (Italian Family Business) Università Bocconi (Milano)	Family companies	The Code emphasizes accountability, professionalization, and succession planning, aligning traditional family business practices with modern governance principles. Structured around board composition, controls, risk management, and shareholder rights, the Code encourages proportional application based on company size and complexity. It supports the transition from founder-led models to collegial boards with independent directors, aims to attract non-family managers, and prepares companies for growth, generational succession, and capital market readiness. The Code adopts a “comply or explain” model, reinforcing internal discipline and stakeholder confidence.	In family-controlled companies, a well-functioning governance system must favour the dynamic achievement of <b>two objectives: (i) the ability of the owning family to express a clear vision of the future of the controlled company/group; (ii) the ability of the management (whether family or non-family or not) to realise this vision using the best resources available on the market. All respecting the principle of accountability, a key principle of any governance system,</b>	In the specific case of family-controlled unlisted companies, the implementation of a modern governance system provides significant benefits such as: (i) helping entrepreneurial families to grow their subsidiaries while reducing the level of risk; (ii) helping entrepreneurial families draw a clearer distinction between the personal ownership of the family and the assets of the subsidiary company; (iii) acting as a quality certification of governance for those companies that need to accredit themselves to banks, customers, suppliers and more generally international markets; (iv) to better attract, direct and control the non-family managers needed to increase the international competitiveness of family businesses; (v) to serve as a useful compass in the management of generational handover processes; (vi) for companies potentially interested in opening up to equity or bond markets, to acclimatise to the governance processes envisaged in such contexts.

Source: Summarized from ‘The Corporate Governance Code For Small and Medium Enterprises - Building the foundations for growth and sustainability’ (Dubai, 2011) and ‘Principi Per Il Governo Delle Società Non Quotate A Controllo Familiare. Codice Di Autodisciplina (Italy, 2017)’. Note: columns ‘Approach to Corporate Governance Definition’ and ‘Incentives for adoption’ translated from Italian to English through DeepL.com (free version).

At this point, we believe it is also worth mentioning OECD's attempt to address the specificities of privately-held firms, with its 'Corporate Governance of Non-Listed Companies in Emerging Markets' published in 2006 (just two years after OECD's Principles of Corporate Governance, later updated in 2023, which remain a cornerstone of the field). Unlike the previous Codes, this OECD publication is a comprehensive collection of papers covering comparative analysis of topics such as financial disclosure and ownership/financing structures, in addition to developments across several relevant emerging market countries (Brazil, China, Mexico, Eurasia, etc). By its nature, it is targeted at policymakers more than the firms themselves.

Having said this, Annex I of the document, called 'IFC Methodology', contains a Due Diligence questionnaire on Governance topics used by the International Finance Corporation<sup>35</sup> ('IFC'), which goes beyond the traditional corporate bodies (Board, relationship with shareholders) to include a strong focus on: i) Family-related matters, notably succession planning, related-party risk and conflict resolution; ii) 'internal accountability', through Internal control and Financial disclosure topics, and; iii) a broader range of stakeholders (employees and creditors, in addition to shareholders, directors and managers). The Annex also includes a 'Corporate Governance Progression Matrix for founder/family-owned (non-listed) companies suggesting the most adequate tools for different life stages, therefore implicitly recognising the importance of culture-building processes as the firm evolves over time (as opposed to an enforceable, compliance approach). In the universe of Corporate Governance codes and related documents, this appears to have been the first time there was a recognition that firms in different life stages may require different governance approaches.

### **3.3. IFC's SME Governance Guidebook (2019)**

#### **3.3.1. Theoretical approach**

In addition to the work done by the associations mentioned in the previous section, the topic of Corporate Governance in SME contexts gained a renewed perspective in 2019, when the IFC, based on its extensive experience in funding both public and private players in emerging markets, published a guidebook focusing on the corporate governance practices most applicable to SMEs: the 'SME Corporate Governance Guidebook' (the 'IFC guidebook' or, simply, the 'Guidebook')<sup>36 37</sup>.

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<sup>35</sup> International Finance Corporation (IFC) is a financial institution member of the World Bank group. It is the largest global development institution focused on the private sector in developing countries ([www.ifc.org](http://www.ifc.org)).

<sup>36</sup> The full report can be found here: <https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-sme-guide-2020-web.pdf>.

<sup>37</sup> Needless to say, the starting point for this exercise goes back to Annex 1 contained in OECD's 'Corporate Governance of Non-Listed Companies in Emerging Markets' (2006), as described in the previous section.

The Guidebook was introduced by a paper prepared by IFC economists<sup>38</sup> which emphasized that ‘for SMEs to benefit from the introduction of good governance, a fundamental shift in the overall approach is necessary’ (Ryabota et al., 2019). Whereas most of the CG codes referred before approached the topic from a legal perspective, taking as a starting point codes developed for mature companies and then adjusting them to the reality of SMEs - in what we would call a ‘top down approach’ -, the IFC guidebook takes a more managerial route, drawing on the day-to-day challenges faced by SMEs and providing practical suggestions on how to address them, in what could be deemed a bottom-up approach. Ryabota et al. (2019) highlight the inclusion of the ‘growth’ dimension but also the relevance of ‘attitudes, behaviours, systems and organizational values that help [the firm] to overcome the stage specific challenges’ as key contributions in addition to extant literature. The authors also recognize that some of the Guidebook’s elements appear more related to management than ‘what is traditionally understood as ‘governance’. This is intentional. Certain management issues need to be addressed before governance can start to be effectively implemented’ (Ryabota et al., 2019).

While acknowledging the nature of the Governance discussion for mature companies remains heavily reliant on the Agency theory paradigm (owners versus managers, value split), the Guidebook emphasizes the challenges faced by SMEs have more to do with ‘decision making, strategic oversight, recruitment and retention of qualified management staff, succession and establishing standardised internal control mechanisms and policies’ (PDF, n.d.). Therefore, IFC authors anchor their conceptual approach to Governance on the definition proposed by the European Confederation of Directors Associations (ecoDa): ‘a framework of company processes and attitudes that add value to the business, help build its reputation and ensure its long-term continuity and success’ (PDF, n.d.).

Therefore, in emphasising processes/attitudes, on one hand, and ‘add value/long-term continuity’, on the other, the IFC Guidebook broadly aligns with the most recent trends in the Governance discussion – that the scope of players involved must be widened beyond the principal/manager relationship and, more importantly, that the ultimate purpose must revolve around value creation.

### **3.3.2. IFC Guidebook Overview**

In fact, when compared to previous SME Governance codes, the IFC publication brought some novelty to the field due to two main factors. On one hand, the Guidebook fully embodies the reality

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<sup>38</sup>Ryabota, V., Volynets, Alexey, Kravatzky, A., & Carrington, H. (2019). *Governance for SME Sustainability and Growth*. International Finance Corporation, Washington, DC.

that SMEs can vary significantly in their maturity degree, therefore requiring different Governance tools in different stages – in this sense, it is clearly respectful of the abundant academic literature on organisational life cycles as well as of the intuitions previously expressed by various codes. Although the Buysse code (2005) had identified four different life stages in general terms and the ecoDa guide had made a specification of tools more adequate for large/complex organizations, the IFC guide is the first to deep-dive on the specific challenges of each life stage. In particular, the Guide does not shy away from presenting concrete solutions for the very early stages of a business, a moment in which formal structures of organization and of power/delegation flows are still extremely incipient, not to say inexistent (in other words, when the firm is not yet a corporation). On the other hand, the Guidebook features a very pedagogical approach which includes examples of very sensible governance measures (eg: the need to segregate cash flows between the owner's sphere and that of the company as soon as possible) and case studies in addition to several support materials to be filled-in by respondents. It is therefore a very practical tool that even young and small firms can relate to in a very intuitively fashion.

One interesting aspect relates to IFC's acknowledgement that, even in those cases in which there is a formal Board, likely because of legal requirements, it never becomes a fully functional corporate body until the last, 'Business Expansion', stage. This is in line with several academic references about most SMEs not having boards as their main decision-making body (Uhlener et al., 2007) and goes back to Karoui et al. (2017)'s 'Legal fiction' board, therefore reiterating the need to find alternative tools that may improve the robustness of decision-making processes in order to ensure sustainable growth paths. This stance also marks a difference vis-à-vis the previously mentioned Corporate Codes, as most of them continue to position the Board as the central decision-making body of the firm – and seem, therefore, more suited for a later stage of business development.

In practical terms, the Guidebook revolves around a matrix which combines, on one axis, four life stages and, on the other, five governance themes. As for the life stages, the list includes: i) startup; ii) active growth; iii) organisational development and iv) business expansion, broadly in line with the standard development process postulated by the most consensual OLC theories (Figure 8). In tandem with Torrès & Julien (2005)'s model, the IFC Guidebook takes the perspective that there is no correlation between stages and number of years elapsed since the firm's inception: as an example, a start-up will forever be a start-up if decision-making remains heavily concentrated in the Founders or there is no adequate segregation between the founder and the firm's bank accounts and cash flows.





Regarding the governance themes, these are:

- *culture and commitment to good governance*, addressing owners' awareness and values;

- *decision making and strategic oversight*, focusing on how to move from the usual founder’s centralized decision making to a more collegial one involving management teams and formal boards;
- *risk governance and internal controls*, focusing on the various tools that help foster an adequate risk-controlled environment;
- *disclosure and transparency*, relating to matters of accounting/financial policies and relationship with stakeholders;
- *ownership*, in reference to shareholder structure and mechanisms regulating the relationship between shareholders.

Figure 8, taken from the Guidebook, provides a comprehensive description of IFC’s approach together with the main tools that can be implemented per CG theme in each stage.

Figure 8: IFC Guidebook | Evolution of SMEs – main features

Defining Factors/ Parameters	 Stage 1 START-UP	 Stage 2 ACTIVE GROWTH	 Stage 3 ORGANIZATIONAL DEVELOPMENT	 Stage 4 BUSINESS EXPANSION
<b>Size<sup>a</sup></b> (# of employees)	Small (e.g., <50)	Small to Medium (e.g., 50–75)	Medium (e.g., 76–150)	Medium Growing (e.g., 151–250)
<b>Enterprise Focus</b>	Developing products, testing the market	Sales and growth, increasing variety of products, creating client base	Optimizing own structure/processes after growth	Further growth, supported by improved internal organization and processes
<b>Culture and Commitment to Good Governance</b> (Policies, processes, and organizational structure)	<ul style="list-style-type: none"> <li>▶ Small multitasking team</li> <li>▶ High degree of informality</li> <li>▶ Few systems, established “on the go”</li> </ul>	<ul style="list-style-type: none"> <li>▶ Team is growing—distinct functions and organizational structure start emerging</li> <li>▶ Simple systems to enable functions to collaborate</li> </ul>	<ul style="list-style-type: none"> <li>▶ Increased professionalization of functions</li> <li>▶ Formalizing organizational structure, policies, and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Continuation of trends started in Stage 3</li> </ul>
<b>Decision Making and Strategic Oversight</b> (Decision-making process and bodies, leadership style.)	<ul style="list-style-type: none"> <li>▶ Highly centralized decision making by the founder(s)</li> <li>▶ Autocratic leadership style</li> </ul>	<ul style="list-style-type: none"> <li>▶ Emergence of delegation to management</li> <li>▶ Consultative leadership style—largely autocratic but with input from key managers and advisers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Professional managers are hired</li> <li>▶ Decentralization of authority through division/functional management</li> <li>▶ Collaborative management style</li> </ul>	<ul style="list-style-type: none"> <li>▶ Separation of strategic and operational decision making</li> <li>▶ Institutional decision-making style, based on defined org. structure, roles, and procedures</li> </ul>
<b>Risk Governance and Internal Controls</b> (Internal checks and balances)	<ul style="list-style-type: none"> <li>▶ Founders are fully involved in operations—limited need for checks and balances</li> </ul>	<ul style="list-style-type: none"> <li>▶ Introducing internal controls to support delegation of authority</li> </ul>	<ul style="list-style-type: none"> <li>▶ Detailing authorities and accountability</li> <li>▶ Systems are formalized and automated</li> <li>▶ Developing practices to control main operational risks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Focus on proactive and strategic risk management</li> </ul>
<b>Disclosure and Transparency</b> (Communication with internal and external stakeholders)	<ul style="list-style-type: none"> <li>▶ Everyone knows everything</li> </ul>	<ul style="list-style-type: none"> <li>▶ Silos—good within, but challenging between silos</li> <li>▶ Basic external info shared on products offered</li> </ul>	<ul style="list-style-type: none"> <li>▶ Internally: improving cross-divisional / functional information sharing</li> <li>▶ Enhanced external business-related information</li> </ul>	<ul style="list-style-type: none"> <li>▶ Internally: management, board, and shareholders communicate</li> <li>▶ Externally: targeted information for different stakeholders</li> </ul>
<b>Ownership</b> (Founders/ Shareholders/Family)	<ul style="list-style-type: none"> <li>▶ Single owner or couple of individuals</li> <li>▶ Founders personally control every aspect of business</li> </ul>	<ul style="list-style-type: none"> <li>▶ New minority shareholders possible (internal or related)</li> <li>▶ Founders remain dominant and fully engaged</li> <li>▶ Increasing number of family members getting involved in operations</li> </ul>	<ul style="list-style-type: none"> <li>▶ New minority shareholders possible (internal or related)</li> <li>▶ New investors informally influence strategy but are not directly involved in operations</li> <li>▶ (If a major investor enters, company moves to Stage 4)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Common options:                             <ol style="list-style-type: none"> <li>Founders, private equity, and other investors</li> <li>Growing family ownership/ generational change</li> <li>Go Public (IPO)</li> </ol> </li> <li>▶ Investors require tools for control and direction of the company.</li> </ul>

<sup>a</sup> May vary by industry, so this guidance is intended to be broadly indicative.

Source: IFC SME Governance Guidebook, 2019.

Figure 9: IFC Guidebook | Governance Matrix – Action Planning Tool

Key Governance Topics	Stage 1 START-UP BUSINESS	Stage 2 ACTIVE GROWTH	Stage 3 ORGANIZATIONAL DEVELOPMENT	Stage 4 BUSINESS EXPANSION
<b>A</b> Culture and Commitment to Good Governance	<ul style="list-style-type: none"> <li>Core functions identified</li> <li>Articles of association adopted</li> </ul>	<ul style="list-style-type: none"> <li>Core positions filled</li> <li>Organization chart, key policies, and statement of basic business principles</li> </ul>	<ul style="list-style-type: none"> <li>Governance champion</li> <li>TORs for key positions</li> <li>Core processes documented</li> <li>A calendar of corporate events</li> </ul>	<ul style="list-style-type: none"> <li>Governance action plan</li> <li>Company secretary function</li> <li>Governance provisions incorporated in the articles of association and bylaws</li> </ul>
<b>B</b> Decision Making and Strategic Oversight	<ul style="list-style-type: none"> <li>Informal external advisers involved*</li> <li>Founder(s) make decisions in consultations with individual executives</li> <li>Authority limits of key personnel have been communicated</li> </ul>	<ul style="list-style-type: none"> <li>External advisers formally engaged</li> <li>Key decisions are made in collaboration with executives as a group</li> <li>Limited delegation of signing authority formalized</li> <li>Staffing priorities identified</li> <li>Business continuity plan for CEO and key persons</li> </ul>	<ul style="list-style-type: none"> <li>Continuous and structured outside advice is engaged</li> <li>Enterprisewide discussions on strategy, financing, staffing</li> <li>Executive/management (or similar) committee formalized</li> <li>HR policies to attract, retain, and motivate staff</li> <li>Succession planning framework for key persons</li> </ul>	<ul style="list-style-type: none"> <li>A board of directors</li> <li>Board procedures ensure effective meetings and input from all directors</li> <li>Succession-planning policy has been approved by the board</li> </ul>
<b>C</b> Risk Governance and Internal Controls	<ul style="list-style-type: none"> <li>Basic bookkeeping, cash flow management, and tax functions</li> <li>Cash sources, bank accounts are separate from those of the founder(s)</li> <li>Basic understanding of regulatory requirements and compliance</li> </ul>	<ul style="list-style-type: none"> <li>Basic principles of business conduct</li> <li>Basic business risks—including key-person risks—identified</li> <li>Processes in place for tax payments, records, and filing</li> <li>Controls on cash management</li> </ul>	<ul style="list-style-type: none"> <li>Detailed code of ethics and business conduct</li> <li>Objectives, strategic planning, budget, KPIs, and clear accountabilities</li> <li>A professional CFO</li> <li>A basic internal audit function</li> <li>Policies and procedures to monitor and mitigate strategic and operational risks</li> <li>Business units have clear authority, reporting lines, and guidelines</li> </ul>	<ul style="list-style-type: none"> <li>Effective internal controls systems (e.g., based on COSO)</li> <li>Independent external auditors</li> <li>Timely and secure recording and reporting for sales and accounts</li> </ul>
<b>D</b> Disclosure and Transparency	<ul style="list-style-type: none"> <li>Basic financial accounts prepared</li> <li>The same financial information and data are used for all purposes</li> </ul>	<ul style="list-style-type: none"> <li>Monthly bank account reconciliation disclosed to all founders</li> <li>Founder(s), shareholders, and directors periodically receive consistent financial and nonfinancial information</li> <li>The public profile of the enterprise has been developed</li> </ul>	<ul style="list-style-type: none"> <li>Financial statements in accordance with national accounting standards</li> <li>Point person for information sharing identified</li> <li>Key decisions are formally communicated to all staff</li> <li>Basic performance reports are presented to external advisers</li> <li>Key nonfinancial information is disclosed to the public</li> </ul>	<ul style="list-style-type: none"> <li>Financial reporting for SMEs is in accordance with the IFRS or U.S. GAAP (if having/seeking foreign investors)</li> <li>Financial statements are audited by a recognized auditing firm</li> <li>Quarterly financial reports and comprehensive performance reports are provided to investors</li> <li>An annual report (or equivalent) is produced. Shareholders are provided with information on request</li> </ul>
<b>E</b> Ownership	<ul style="list-style-type: none"> <li>The role and responsibilities of the founder(s) clearly established</li> <li>Basic understanding of roles of all founding family members</li> <li>Shareholder dispute resolution mechanism</li> </ul>	<ul style="list-style-type: none"> <li>The difference between non-family and family issues is acknowledged</li> <li>Awareness of family succession planning</li> <li>Annual shareholders' meetings</li> </ul>	<ul style="list-style-type: none"> <li>Clear distinction between the roles of the founder(s), family members, and managers</li> <li>Clear career paths for non-family executives</li> <li>Family succession plan</li> <li>Annual shareholders' meetings include discussions of key decisions made, dividends, and plans</li> </ul>	<ul style="list-style-type: none"> <li>Policies and mechanisms to regulate family members' ownership, employment, and other benefits</li> <li>All shareholders are regularly updated on company policy, strategy, and results</li> <li>Mechanism for resolving governance-related disputes</li> </ul>

\* Some jurisdictions require a board of directors at the time of company registration. Such boards are often just a formality. This Matrix does not assume the board to be effectively functional until Stage 4.

Source: IFC SME Governance Guidebook, 2019.

### 3.4. Metamorfose Programme (Portugal, 2023)

In the context of its internal reflection on Portugal's poor GDP growth rates over the last two decades, Business Roundtable Portugal ('BRP') focused specifically on the reasons why Portugal has an above-average proportion of Small and Medium Enterprises ('SMEs') that never become Large, sustainable companies. After a round of conversations with experts, both academic and practitioners, the lack of adequate Governance practices emerged as one of the major reasons behind the absence of enduring growth. As a result, BRP launched the 'Metamorfose' program<sup>39</sup> in July/23, which includes three blocks: a CG Best Practices Guide; a Mentorship program aimed at SMEs, composed by selected executives of BRP's companies and; a CG Self-Scoring Model ('SSM'), broadly inspired in IFC's 2019 SME Corporate Governance Guide and built in collaboration with *Instituto Português de Corporate Governance* ('IPCG'). The platform was launched in November/2024, with BRP initially targeting a pool of partners and suppliers of BRP member companies.

#### 3.4.1. The Self-Scoring Model ('SSM')

##### 3.4.1.1. SSM Overview

The SSM is available via an online platform (<https://metamorfose-governance.pt/#scoring>), to which any SME can access by registering on the website and providing its tax identification number and Permanent Certificate. Once the firm submits its SSM, it will then be asked for sector and geographical data as well as its corporate legal format. It is important to stress that the SSM software has been built so as to ensure full anonymity of the data to be generated.

Before starting the survey, the firm will be asked about its 'life-stage' status, with four options available: start-up; growth; development; maturity. Firms can resort to the Best Practices Guide referred above for guidance in this classification, as per the following table. The classification is broadly in line with that suggested by the IFC Guide and consistent with the main OLC literature references (please refer to Chapter II). It is important to stress that this variable is entirely self-assessed and no other related information will be asked to the firm that would allow a third party to validate the classification. Finally, the firm will also be asked whether it is a "Family-owned" company, in which case an additional CG theme will be added to the questionnaire. The table below provides a description of the main features of each life stage.

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<sup>39</sup> <https://metamorfose-governance.pt/>

**Table 13: Life Stage – Guidance from Metamorfose’s Best Practices Guide**

**1. START-UPS**

The business is focused on developing a product (in a broad sense, i.e., including services) and testing it in the market. The company is small, the organizational structure is simple and operations and decision-making processes are agile, as the objectives are clear and everyone works towards the same goal, with a strong emotional connection to the business.

**2. GROWTH AND CONSOLIDATION OF MARKET POSITION**

The product is defined and the market has been tested. The goal now is to grow the business. A customer base begins to form, leading to the need to diversify products. As the company grows, it becomes necessary to ensure that leadership has strong management skills, often requiring the professionalization of the team through the recruitment of a manager/management team.

**3. ORGANIZATIONAL DEVELOPMENT**

The business expands in terms of volume and diversity of offerings and the need to strengthen teams leads to the development of more complete and complex organizational structures, both in terms of business operations and functions.

**4. BUSINESS MATURITY**

The business continues to grow, along with the team, and is led by a professional and stable management team. The organizational and functional model begins to resemble that of a large company.

*Source: Metamorfose’s Best Practices Guide, translated via Chat GPT and revised by the Author.*

After completing the survey, the firm will see three outputs:

- i) A global scoring in percentage terms, equal to the ratio between the sum of its answers and the maximum possible score of the entire questionnaire (the “perfect” CG company);
- ii) A ‘relative scoring’, which will compare the firm to the average of its life-stage category, considering all companies within that category. The average includes the respondent company, the expectation being that the statistical influence of the respondent company will diminish as the number of companies answering the survey increases over time;
- iii) A ‘relative scoring per CG dimension’, equal to the ratio between the sum of answers per CG dimension against the total possible score for that CG dimension.

The website will also provide radar charts that allow the company to understand its positioning in each of the four CG themes (five in the case of Family-owned companies) covered by the survey, as per the image below:

Figure 10: SSM Output per firm (for non-family owned firms)



Source: Metamorfose program website.

Figure 11: SSM Output per firm (for family-owned firms)



Source: Metamorfose program website.

Since the firm will be able to compare its results against the average of its life-stage category, BRP’s team believes this will create an incentive for firms to actively monitor the evolution of its CG practices, especially if they are confronted with low scores. Hence, a decision was taken to allow firms to submit a new survey every six months, so they can assess the impact of every change they introduce

in their Governance model. The closed nature of the questions (yes/no) should give sufficient information for a firm to identify the next feasible steps in order to improve its scoring, expectably generating a virtuous cycle of continuous self-induced improvement. This process can be supported by BRP’s CG Best Practices Guide, from which firms can identify which measures could help improve their scoring on each of the different themes.

### 3.4.1.2. SSM Structure<sup>40</sup>

The survey contains a total of 129 questions covering five **CG dimensions**, of which 4 are applicable to all companies: i) Corporate bodies and decision making; ii) Risk Management and Internal Control; iii) Transparency and Reporting; iv) Culture and Commitment to Governance, and then v) CG in Family businesses, which only applies to firms which have classified themselves as such. The questions are straight and simple, only accepting binary answers (YES/NO). When answering “Yes” to some of the questions, additional sub-questions will appear. While the next sections discuss general features of the SSM structure, section 1.2.4. contains the complete list of the questions, split by CG dimensions and life stage adequacy.

**Table 14: Total number of questions per CG dimensions and type of Firm**

More critical for firms in:	Corporate bodies and decision making	Risk Management and Internal Control	Transparency and Reporting	Culture and Commitment to Governance	TOTAL # QUESTIONS FOR NON-FAMILY OWNED FIRMS	CG in family companies	TOTAL # QUESTIONS FOR FAMILY OWNED FIRMS
All stages	6	6	6	7	25	2	27
Growth	10	6	3	6	25	2	27
Development	11	12	19	13	55	4	59
Maturity	10	1	3	0	14	2	16
Total	37	25	31	26	119	10	129

Source: SSM – question list.

In practical terms, the SSM structure broadly follows the IFC’s Governance Action Planning Tool, which proposes an extensive list of practices which adoption may prove more adequate depending on the firm’s life stage. In the case of the SSM, each question will therefore refer to some kind of ‘CG practice’<sup>41</sup>, with the firm asked about whether it has implemented that feature or not. The following table provides a random selection of questions of various CG practices, categorized according to IFC’s Action Planning Tool.

<sup>40</sup> This section was made possible by Business Roundtable’s availability to share proprietary data about the SSM with the Author.

<sup>41</sup> The expression ‘CG practice’ is based on the labeling used by IFC’s SME Governance Guidebook.

Regarding the scoring's computation, generally speaking, and regardless of CG dimension, 'YES' answers may be awarded from 1 point to 4 points, depending on the perceived pertinence of each CG feature. Very critical practices, which one would expect every firm to have implemented at the very onset of the business, will be awarded a maximum 4 points. More refined CG practices, which in theory only mature firms would have in place, will be awarded 1 point. Standing in the middle, there will be a group of questions for which a YES will imply 2 points – those covering GC tools perceived as more relevant for companies in a stage of accelerated growth. There will be another group of questions for which a YES will result in 3 points being awarded – those covering CG tools which prove more relevant for companies entering a stage of 'organizational development'. Finally, 'NO' answers will always get zero points.

Given this 'points awarding' structure, it is possible to establish an informal link between the number of points awarded to each question and the implicit relation to organizational life stages. In other words, the number of points attributed to each question refers to CG practices which are particularly pertinent for a specific life stage. As an example, all questions awarded 3 points refer to tools especially critical to companies facing accelerated growth rates whereas all questions awarded 2 points would refer to CG practices especially pertinent for firms entering an 'organizational development' stage. While the model may be subject to refinements once more material data is collected, it does seem the SSM has potential to become a crucial data source on governance practices of Portuguese SMEs so far impossible to capture via alternative means.

**Table 15: SSM: CG practices per CG theme – selected examples**

**SSM: Questions on Corporate Bodies and Decision-Making**

#	Question	Type of Practice/Feature
1.1	Are the different types of shareholders/partners clearly defined in the company's statutes?	Shareholder participation
2.2.1	Does the management body have non-executive members in its composition?	Board of Directors
3.1	Does the company use the support of independent external advisors or an advisory board, which supports the Administration/Management Body?	Advisers/Advisor board
4.2	Is there a formal decision-making matrix that defines who decides and what can be decided?	Management decision making

**SSM: Questions on Risk Management and Internal Control**

#	Question	Type of Practice/Feature
1.1	Does the company carry out a survey to identify the risks to which it is exposed? (e.g. strategic, financial, operational, environmental risks, ...)"	Internal controls
1.5	Does the company carry out independent audits of its systems to ensure their security and reliability?	External Audit
1.6.3	Does the company replace its ROC/EA periodically?	Key policies and Processes
1.7	Does the company have a Specialized Risk Committee?	Organizational structure

**SSM: Questions on Transparency and Reporting**

#	Question	Type of Practice/Feature
1.1	Does the company have internal procedures for preparing financial information?	Key policies and Processes
1.3	Is financial information shared with all members at least quarterly?	Financial Disclosure
1.6	Does the company have a Financial Director/Chief Financial Officer, responsible for the company's financial areas?	Organizational structure
2.2	Is the company's strategy communicated internally?	Non-financial disclosure

**SSM: Culture and Commitment to Governance**

#	Question	Type of Practice/Feature
1.2	Does the company have its mission and values defined?	Owners' awareness and commitment
1.5	Does the company have a specific position or Committee specialized in Corporate Governance topics?	Organizational structure
1.7	Does the company have a policy for reporting irregularities, capable of ensuring their treatment (whistleblower)?	Key policies and Processes
2.1	Do the company's articles of association include CG requirements?	Owners' awareness and commitment

**SSM: CG in Family businesses**

#	Question	Type of Practice/Feature
1.1	Is there a family protocol for the family that owns the business?	Family/Founder
1.3	Are there pre-defined procedures and requirements for selecting family members for election as members of corporate bodies?	Human Resources Planning
1.5	Is there a family succession plan?	Succession Planning
1.6	Is there a Family Assembly?	Shareholder dispute resolution

Source: SSM – question list. Note: The 'Type of practice/Feature' column follows the categorization proposed in IFC's Guidebook.

## CHAPTER IV: METHODOLOGY

### 4.1. Introduction

The focus of this thesis is to explore how decision frameworks evolve in contexts of accelerated growth, until the firm reaches a mature state by when the Board becomes the dominant decision-making body and for which there is already a vast amount of literature. Before that, the learning process on how to improve the discipline of the decision-making process may evolve in various ways, with different aspects gaining different weights and visibility at each point in time. The overarching question underlying this thesis therefore relates to the identification of the elements which help support preliminary governance processes (even though participants themselves may lack that awareness) until a mature state is reached, leading us to assume the following Research question: **‘An approach to Governance in SMEs: How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?’.**

### 4.2. Research Design

Extant research has acknowledged the difficulties entailed in collecting data from non-listed companies and SMEs in particular (Uhlener et al., 2007), while also highlighting the low prevalence of qualitative approaches in the field of Corporate Governance (Filatotchev & Wright, 2017; Handley & Molloy, 2022; Roberts et al., 2005)<sup>42</sup>. Therefore, given our objective of identifying the elements supporting decision-making processes as a firm evolves over time, the option of interviewing C-level officers and Entrepreneurs/Founders linked to growth stories seemed the most suitable alternative to collect data. For the purpose of this thesis, ‘growth’ was exclusively defined on the basis of longitudinal financial data, as all eligible companies had to display significant increases in selected financial indicators over a minimum 10-year period (this will be further developed in section 4.5.2).

Despite the reliance on financial data as sampling criteria, this study is firmly positioned in qualitative territory, whereby its focus is placed on processes and perspectives – features that can be hardly quantified, at least in this first round of data collection. Not only there is no publicly available info on the general topic as it is clear from literature that this is a multidisciplinary, interrelated, longitudinal, research problem which existing theories have not yet fully captured but for which ‘a detailed understanding of the issue is needed’ (Creswell & Poth, 2016). As in any qualitative study, therefore, our aim is not to start from, nor challenge, any pre-defined hypothesis but rather to unearth

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<sup>42</sup> *‘There is something of a lack of ethnographic longitudinal studies. As strategic management has developed a growing field focused on strategy as process, there is scope for governance research to develop a subfield of “governance as process” too’ (Filatotchev & Wright, 2017).*

patterns out of the selected sample, while accepting that those findings will have limitations in terms of generalization/extrapolation.

According to Guba & Lincoln (1994), the criteria behind good qualitative research includes four items: i) credibility, i.e. to what extent findings are believable; ii) transferability, i.e. to what extent the results can apply in other contexts; iii) dependability, i.e., to what extent the data collection, methodology and results prove stable over time and; iv) confirmability, i.e. to what extent different researchers would be able to reach similar results (or, put otherwise, to what extent researcher bias may have affected results). Creswell & Poth (2016) also mention the importance of a single focus and a persuasive account while not ignoring the researcher's culture and personal experiences along with ethical considerations. These aspects will be further developed in the end of this chapter.

Out of the five qualitative research design approaches listed by Creswell & Poth (2016) - narrative, phenomenology, grounded theory, case study and ethnography -, narrative research also seemed the most appropriate approach given the study's longitudinal focus on how decision-making patterns evolve *over time*. In fact, listening to a founder or CEO talking about the firm's history, key milestones and decision-making 'tipping points' (Lepage & Tarillon, 2025) generates a fabric where facts, experience and perceptions (including those of the researcher) all blend to produce a unique *story*, which is exactly the focus of any narrative researcher (Creswell & Poth, 2016). Also, no *story* would be worthy and engaging without some 'tensions or transitions'. In addition to being a very relevant feature of narrative research (Creswell & Poth, 2016), this feature also coincides with one of the main focuses of this thesis, namely the identification of tipping points forcing changes in decision-making patterns – a line of inquiry which can be considered a second derivative of the research question.

This said, two very important methodological clarifications are required at this point. The first is that, for the purpose of this narrative design, the unit of analysis is the history of the firm and not the person; i.e., we looked for objective, point-in-time events as well as processes in the firm's timeline and not specifically the personal experience of the respondents and his/her perceptions and emotions about the firm's history line. Still, the role played by the narrator in the firm, along with his/her personal background and professional experience, could not be ignored in the data analysis stage – these are, after all, narratives shaped by various contextual variables, among them the personal perspective of the events as conveyed by individuals with a high level of knowledge and implication in those processes. For the purpose of this thesis, this 'positionality' of the narrator is made explicit and will be incorporated into the analytical interpretation process.

The second methodological clarification has to do with the flow between data and analytical interpretation. Since the research focus is placed on processes, which are dynamic by definition, the

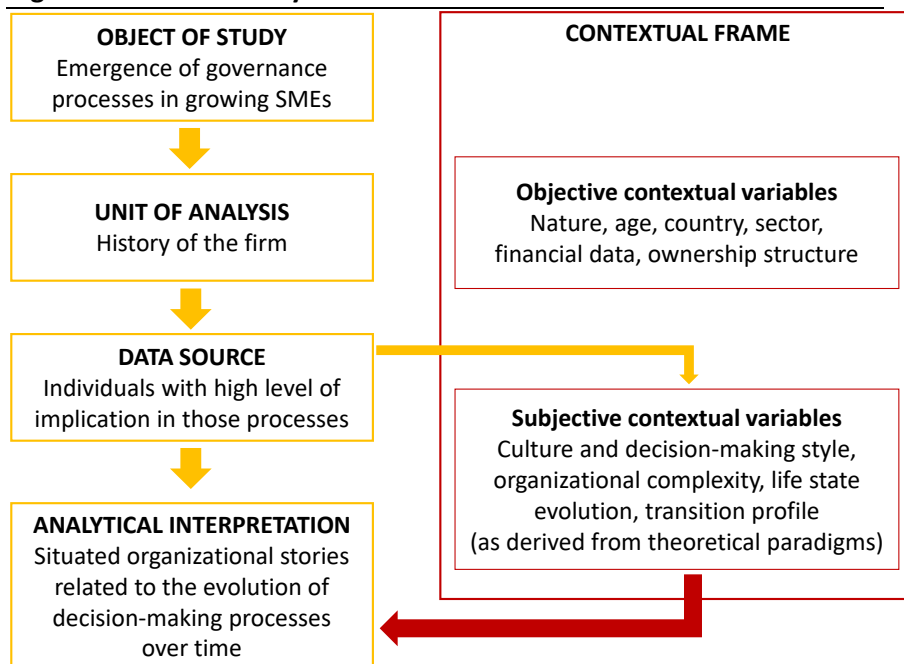
underlying context in which those processes occur becomes a constitutive analytical dimension, not in the form of control variables but rather as an essential component to give meaning to the narratives. The interpretive value of the underlying context arises along two distinctive levels. The primary level is related to objective contextual variables such as the firm's nature (ex: venture or family business), age, country, sector, longitudinal financial data and ownership structure<sup>43</sup>. The second level of context is broadly related to organizational complexity, transition profiles and decision-making styles and emerges from the analytical interpretation of narrative data based on various theoretical paradigms. This second level of context will then serve as an interpretive anchor providing a comparative lens across narratives.

Therefore, for the purpose of this thesis, context is not treated as external to the narrative but will instead be a co-constructor of meaning. In practical terms – which will be made clearer in Chapter V – Results, this implies that similar narratives may be interpreted differently depending on context but also that apparent contradictions across cases may be explored as context-dependent rather than as inconsistencies. This approach further reinforces the constructivist-interpretive qualitative paradigm guiding this thesis, as findings will be the result of a dense dialogue between respondents and researcher infused by various theoretical paradigms, where researcher reflexivity and interpretive judgement play a relevant role. Figure 12 provides a graphic overview of the relationship between the various elements of the thesis:

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<sup>43</sup> *We have not included economic variables as contextual factors in our analysis, as our approach is based on long-term financial data sets that inherently capture periods of economic distress. Depending on the firms, these data sets encompass major events such as the 2008 Great Financial Crisis, the 2010-2012 European sovereign debt crisis, which especially impacted Iberian countries, and the COVID-19 pandemic. As a result, all firms within the sample have been exposed to economic downturns at some point of their trajectories.*

Figure 12: Thesis - Analytical framework



Source: Author's own elaboration.

### 4.3. Research methodological approach

The literature review allowed us to conclude that, while there is not yet a single theoretical paradigm that can be directly applied to governance in SMEs - or, at least, one that has been sufficiently tested empirically - research has nonetheless identified many relevant elements of existing theories that can be applied to SME contexts, depending on the development stage in which SMEs find themselves. As an example, both extant literature as well as practitioners' experience (drawing from SME Governance codes, for instance) identify high-level Governance themes and constructs that can provide an important lens when addressing data (eg: role of mentors and advisory boards; enterprising, networking, monitoring services of the board; risk management; financial control and reporting; etc).

In other words, although no single theory fully explains governance models in SMEs, several theoretical perspectives provide valuable support for understanding the evolution of governance in these firms. In epistemological terms, this abundance makes it impossible to remove the researcher's interpretive lens when reviewing the interview material, inevitably introducing subjectivity in the analysis. Recognising this bias makes it clear that the study will be guided by a constructivist paradigm, in that the contributions of both researcher and participants will inevitably combine to create findings (Creswell & Poth, 2016; Guba & Lincoln, 1994), as Figure 12 had already implied.

Additionally, it also implies that, in methodological terms, and despite the frequent calls for new theoretical paradigms in the field, a purely inductive, Grounded Theory approach is inadequate for the purpose of this thesis. Instead, an abductive approach seems more adjusted to deal with the challenge of articulating various theoretical contributions, as opposed to developing a novel theoretical framework – which would be the ultimate purpose of a Grounded Theory approach (Charmaz, 2017). This abductive dialectic will be particularly visible in the section referring to the classification of firms' development state based on theoretical models, which draws on an inductive analysis of narratives and subsequent coding.

In face of the availability of various potential constructs to guide the analysis of the narratives, using a fixed codebook and applying a Qualitative Content Analysis ('QCA') could also be an alternative. However, this would imply ignoring the highly nuanced and detail-rich interview material, hard to encapsulate in quantitative categories. This tension is further aggravated by the fact that interviews have been conducted in two different languages (Portuguese and Spanish), with results discussed in a third one (English), hence generating a challenge of maintaining equivalence between linguistic form and conceptual content ('word-meaning' dilemma). Finally, it is not an objective of this thesis to establish correlations or causal relationships between themes and constructs, as would be the case with QCA.

Thematic Analysis thus emerged as the most adequate methodological approach, as it allows for an interactive dialogue between theoretical paradigms and data, while still allowing sufficient freedom to capture all relevant insights emerging from the interviews. The six-step process proposed by (Braun & Clarke, 2021) allows for a 'back and forth' process with the data: although there may be a degree of clarity about potential themes at the starting point, the codification gets increasingly refined as theoretical background and data keep interacting through the researcher's subjectivity<sup>44</sup>. Thematic analysis 'is a form of pattern recognition within the data, where emerging themes become the categories for analysis' (Fereday & Muir-Cochrane, 2006). Fereday & Muir-Cochrane (2006) provide additional support for this blend of inductive and deductive approaches by emphasising the methodology's compliance with the principles of: i) logical consistency (clarity about the conceptual framework); ii) the subjective interpretation (respect for the meaning the author of the action ascribed to it) and; iii) adequacy (consistency between constructs and typification and common-sense experience).

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<sup>44</sup> Braun & Clarke (2021) have come to designate their proposed methodology as Reflexive Thematic Analysis precisely because of what they call the 'inescapable subjectivity of data interpretation'.

**Table 16: Thematic Analysis: Phase description of the process**

<b>1. Familiarizing yourself with your data</b>	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
<b>2. Generating initial codes</b>	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
<b>3. Searching for themes</b>	Collating codes into potential themes, gathering all data relevant to each potential theme.
<b>4. Reviewing themes</b>	Checking if the themes work in relation to the coded extracts (Level 1) and the entire data set (Level 2), generating a thematic ‘map’ of the analysis.
<b>5. Defining and naming themes</b>	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
<b>6. Producing the report</b>	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis to the research question and literature, producing a scholarly report of the analysis.

*Source: Braun & Clarke (2006).*

#### **4.4. Research setting**

This study is placed in the Iberian Peninsula because of two main factors: on one hand, the launching of the *Metamorfose* programme by Business Roundtable Portugal in 2023 was the original trigger for the study itself; on the other, the Author, who is Portuguese, is currently enrolled in a Spanish university, which helped expand her networking potential. As a result, extending the geographical scope to the whole of Iberian Peninsula, including two countries which share significant economic, cultural and historical bonds, seemed a natural avenue.

Despite the many similarities, some differences should be noted for the purpose of this study:

- 1) **Dimension:** Spain’s economy is more than five times larger than Portugal<sup>45</sup> and boasts a significantly higher number of very large companies with worldwide presence, which is something rare in Portugal. This in turn translates into higher capital availability and a more dynamic start-up environment;
- 2) **Legal framework:** in Portugal, the standard governance model involves a Board composed by an Executive Committee and an Audit Committee, formed by non-executive members. However, while the full model has been adopted by large firms, smaller ones such as the firms in our sample typically retain a Board where all members have executive roles. In Spain, the Board is mostly composed by non-executive members, with the executive

<sup>45</sup> According to World Bank data for 2024, Spain’s nominal GDP amounted to USD1,7tn whereas Portugal’s stood at USD308bn.

functions delegated to a level below, and Advisory Boards seem more common (please refer to Annex 3 for a detailed overview of the corporate legal formats in both countries). This distinction will be relevant when assessing the narratives presented in chapter V, as the word ‘Board’ has a more executive connotation for Portuguese respondents and one more linked to supervisory functions in the case of Spanish respondents. This said, this acknowledgement did not raise material issues when comparing results for the two sub-groups.

Finally, there were two main reasons behind the decision not to impose any restrictions in terms of industry/sector for the sample composition: on a more general note, the nature of the Research question (‘How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?’) called for a more ample, cross-sectorial approach; on a more specific one, the smaller size of many Portuguese companies would have made it difficult to find an ‘industry focused’ sample with sufficient critical mass for this study.

## **4.5. Data collection**

### **4.5.1 Semi-structured interviews (design, protocol, question development)**

The initial draft of the interview protocol was broadly based on the blocks which compose the Metamorfose survey: decision making and corporate bodies; risk management and internal control; transparency and reporting; corporate governance culture and, when applicable, family businesses’ protocols – each of them then comprising various subtopics (please see chapter III for a detailed description of the survey). The goal would be to identify if and when developments in those fields may have occurred along the timeline of the company’s evolution.

To respect the narrative methodology, the kick-off question involved asking the respondent to share the history of the firm, with a focus on key milestones and ‘tipping points’ in terms of decision-making – moments when context called for disruptive decisions which could lead the firm to the next level. In most cases, the speech flow of the respondent ended-up providing the answers even if no further questions were asked; in other cases, questions were introduced whenever the topic arose in the narrative, even if not following the protocol’s exact order; in other cases still, it was possible to engage in a two-way dialogue whenever an especially interesting and uncommon topic showed up<sup>46</sup>. It is important to remember that the interviews were conducted with very senior actors, for whom highly structured protocols can prove counterproductive but also limitative in terms of accessing

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<sup>46</sup> For instance, one particular respondent discussed public policy issues around governance and mid-sized firms, a topic which seemed pertinent to the thesis and was therefore developed further in the context of the interview.

experiential knowledge, an asset critical for this thesis but very hard to capture through predefined categories. As a result, the interview protocol served essentially as a general support roadmap but was never pursued strictly, with topics omitted, modified, or expanded depending on the opportunities provided by each specific context. This meant that, ultimately, in most cases, the interview format ended up closer to an open, unstructured type rather than a semi-structured one (and certainly so from the viewpoint of the respondent). In fact, as the interviewing process evolved over time, the questioning, whenever required, became more pin-pointed and refined, a circumstance Creswell & Poth (2016) acknowledge is a frequent result of ‘increased understanding of the problem’ by the researcher.

**Table 17: Interview Guide – Main themes**

<b>Kick-off question:</b>	
Can you please share important moments in your company's history in which you had to take important, potentially disruptive, decisions to take the company to the next level? What has helped you to be comfortable with the decisions you were taking?	
<b>General topics:</b>	
<b>CG Culture and commitment</b>	<b>Risk Management</b>
Approaches to Governance	Internal Control
Values	Key persons
<b>Decision Making &amp; Strategic Oversight</b>	Organizational infrastructure
Advisory Board	Risk management processes
Board: setup, way of functioning, roles	<b>Ownership</b>
Committees	Shareholder agreements
Delegation	Shareholder conflicts
Executive Committee	Succession
Mentors	<b>Lessons learned</b>
Professional management	<b>'Tipping point' moments</b>
<b>Disclosure &amp; Transparency</b>	
External Auditing	
Disclosure to external stakeholders	
MIS & financial reporting	
Professional Head of Finance / CFO	
Relationship with banks	

*Source: Author's own elaboration.*

**Table 18: Interview Script – Examples of questions**

<b>Kick-off question:</b>	
Can you please share important moments in your company's history in which you had to take important, potentially disruptive, decisions to take the company to the next level? What has helped you to be comfortable with the decisions you were taking?	
<b>General topics:</b>	<b>Examples of questions</b>
<b>Approaches to Governance</b>	<p>I am asking you the question because this is a topic we haven't fully defined from your point of view. What is good governance? What are the elements of good governance?</p> <hr/> <p>Let me just comment briefly—as you said, the governance model was stabilized in 2017. Could you describe what you had before that? Essentially, what did we have in place back then?</p> <hr/> <p>I'd like to start with a general question before we dive deeper—based on your experience in a highly regulated banking environment compared to this one. This model which, as you say, despite being a relatively small company, already has some complexity. What benefits do you see? If I asked you to make a comparison, what would you say? Are there things that work better? What stands out?</p>
<b>Advisory Board</b>	<p>But, for example, have you ever decided not to go ahead with an investment based on the opinion of the Advisory Committee?</p>
<b>Board: setup, way of functioning, roles</b>	<p>You mentioned a little while ago that, we're talking about roughly 20 years of history, and that the decision to move forward with a formal Board of Directors structure came about three or four years ago. Can you share a bit about what led you to make that decision? What led you, collectively, to take that step?</p> <hr/> <p>From these four years the firm has had a Board of Directors, what stands out to you the most? Essentially, what are the main advantages of having the Board?</p> <hr/> <p>What was the criteria for selecting the people who were independent on the Council?</p> <hr/> <p>In terms of your partners, the business angels you have—do you follow any formal structure? That is, the meetings you're mentioning, when you ask them for advice and perspectives, do you do it in a formal way? Do you have a board of directors, an advisory board, or is it something more informal?</p> <hr/> <p>I understand that the Advisory Board was formed in 2020, but all that clarity you have about the implications of each of these roles—when did it start to become clear in your mind?</p> <hr/> <p>If you could go back, what would be the first governing body you'd set up: a management committee or would you move straight toward a formal board of directors?</p>
<b>Committees</b>	<p>In the end, even if people might not see what you're seeing or where you want to go, do you see value in having the committee?</p>
<b>Delegation</b>	<p>At what point in the group's growth did that awareness become clear? And what were, essentially, the areas that were prioritized for delegation? How did that process unfold? What did you start delegating? In short, when did you become aware of the need to delegate?</p>
<b>Mentors</b>	<p>Those decisions, that ability to assess whether the opportunity was good or not—was that essentially concentrated in the two of you? As the primary managers of the company, did you seek any kind of external support? Other people with knowledge? Even if it was just on an informal basis?</p>
<b>MIS &amp; financial reporting</b>	<p>Again, looking at the speed at which the company's revenue has grown—help us understand how you've assessed the financial side of things, the importance of financial information, and to what extent it has—or hasn't—helped you gain insight.</p>
<b>Professional Head of Finance / CFO</b>	<p>When did it really become clear to you — and this is a question within a question — that delegation was necessary? And specifically regarding the financial area, when did you realize it was no longer possible to continue without someone taking charge of finance?</p>
<b>Organizational infrastructure</b>	<p>Let me just break down what the word 'structure' means: does it simply mean more people, or changing the way you do things?</p>
<b>Shareholder agreements</b>	<p>In terms of organization between you—how was the division of roles, who did what? Did you make any kind of shareholders' agreement?</p>
<b>Succession</b>	<p>Well, since you're bringing up the topic—do you have a succession plan?</p>
<b>Lessons learned</b>	<p>If you think of a specific decision related to growth, is there one that you felt didn't yield the results you had hoped for—in other words, a lesson you took away from that decision-making process?</p> <hr/> <p>If you had to sum up the lessons learned from this move into [Country X], what could you share?</p> <hr/> <p>What lessons do you take from moments when you may have missed the mark a bit and had to adjust course, or from early intuitions that were later validated?</p> <hr/> <p>Looking at the history of [Firm] since you became more actively involved in management—if you had to change something, what would you do differently, and when?</p>

*Source: Author's own elaboration.*

Although it was not envisaged in the beginning of the process, after the first interviews, it became clear an initial disclaimer was required. Since for several respondents, the word ‘Governance’ equates to ‘Board’, it was important to clarify beforehand that the focus of the interview was on the evolution of decision-making processes and support mechanisms rather than board dynamics. We acknowledge that the need for the disclaimer could be considered a preliminary finding, which will be discussed in Chapter V.

#### 4.5.2 Sampling Strategy

The focus of this thesis lies on the intersection between the Governance and Organizational Life cycle academic fields, because we are looking to understand how a governance process develops over time until the firm can be considered a mature corporation. This explains why some of the participants selected for the sample are already medium to large corporations in statistical terms as of today, despite the study’s focus on SMEs. Such firms were found eligible because their growth trajectories led them through transition points that can be matched against the IFC and Metamorphose life-cycles over the last two decades. Those transitions may have been driven by material increases in sales volume; number of employees; entrance in new markets (products/geographies); entrance of new investors, etc. Therefore, while the sample contains both small, medium and large companies as of today, all of them displayed significant increases in all the three items that make up the statistical definition of an SME (sales, assets and number of employees) over the course of a 10-20 year period.

At this point, it is important to clarify that, for the purpose of this thesis, ‘growth’ is the factor that gives the sample its homogeneity – precisely because we are looking to understand how decision frameworks have evolved to accommodate growth. In ensuring conceptual alignment between the research question and the nature of the sample, we are pursuing a strategic purposive sampling approach as articulated by Flick (2024). A more homogeneous sample allows for information-rich cases which can shed a more consistent light on how decision framework dynamics evolve as firms gain dimension over time.

Financial data was exclusively extracted from the financial database provider SABI, to ensure conceptual and longitudinal consistency, therefore strengthening the internal coherence of the analysis. However, this choice also entailed important limitations. In several cases, reported figures are likely to underestimate the true scale of the firm’s operations, because consolidated accounts are unavailable, incomplete, or filed in jurisdictions which are not accessible through the data source. In a few other cases, firms’ relevance is assessed based on variables other than the ones adopted in this thesis (example: assets under management). As a result, turnover figures may reflect only a partial view of the firm’s real dimension. In practical terms, some firms may therefore be categorized as

medium-sized despite having already reached the scale of large enterprises. This limitation must be kept in mind when interpreting results that depend on size classifications or revenue-based thresholds.

Table 20 presents an analysis of the financial evolution of the firms in terms of sales, assets and employees, expressed in terms of multiples of their respective values in the first year of analysis (all values have been rebased to year 0). Annex 2 describes in detail the general approach, data sources and any adjustments required along with an individual snapshot of each firm. In tandem with narrative inquiry designs, all firms will be referred to using aliases to ensure confidentiality and improve the fluidity of narrative.

**Table 19: SMEs – Europe Union Statistical definition**

Category	Micro	Small	Medium-sized
Staff	< 10	< 50	< 250
Turnover	< €2M	< €10M	< €50M
<i>or</i>			
Balance Sheet	< €2M	< €10M	< €43M

Source: [https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition\\_en](https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en).

Note: For turnover and balance sheet, the sign '<' should be read as 'less than or equal to'.

**Table 20: Sample – Evolution of Key Financials since Base Year**

FIRM	Analysis period			SALES	ASSETS	EMPLOYEES
	Beginning	End	# Years			
Aveiro	2004	2023	19	3.1x	22.6x	0.7x
Braga	2017	2023	6	2.5x	1.9x	1.5x
Cordoba	2015	2024	9	23.0x	8.1x	2.1x
Donostia	2008	2023	15	24.9x	10.1x	6.0x
Escorial	2004	2022	18	7.0x	7.7x	4.8x
Ferrol	2004	2024	20	8.4x	7.9x	7.6x
Guarda	2013	2024	11	193.9x	142.9x	106.3x
Huelva	2015	2022	7	20.5x	13.5x	20.0x
Irun	2008	2023	15	3,900.1x	16.0x	66.0x
Jerez	2012	2023	11	2,190.7x	57.1x	38.2x
Kripan	2008	2024	16	31.2x	32.9x	30.6x
Lugo	2008	2024	16	6.2x	7.9x	3.3x
Madrid	2015	2023	8	38.3x	72.4x	36.0x
Nelas	2006	2024	18	21.0x	23.8x	7.0x
Oviedo	2013	2023	10	10.3x	10.4x	2.3x
Porto	2009	2024	15	2,261.5x	388.5x	40.0x
Queluz	2005	2024	19	5.1x	5.4x	18.0x
Reguengos	2004	2024	20	3.6x	4.2x	1.2x
Santarem	2014	2024	10	81.2x	2.6x	2.7x

Source: SABI. All data rebased to first year of analysis. Note: Although Braga appears to be much younger, this is due to data availability issues in SABI.

It is critical to note that, although the sampling criteria was exclusively based on longitudinal financial data, the focus of the interviews was on the underlying processes that led to those results and not the results themselves (hence, again supporting a qualitative design rather than a quantitative one). Finally, all participants were identified through the researcher and her advisers' networking efforts, notably via contacts in the Portuguese banking industry and through the Comillas Alumni network.

Having said this, while the interview material undoubtedly forms the core material for this thesis, the financial data collected during this sampling stage also worked as a relevant complementary data source to better understand the evolution path of firms against the various theoretical paradigms. For instance, data on turnover and employees was particularly useful to understand the pace at which the firm evolved in terms of business span and infrastructure complexity over time. This triangulation between financial information and the qualitative insights gathered in the interviews allowed for a more refined classification applied to each firm.

#### 4.5.3. Interview process

19 interviews were conducted, including CEOs, CFOs and other C-level officers, along with and Entrepreneurs/Founders, some of them who have been able to successfully enlarge the investor base and, later on, sell the business to strategic investors. Interviews were conducted in both Portuguese and Spanish and transcribed in their respective language.

Interviews were conducted between November/2024 and September/2025 and lasted, on average, 60 minutes, totaling nearly 19 hours of conversation. All of the interviews except three were held online, via Teams and Zoom. Field notes were drafted for each of them in the aftermath of the interview. Audio files were then extracted from the videos and transcribed through Sonix. All of the transcriptions were broadly revised manually before beginning the data analysis process.

In the early days of Grounded Theory, there was significant discussion around the ideal size of a sample, or ‘theoretical saturation’<sup>47</sup>, i.e., the point from which no new material information, in terms of themes, categories and relationships, is being gathered through the interview process (Corbin & Strauss, 2008). More recently, (Guest et al., 2020), in their quest to for a quantitative approach to determine saturation degrees in a more precise manner, refer a threshold around 12 interviews. In the case of this thesis, as interviews evolved over time, two things became clear throughout the process: on one hand, no new themes beyond the ones identified through literature review emerged and, on the other, the various patterns identified in the beginning of the process naturally began to group under common categories (for instance, those related to the intention to sell/not sell the business at some point). This acknowledgement broadly aligns with what (Saunders et al., 2018) describe as a link between saturation and content validity when the approach to data is more deductive driven. Also important to keep in mind, the categorization of the 19 participants according to the theoretical models discussed in the literature review section provided additional data layers, providing ample critical mass for analysis.

#### 4.5.4. Sample profiling

This section provides a general description of the sample across several variables, such as nature, dimension, country, sector, years of activity and ownership structure, as well as the narrator’s profile. Annex 2 contains a detailed profile of each firm interviewed, in terms of demographics (sector, industry, dimension, maturity, nature and shareholder base) along with categorization per theoretical models (to be further developed in Chapter V).

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<sup>47</sup> The term ‘theoretical saturation’ was originally coined by Glaser & Strauss (1967).

**Table 21: Firm Nature & Respondent profile - definitions**

Firm 'Nature'		Respondent profile	
<b>Venture</b>	Start-up launched from scratch	<b>Entrepreneur</b>	Aiming at a future sale of the business
<b>Venture couple-based</b>	Venture launched by a couple	<b>Corporate Person</b>	Long-term approach, with no intention to sell
<b>Family-based</b>	Family business in second or more generations	<b>C-level</b>	Member of the management team

Source: Author's own elaboration.

**Table 22: Ownership - definitions**

Ownership nature	
<b>Family</b>	Firm controlled by a family
<b>Single shareholder</b>	Firm owned by a single shareholder
<b>Founders</b>	Firm owned by founding shareholders
<b>Founders + Business Angels / Venture Capital</b>	Firms in which founding partners opened capital to business angels or venture capital (at inception or afterwards)

Source: Author's own elaboration.

**Table 23: Sample demographics (Turnover data at End of Period)**

Firm	Country	Sector	Turnover	Ownership Structure	Nature	# Years	Respondent Role	Respondent Profile
<b>Aveiro</b>	Portugal	Secondary	> €100M	Single shareholder	Venture	> 20 Yrs	CFO	C-Level
<b>Braga</b>	Portugal	Tertiary	€50-100M	Family	Family-based	> 20 Yrs	CFO	Corporate Person
<b>Cordoba</b>	Spain	Tertiary	< €50M	Founders	Venture	10 - 15 Yrs	Founder & CEO	Corporate Person
<b>Donostia</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	15 - 20 Yrs	Founder & CFO/COO	C-Level
<b>Escorial</b>	Spain	Primary	> €100M	Single shareholder	Family-based	> 20 Yrs	CEO	Corporate Person
<b>Ferrol</b>	Spain	Tertiary	> €100M	Founders	Venture	> 20 Yrs	COO	C-Level
<b>Guarda</b>	Portugal	Secondary	€50-100M	Founders	Venture	10 - 15 Yrs	CEO	C-Level
<b>Huelva</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	< 10 Yrs	Founder & COO	Entrepreneur
<b>Irun</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	15 - 20 Yrs	Founder & COO	Entrepreneur
<b>Jerez</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	< 10 Yrs	Founder & CEO	Entrepreneur
<b>Kripan</b>	Portugal	Tertiary	€50-100M	Founders	Venture couple-based	15 - 20 Yrs	Founder & CEO	Corporate Person
<b>Lugo</b>	Spain	Secondary	> €100M	Single shareholder	Family-based	> 20 Yrs	CEO	Corporate Person
<b>Madrid</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	10 - 15 Yrs	Founder & CEO	Entrepreneur
<b>Nelas</b>	Portugal	Secondary	< €50M	Founders	Venture	> 20 Yrs	Founder & CEO	Corporate Person
<b>Oviedo</b>	Spain	Tertiary	< €50M	Founders + BA/VC	Venture couple-based	10 - 15 Yrs	Founder & CMO	Corporate Person
<b>Porto</b>	Portugal	Primary	€50-100M	Founders	Venture couple-based	15 - 20 Yrs	Founder & CEO	Corporate Person
<b>Queluz</b>	Portugal	Secondary	€50-100M	Founders	Venture	> 20 Yrs	Chief of Staff	C-Level
<b>Regua</b>	Portugal	Secondary	> €100M	Family	Family-based	> 20 Yrs	C-Level	C-Level
<b>Santarem</b>	Portugal	Tertiary	< €50M	Founders + BA/VC	Venture	10 - 15 Yrs	Founder & CEO	Corporate Person

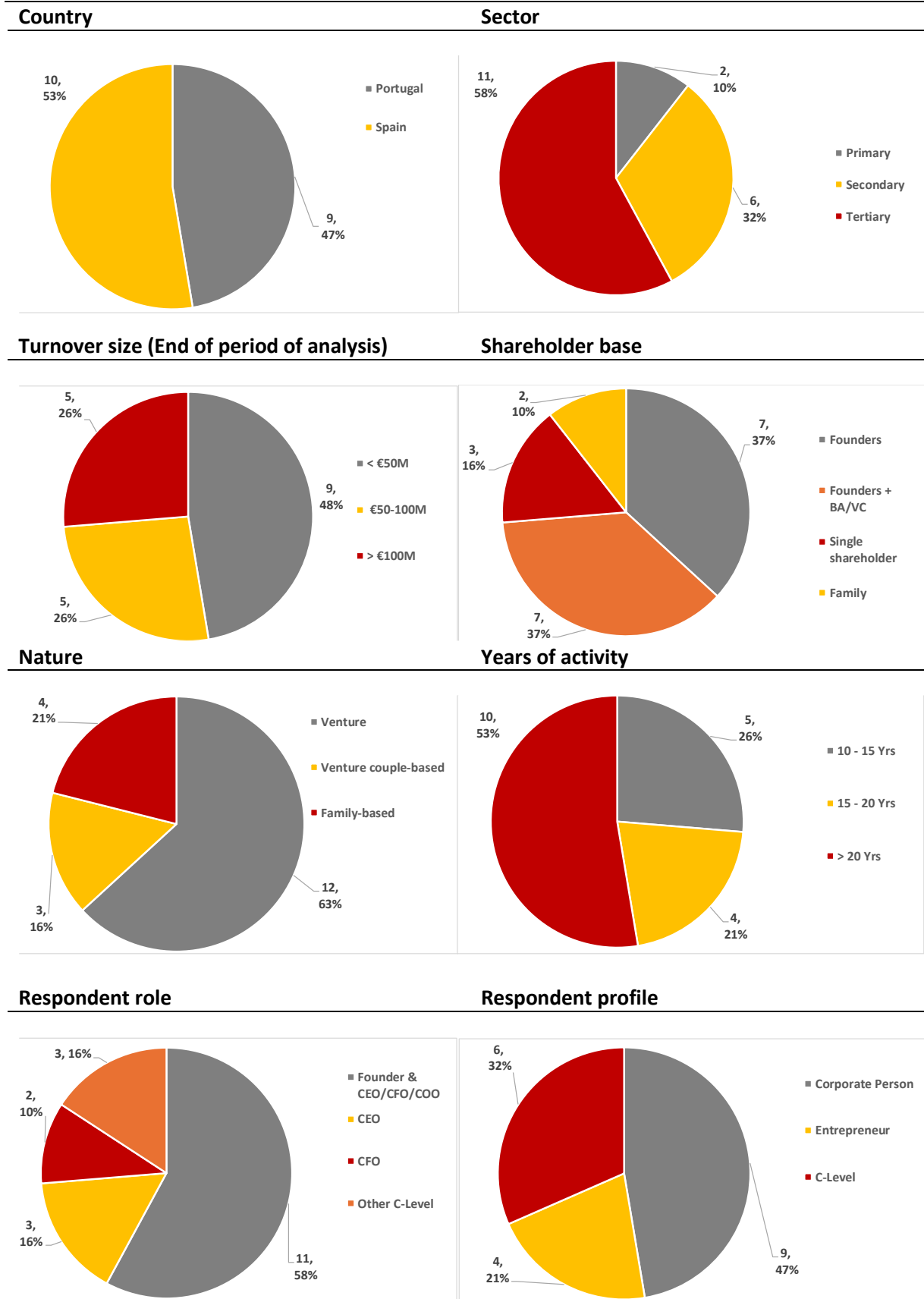
Source: Author's own elaboration. For a more detailed description of each participant, please refer to Annex 2.

Note 1: 'CMO': Chief Marketing Officer; 'BA/VC': Business Angels / Venture Capital.

Note 2: Turnover data was extracted from SABI but it may underestimate real numbers – please refer to Annex 2 for a more detailed explanation.

Note 3: '# Years' refers to how old the Firm is.

Figure 13: Sample demographics (2024)



Source: Author's own elaboration.

#### **4.5.5. Ethical considerations**

All participants were asked for permission to record the sessions, having signed a Non-Disclosure Agreement and a Declaration of Consent for the recording – only one respondent refused to record the interview, as per the firm’s guidelines. In this case, notes were taken by hand and summed up in a document. Participants were assured anonymity of both their personal and corporate identity.

### **4.6. Data analysis**

#### **4.6.1. NVIVO®**

Qualitative data analysis was conducted in NVIVO® software (version 15), which is a simple and intuitive but powerful tool for organizing, categorizing, reviewing and coding texts. It also includes the possibility of carrying data cross-queries along with visualization tools that facilitate the identification of themes and patterns, making it easier to grasp key insights from the data. Unfortunately, since interviews were carried in two different languages (Spanish and Portuguese), we could not use some of NVIVO®’s most popular features, such as Word counting and Word clouds.

#### **4.6.2. Codification and analysis**

As explained before, the vast number of theoretical perspectives and practitioners’ insights generated over the past two decades in the field of SME governance made it sensible to pursue a line of inquiry based on an abductive perspective when approaching qualitative data. The initial coding structure was therefore based on the five dimensions proposed by both the IFC Guidebook and the *Metamorfose* programme: i) Governance culture and commitment to Good Governance; ii) Decision-making and strategic oversight; iii) Disclosure and Transparency; iv) Risk Governance and Internal Control and; v) Ownership. To these five buckets, we then added two other general themes, directly stemming from the research question formulation (‘An approach to Governance in SMEs: How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?’): ‘Tipping points’ and ‘Lessons learned’, to capture important moments in the history of the firms that could somehow correlate with changes in decision-making patterns.

Despite this initial general categorization, the number of codes rose steadily in the first round of revision, both via the inclusion of children codes in all the main codes as well as by adding other main codes for concepts which appeared relevant.

In the second and subsequent rounds of revision, the focus moved to assessing the individual pertinence of each coded quote and whether there could be potential overlaps, as it gradually became

clear that preliminary quotes coded with different names could be grouped under a single code. In other cases, the reverse was true: for instance, all text coded to the 'Tipping Points' and 'Lessons learned' themes required sub-categorization into children codes, to better express the respective nature of the events.

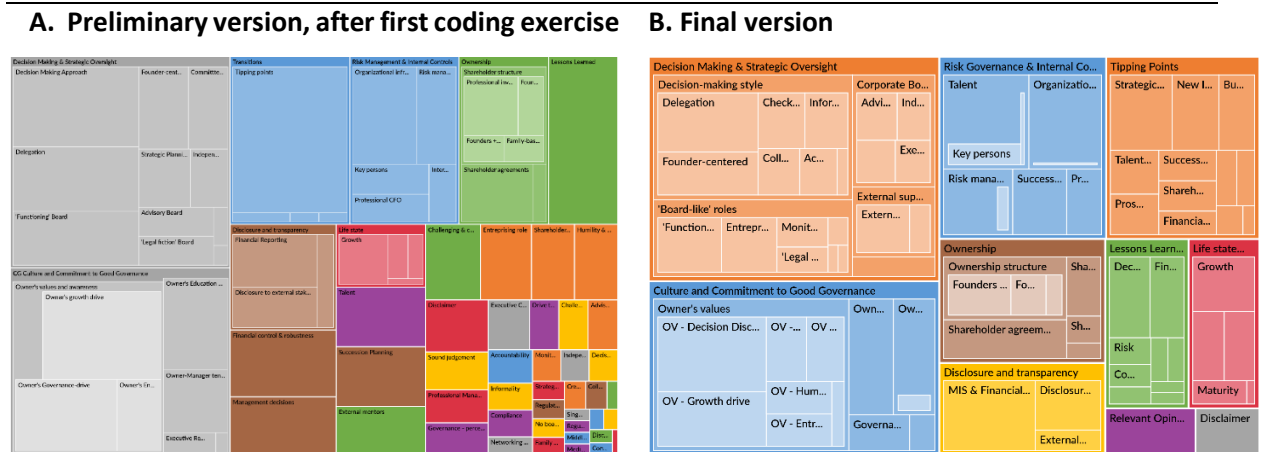
Overall, this is an extremely iterative process, requiring frequent consistency validations against previously reviewed interviews and assigned codes but it also leads the researcher to engage in an immensely valuable 'meaning-quest' exercise – aligned with the reason why Braun & Clarke (2021) added the word 'reflexive' to their original 'thematic analysis' approach. As one deep-dives on the substance of each quote and on the rationale to have it assigned to certain codes, the intrinsic properties of each code and the way it fits into the bigger picture become increasingly evident. As a result, along the process, some codes get renamed, some codes get merged or autonomised; and some codes are moved around in the hierarchy.

The evolution of a children code under the theme 'Disclosure & Transparency' provides a good illustration of this iterative process: initially, all references related to *financial reporting* were grouped in a children code with that same name. Then, it started to emerge that, in some cases, participants were discussing reporting requirements in *strictu sensu*, ie, referring to the importance of robust MIS as a decision-making tool for both financial and operational terms. In other cases, however, they were talking about the importance of keeping a tight financial control in general terms. Hence, the original 'Financial reporting' children code was split into 'MIS & Financial reporting' and 'Financial control and robustness'. In a latter round of analysis, it became clear that the content labelled with 'Financial control & robustness' related to statements in which owners/founders were actually talking about fundamental guiding principles in the way they manage the business – i.e, the nature of the statements had more to do with principles and values than procedures and practices. As a result, this children code was moved to the theme 'CG culture and commitment to good governance' and renamed to 'Owner's values – Financial resilience'.

Another example relates to the frontier between two children codes named as 'Accountability' and 'Checks & Balances' within the main code 'Decision-making and Strategic oversight / Decision-making style'. In a first round, quotes had all been grouped under a single code related to 'decision-making' but, on a second reading, it became clear respondents were discussing two different dimensions of decision-making. On one hand, they were highlighting the importance given to the ability to support their decisions in front of external bodies, implying that decisions need to be traceable – these statements were ultimately coded under 'Accountability'. On the other hand, debating ideas and making sure various and different perspectives are given due value in a discussion were also aspects highlighted by several respondents – these statements were then coded as 'Checks

& Balances'. Successive iterations such as the ones described above ultimately created the ground for a preliminary Codebook to be drafted. This in turn allowed for further clarifications in meaning and further refinements in code properties.

Figure 14: Hierarchical Maps: evolution of code density



Source: Nvivo®.

The following tables describe the final coding structure, split in two blocs: one includes statements related to values and practices pursued by respondents, the other includes statements referring to contextual variables.

**Table 24: Nvivo® Coding Structure - Values and Practices**

	# cases	# references		# cases	# references
<b>Culture and Commitment to Good Governance</b>	<b>19</b>	<b>215</b>	<b>Decision Making &amp; Strategic Oversight</b>	<b>19</b>	<b>277</b>
Executive Remuneration	3	5	'Board-like' roles	16	75
<b>Governance - preliminary characterisation</b>	<b>8</b>	<b>11</b>	'Functioning' Board	10	25
<b>Owner's Education &amp; Training</b>	<b>12</b>	<b>24</b>	'Legal fiction' Board	7	9
Regulated Industry Background	4	4	Entreprising role	10	22
<b>Owner's values</b>	<b>18</b>	<b>149</b>	Mediation role	1	2
OV - Credibility	3	5	Monitoring role	5	11
OV - Decision Discipline	12	50	Networking role	3	4
OV - Entrepreneurship drive	7	13	No board (yet)	1	2
OV - Financial Resilience	8	15	<b>Corporate Bodies</b>	<b>10</b>	<b>45</b>
OV - Foundational Principles	8	16	Advisory Board	5	13
OV - Growth drive	15	37	Committees	3	11
OV - Humility & Willingness to learn	5	13	Executive Committee	5	10
<b>Owner-Manager tension</b>	<b>10</b>	<b>26</b>	Independent Board Members	5	11
<b>Disclosure and transparency</b>	<b>15</b>	<b>65</b>	<b>Decision-making style</b>	<b>19</b>	<b>121</b>
Disclosure to external stakeholders	12	19	Accountability	6	11
<b>External Audit</b>	<b>6</b>	<b>8</b>	Agility	3	3
<b>MIS &amp; Financial Reporting</b>	<b>14</b>	<b>38</b>	Checks & balances	12	16
<b>Risk Governance &amp; Internal Controls</b>	<b>19</b>	<b>125</b>	Collegiality	8	12
<b>Organizational infrastructure</b>	<b>14</b>	<b>35</b>	Delegation	13	37
Regulated businesses	1	1	Founder-centered	12	27
<b>Professional CFO</b>	<b>6</b>	<b>12</b>	Informality	8	15
<b>Risk management</b>	<b>11</b>	<b>19</b>	<b>External support</b>	<b>11</b>	<b>28</b>
Internal controls	2	4	Advisory firms' support	6	8
<b>Succession Planning</b>	<b>11</b>	<b>18</b>	External mentors	8	20
<b>Talent</b>	<b>15</b>	<b>41</b>	<b>Professional Management</b>	<b>5</b>	<b>8</b>
Key persons	7	11			
Trust	1	2			

Source: Author's own elaboration. Note: 'cases' corresponds to the number of participants (19) whereas 'references' relates to the total number of quotes captured by the code. Main codes aggregate all children codes below.

**Table 25: Nvivo® Coding Structure – Contextual variables**

	# cases	# references		# cases	# references
<b>Lessons Learned</b>	<b>11</b>	<b>60</b>	<b>Life state &amp; Transitions</b>	<b>16</b>	<b>51</b>
Compliance	4	5	Development	9	12
Decision-framework (LL)	5	18	Growth	13	19
External advisory	3	4	Maturity	3	7
Finance	6	15	Plateaued growth	1	1
Mentorship	1	2	Start-up	8	12
Risk	4	6			
Shareholder structure & conflicts	2	2	<b>Ownership</b>	<b>16</b>	<b>87</b>
Strategy & Purpose	3	4	Family protocol	2	3
Talent	1	4	Ownership structure	15	42
			Family-based	5	6
<b>Tipping Points</b>	<b>16</b>	<b>119</b>	Founders	8	13
Business Expansion	8	14	Founders + Professional Investors	8	23
Decision-framework (TP)	3	4	Shareholder agreements	9	26
Financial Stress	3	7	Shareholder conflicts	4	11
Mentorship	1	2	Shareholder remuneration	3	5
New Investors	9	18			
Next Generation	3	6			
Organizational framework	3	5			
Prospective Sale	3	10			
Shareholder Conflicts (TP)	3	9			
Strategic Direction	7	24			
Succession Planning	5	9			
Talent & Key persons	6	11			

Source: Author’s own elaboration. Note: ‘cases’ corresponds to the number of participants (19) whereas ‘references’ relates to the total number of quotes captured by the code. Main codes aggregate all children codes below.

#### 4.6.3. Quality assurance

Given its interpretative and constructivist nature, together with the absence of *a priori* research hypotheses, qualitative research faces increased scrutiny to ensure its findings can be extrapolated to a wider universe. That challenge is heightened in the case of narrative inquiries, because collected data can take very personal, casuistic routes, as was the case of this thesis. In fact, the interview’s opening question gave each respondent the space to share about events of its own which happened in their own timings - it is then up for the researcher to find the similarities and shared meanings across all those storylines. To help circumvent such complexity, Guba and Lincoln (1994) have developed a trustworthiness framework composed of four dimensions and applicable to qualitative research in general, which we will analyse in the context of this thesis:

i) **credibility**, i.e., to what extent findings are credible.

The majority of firms included in the sample are reasonably well-known in their own context and have visibility in the wider market, meaning their growth stories can be validated by various external participants and counterparts in the marketplace. In addition, while there is certainly a degree of subjectivity in the way respondents have told their stories, credibility is further supported

by financial data tracked over a sufficiently long period of time (between 10 and 20 years in most cases).

ii) **transferability**, i.e. to what extent the results can apply in other contexts.

The selected sample covered two countries and displayed a great variety in terms of dimension, age, sectors/industries, organizational complexity, as well as professional profiles and backgrounds of the respondents. Ownership structure is the sole exception to this pattern, with a dominance of owners-managers, in what can be considered an unintended consequence of the original sampling criteria. Despite that variety, it was possible to organize the data around perceptible groups, which are unrelated to the more classic country/sector boundaries.

iii) **dependability**, i.e. to what extent the data collection and methodology prove stable over time.

All the audios and transcriptions from the interviews have been duly archived along with the related field notes and confidentiality agreements and can be easily verified by third parties. The coding process was done by steps, with time lags between them, in order to ensure critical distance and improved consistency in meaning attribution. The Author kept a journal for notes emerging during the codification process, which then formed the basis for the chapters on main results and the discussion. Hierarchy maps and code reports were frequently extracted from NVIVO®, helping to map the evolution of the process. Interviews, field notes and coding at various stages were reviewed by advisers, opening room for further coding refinements.

iv) **confirmability**, i.e. to what extent the researcher's bias may have affected results.

In face of the importance of the intersection between the governance and OLC fields for the purpose of this thesis, the exercise of classifying of firms according to their own life states and transition profiles was a crucial step. However, in methodological terms, it is important to state clearly that this classification emerged from narrative-based interviews rather than standard assessment tools, such as closed-question scripts. The process therefore entails a significant level of researcher reflexivity and interpretive judgment. An alternative, more positivist-driven, design could have involved the prior specification of attributes and the development of a closed interview script. However, such a rigid protocol would have proved inadequate for the very senior profile of respondents. It is thus acceptable that other researcher could have placed different emphasis or drawn different conclusions based on the same dataset. Therefore, the categorizations presented in this thesis – and the interpretive value attributed to the narratives anchored in those categorizations - should be seen as a coherent reading of the data but not the single or definitive one. Confirmability

in this case is addressed via the transparency of analytical procedures, in particular, the granularity criteria developed by the Author to help enhance the applicability of theoretical models such as Torrès & Julien (2005) and Ingley et al (2017).

On the other hand, the structuring of Chapter V (results) obeyed to the key principle of prioritizing the respondents' voices - quotes are extensive in many cases, so as to avoid breaking lines of thought or allowing for any meaning manipulation. The researcher's interpretive intervention is meant to enhance the flow of the global narrative more than anything else. The relationship between data and interpretation will therefore be made clearer in Chapter VI, where results will be discussed in-depth against theoretical paradigms.

## CHAPTER V: RESULTS

### 5.1. The concept of ‘Governance’ in the context of this sample: sense-making

This is a qualitative thesis based on a narrative inquiry design. Narratives are retrospective constructions, where identities and roles along with social and organizational contexts have an impact on the meaning and sense-making respondents attribute to certain topics. In the course of the interviewing process, it soon emerged that, when introducing the thesis’s theme (also because of the need for a signed NDA), a disclaimer was required: several respondents equated the word ‘Governance’ to ‘Board’ – an element that various firms in the sample lacked. It was therefore important to clarify that the focus of the interview was on the evolution of decision-making processes as their firms gained dimension. Once the interview’s theme was repositioned to ‘moments in the life of your company which called for tough decisions and what helped you to be comfortable with those decisions’, the speech flowed very easily despite the question’s broad framing.

Since respondents were able to articulate views on ‘decision frameworks’ despite not openly using the word ‘governance’, we decided not to ask them explicitly about their understanding of ‘governance’ with one sole exception. Córdoba – represented by a seasoned founder-manager coming from a family with strong business track-record - used the term so abundantly throughout the interview that, close to the end, we felt there was room to make a direct question on the topic. Here is her answer:

*‘A good governance for me is one that isn't a private fiefdom. I mean, where no one just does whatever they want without there being a strategy, procedures, a process, a decision-making path. That to me is good governance.’*

*“Conflicts of interest must be avoided in every possible way. And it also has to be ensured that control does not rest solely in the hands of one person, no matter how capable they may be, right?”*

*“Good governance has to - well, in the end, it's about decision-making, and decisions should always be made with the best interests of the company in mind”.*

*“Where did that come from for me? (...) I am a third-generation entrepreneur. So I was born with it. Born with that language that is only spoken about companies and business and...where the company comes first. And that for a company to truly survive and be strong and all that, it needs good governance. I mean, that is absolutely clear to me.”<sup>48</sup>*

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<sup>48</sup> Academia makes a clear distinction between the concepts of ‘firm’ and ‘company’. The former reflects a more ample notion of an entity which may be a nexus of contracts, a bundle of resources and capabilities or a set of relationships between

From her candid formulation, we can observe the emergence of two reasoning lines and one outcome: on one hand, the need to avoid power centralization and, on the other, the importance of having well-defined and transparent decision-making processes, two ingredients which, in her view, must be necessarily combined to ensure the longevity of a business.

These driving forces were corroborated by other respondents. Kripan, a couple-based venture represented by its founder-CEO, linked the importance of shared responsibility to the odds of long-term survival, pointing out that:

*“I think that an organization or a company, if it wants to be successful in the long term, if it wants to have a long life, it has to have capability. [...] Responsibilities need to be divided among several people”*

Donostia, a venture represented by a founder holding a C-Level position, used a more ‘academic’ formulation to describe this power balance:

*“When it comes to corporate governance, there are mechanisms that can really help set up checks and balances — which, in the end, is what corporate governance is: reflexive systems”<sup>49</sup>.*

Lugo, a previous family business now fully held by its CEO, pondering on a past business decision which could have jeopardized the firm’s future, gives a more practical (and even personal) density to this ‘reflexive systems’ concept:

*Well, I think I would have made the decision to strengthen the company’s governance much earlier. I believe it is very important to make those kinds of decisions. Another matter is whether I was ready for it - which maybe I was not and it just was not possible at the time. But if today I could explain something to my past self, I would explain that it is absolutely necessary to have a counterbalance - someone who questions what you are doing and someone to whom you report”.*

This view is echoed by Huelva, a venture with support from business angels and venture capital (‘BA/VC’) represented by a Founder-manager, in a concise manner while introducing an additional element of ‘discipline’:

*“That discipline of raising questions that you would not otherwise ask yourself but that are essential to clear the path”.*

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*stakeholders, depending on the various Theories of the Firm. The latter has a clear legal connotation and refers to the various legal formats a firm can assume. While we will always use the term ‘firm’ in the context of this thesis, we will also respect the fact that respondents have used the word ‘company’, as is more common in management circles.*

<sup>49</sup> Translation note: the original expression in Spanish was ‘sistemas de reflexión’. In the context of the conversation, the intended meaning was therefore aligned with the concept of ‘reflexive systems’, a common expression in governance fields and therefore aligned with the previous use of the expression ‘checks & balances’.

This is a challenge lying at the heart of what Escorial – a previous family business now fully held by its third-generation CEO – recognizes as the basis for good decision-making:

*‘Having a structure that allows for the delegation of decisions and the correction of decisions. When we realize that perhaps we have not made the best choices - we strongly promote the idea of decision-making, even if you make mistakes—but if you have made a mistake, correct it quickly and stay closely involved so you can notice it.’*

Guarda, a 10-year-old venture represented by its externally hired CEO, provides a description of where this tension around decision-making originates from:

*“Deep down, it is also about structuring things a bit more, because as we start to have many companies managed by technical directors at the operational level, the truth is that a lot begins to be decided without us being able to know everything — because it is humanly impossible, right? And it’s also a question of: “how do we safeguard against this situation?”*

This anxiety is easily understood in the context of a young firm experiencing high growth rates and dealing with the corresponding growth pains. Other firms which have successfully overcome that stage did not shy away from establishing a link between governance and growth. When discussing the implementation of a formal, mature governance framework, including independent board members and several committees, Aveiro, a single-shareholder venture represented by its recently appointed CFO, affirmed:

*“He [the Founder] realized the importance and the value that is created. And it exists. He had already anticipated this and now the value created with stakeholders, especially financial ones, has been confirmed”.*

Porto is even more emphatic. According to this 20-year-old couple-based venture, represented by the founder-CEO, the decision to implement a Board a few years ago was justified like this:

*“It was about being able to grow — to allow the group to grow without it meaning more work on my part, or my wife’s. So, we did not want to buy more or grow further if that meant an increase in our workload or effort. So that is what happened. Today, we continue to grow significantly. In recent years, we have kept growing, but we have not had to work more to make that growth happen — and it is the same today. We are now structured”.*

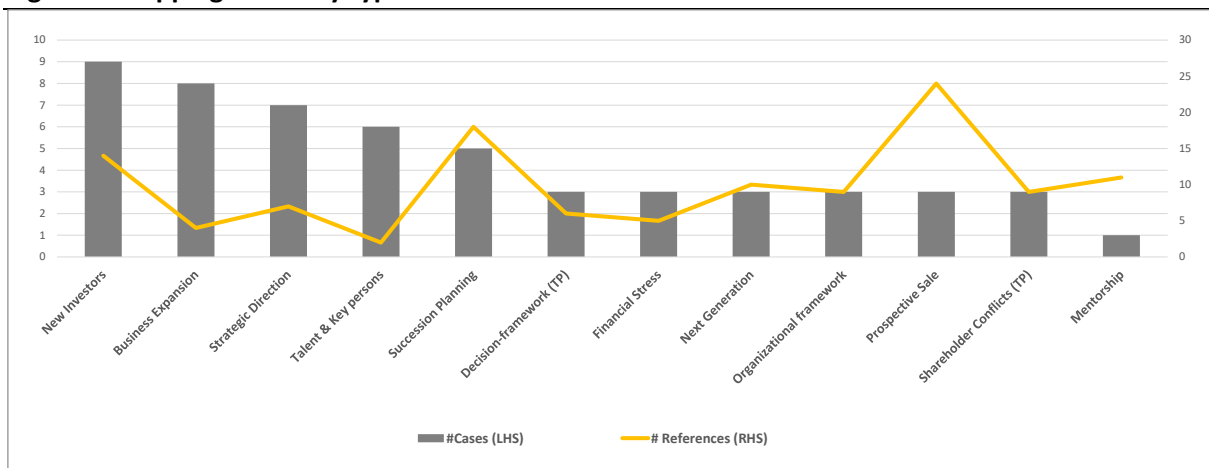
Overall, these statements provide colour on the ‘meaning elements’ that respondents in our sample attribute to the concept of ‘governance’: decision-making, checks and balances, discipline, shared responsibility. They also help shade light on the incentives that may lead founder-managers – the bulk of our sample - to move ahead with more structured decision frameworks as their businesses grow over time.

## 5.2. Tipping Points & Lessons learned

As is widely recognized in the narrative inquiry field, ‘stories often contain turning points (Denzin, 1989) or specific tensions or transitions or interruptions’ (Creswell & Poth, 2016). Since this thesis revolves around stories of firms navigating through the tensions generated by rapid growth, particular attention was given to understanding the nature of events that respondents perceived as turning points – or ‘tipping point’ (Gladwell, 2006) - in the way they were making business decisions. The analysis will then proceed to understand what lessons were learned from those episodes.

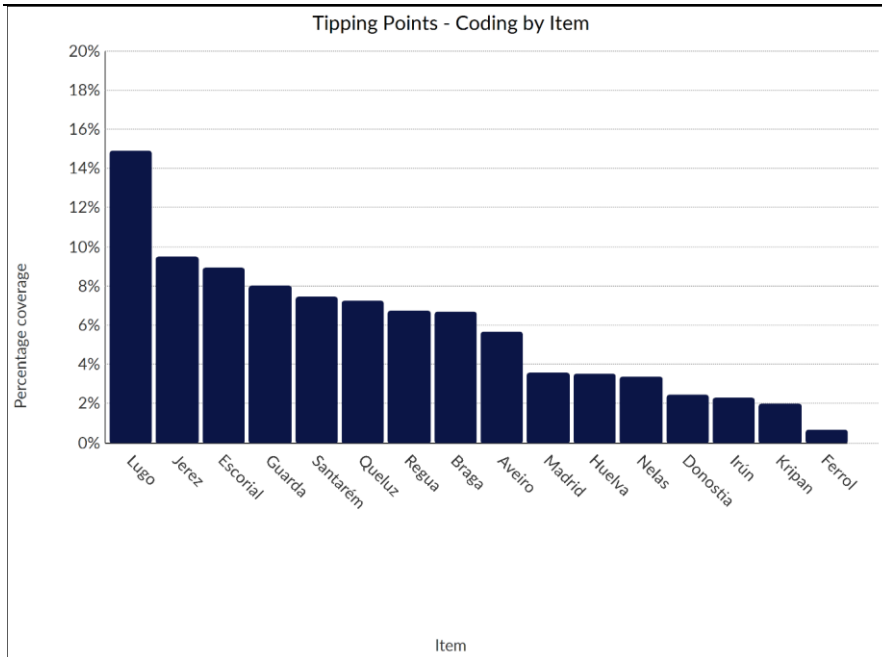
The coding exercise in Nvivo® allowed us to identify 12 categories of tipping points, as shown in the chart below. Perhaps not unsurprisingly, the most transversal drivers (i.e reported by most respondents) were related to business expansion, especially when that involves new investors, and strategic matters.

**Figure 15: Tipping Points by type of event**



Source: Author’s own elaboration. Note: ‘cases’ corresponds to the number of participants (out of 19) whereas ‘references’ relates to the total number of quotes captured by the code.

Figure 16: Tipping Points – contribution by case



Source: Nvivo®.

Escorial, which in the past five years has transitioned to a distinctively larger tier than the remaining firms in the sample, candidly recognizes that size brings about complexity:

*“In five years, we have doubled the group. Evidently, that doubling of the group has come with a lot of developments that have made us a bigger group, a stronger group, but at the same time a more complex group”.*

Lugo provides a vivid account about the strains a pattern of strong growth can impose:

*“The company starts to grow at double-digit rates for many years. With this commercial push, business no longer comes in through the door. We go out to look for it and the seams of absolutely all areas start to break. The purchasing area is not able to buy internationally. The warehouse management unit is not able to manage the warehouses the way it used to. The same way no longer works. All the manufacturing systems that were very well-ordered start to suffer management problems. Growth hurts us in many different ways because the same people who used to do things before are not fit to do the new things. And here we decide that we have to change the structure. The corporate structures become much more professionalized”.*

In Lugo’s own words, this tension is summarized in a succinct manner:

*“We are still not able to grow corporately at the same pace as the company”.*

Size brings complexity which then requires a different way of doing business, with different people and a different organizational infrastructure – all requiring a redesign of decision frameworks. For some firms in the sample, opening up to new talent proved symbiotic in accelerating that process. Escorial again sets the example:

*“He [the current Chief Operating Officer] joins me and helps me to restructure the whole group in a way that is much more like a large corporation, with an approach of, let’s call it, formal corporate governance, which I obviously did not formalize that much, to use the best of corporate theory in a company that has grown a lot and has become a powerful business group but that, maybe, was more a group of well-incentivized entrepreneurs, with good ideas and with a strategy that I set clearly, than a group, managed corporately in a clear and efficient way. And that, that is what has taken us over the last five years”*

(additional note from the Author: in this period, the firm doubled turnover to more than EUR2bn).

Escorial is not alone in this assessment. Braga, Kripan, Guarda and Regua also acknowledge the role of Talent in supporting substantial, differential, improvements in the firms’ organizational infrastructure, strategic drive and decision-frameworks.

The appearance of the variable Talent within this ‘Tipping Points’ analysis also reveals a broader pattern: those tipping points may represent moments in which different driving forces (economic context, generational change, talent and other) converge temporally, further heightening the intensity of those transitions. Succession is one of those cases. For Lugo, succession coincided with a period of economic distress which forced a reinvention of the business:

*“When year ten arrives, that is, for me, the great crisis of Europe, and the succession takes place. The crisis itself helps succession to take place because there is no way to continue with what was being done, what was happening in the company until then. It cannot happen again, and we make the decision that it is no longer a founder’s company.”*

Regua, a family business represented by one of the owners who holds a C-level position, describes a similar situation:

*“My father’s ambition was fully fulfilled. The management team’s ambition was fully fulfilled. But my sister and I started to see a stagnation (...). We started to realize that the attack on [sector] required paradigm changes, cultural changes, adaptations. It required a lot of innovation. And we realized that the time had come to make a change in the management team”.*

Braga, another family business represented by its family-related CFO (who performs more of a dual CEO-CFO role), is also an interesting case in this regard: a family rift led to a business spin-off which then opened the room for greater strategic clarity and consistently high growth rates ever since:

*“When this split happens (...) it is from there that the rebirth of the project takes place. (...) It is this new vision of the business and this long-term perspective. Provided that, as is obvious, we have the strength to execute it. But it is this long-term perspective that makes us start to take the steps of reorganizing a structure. (...) By growing in a structured way, we start to gain scale, gain scale, which allows us to aspire to other working tools.”*

Fortunately, not all tipping points are triggered by negative circumstances. The case of Aveiro, one of the most governance-mature in our sample, is actually the opposite: after a period of economic turbulence in its most important foreign geographies, coming across a new class of funding entities triggered a revamp of the decision framework with a view to facilitate compliance clearance:

*“When he [the Founder] realized that this Export Credit Agency model was a completely different model, with a level of security for the market that he knew, where he wanted to be, I think that also helped [him] to realize that it had to have an adequate governance”.*

(Coincidentally, in the case of Aveiro, this revamp also required external talent, first to trigger the process and then a renewed management team).

The possibility of opening capital to professional investors or, ultimately, pursue a straight sale is also a relevant turning point for most firms, as illustrated by Huelva and Jerez, both of them ventures which have been sold (Jerez)<sup>50</sup> or opened capital to professional investors (Huelva). In the words of Jerez:

*“But as soon as this venture capital comes in, or now that a partner is surely going to come in, we are going to do a capital increase, as soon as you are going to do a capital increase, even if it is very small, you already have to start to have a shareholders’ agreement, a corporate governance [structure], etcetera, etcetera. And so I am about to enter into that, and I will do whatever it takes, I would rather not get paid for a month”.*

Huelva is more focused:

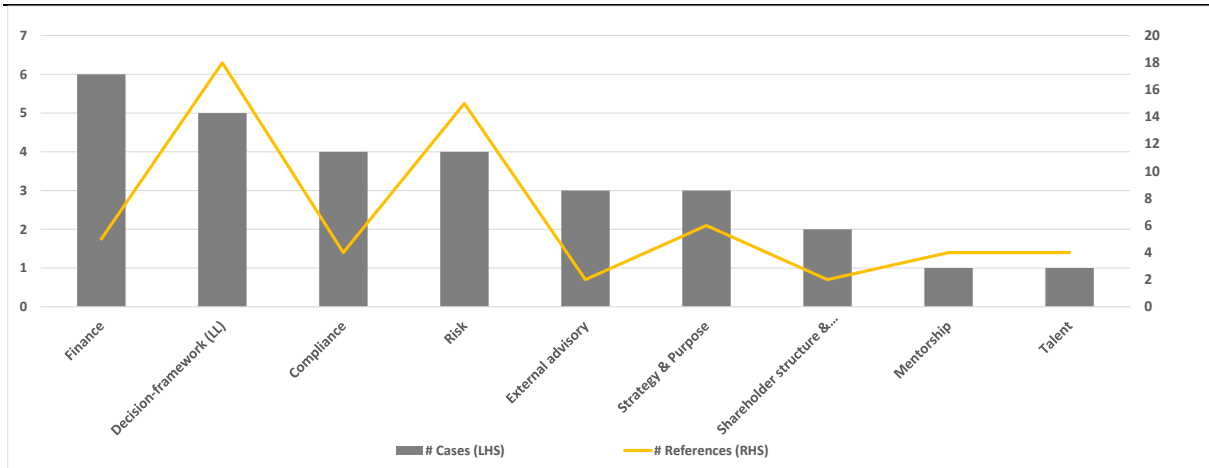
*“What brought a bit of urgency to also organize the company a bit more was the desire to sell it. When we saw that we wanted to sell it, well, we realized that it was necessary to organize some things so that they would be presentable for a company, for a fund that wanted to buy the company”.*

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<sup>50</sup> Jerez, sold in 2017, was founded by an entrepreneur who launched his third venture in early 2024. Some of his statements using present tense refer to his most recent project.

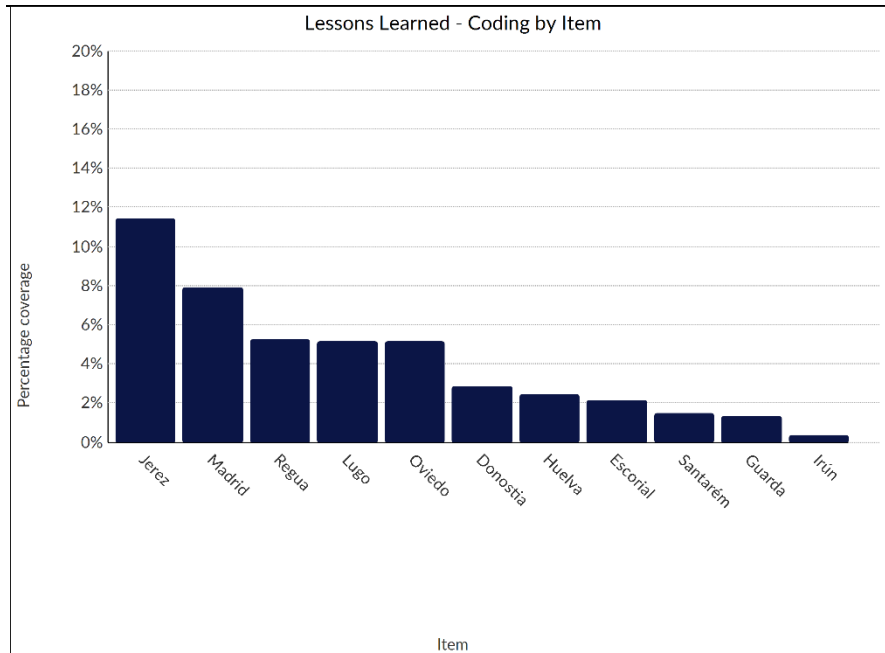
The previous statements indicate that tipping points can also be synonyms for periods of intense learning as 11 out of 19 respondents were coded with 'Lessons Learned', with the Finance dimension aggregating the most references.

Figure 17: Lessons learned by type of event



Source: Author's own elaboration. Note 1: 'cases' corresponds to the number of participants (out of 19) whereas 'references' relates to the total number of quotes captured by the code. Note 2: Full label: 'Shareholder structure & conflicts'.

Figure 18: Lessons learned – contribution by case



Source: Nvivo®.

In this coding case, however, the need to extract insights for the future seems to be almost always triggered by harmful circumstances. Cash shortfalls caused by inadequate client collection procedures seem a recurrent topic for younger firms, which Donostia illustrates in a simple way:

*“First of all: getting paid. When I joined here two years ago, the first thing I did was bring in someone dedicated solely to collections.”*

Another relevant dimension has to do with business data and financial information in general. Oviedo, a couple-based venture in its 10<sup>th</sup> year of operations represented by its Chief Marketing officer, is especially lucid:

*“I will tell you this: information is fundamental, and that is where we have learned the most. (...) We have been growing very fast and that growth has not been accompanied by solid financial management (...) They see it as just accounting. But it is not just accounting—it is about decision-making. For me, that is fundamental. And honestly, one thing we should have done years ago is exactly that - and we are only doing it now”.*

Shareholder conflicts may also lead to a more disciplined approach to finance topics. In the case of Donostia, a disagreement between the original founding shareholders led to the adoption of audited accounts not long ago after the firm’s inception:

*“The first was the accounts - we have to keep in mind that when there is a conflict and you need to reach a valuation with the commercial registry, with an expert involved, it makes a big difference whether you have a clean, signed external audit or not. (...) Right there we took a decision (...), which was from that point on to audit the accounts, even though legally it was not mandatory, because that gave us a lot of transparency with the rest of the shareholders so that this would not happen again. And of course, the other consequence was that the shareholders’ agreement collapsed.”*

Another event triggering lessons learned involves foreign expansion efforts lacking adequate due diligence and oversight. Donostia, Lugo and Oviedo recognized their expansion efforts to other geographies could have led the firms astray - all now boast operations in more than one foreign jurisdiction. While Donostia linked the failure to the absence of internal controls, ie adequate oversight:

*“In [country X], we made the mistake of not going there, of not going to keep things under control”,*

Lugo sees the root of the problem as a lack of checks and balances at the time the decision was taken:

*“The problem is when you make a mistake and not having a counterweight. If I had had a counterweight in year ‘14, when I made the decision to move forward with the project, taking a financial risk that, seen afterwards, makes no sense at all, it would not have been taken. We would have saved ourselves losing time and money”.*

Finally, the risk of being complacent with general law and regulatory compliance, especially in the case of entrepreneurs aiming at future business sales, is also highlighted. Huelva emphasizes the need for compliance in *strictu sensu*:

*“Doing things in a way that you will not regret later for having done them wrong. Even though some decisions may obviously involve lower costs at the beginning, they can end up blocking you in the future, right? So, regulatory compliance in labour matters, in certain commercial aspects, in how you pay your employees, your suppliers, etc., right? All of that—regulatory compliance from the very beginning—is very important.”*

While Jerez is in agreement with this perspective of strict compliance to avoid future penalties: *So this is fundamental, and it is what I always say when I give talks to entrepreneurs: I understand that this may sound like it is too early but it is not. You need to have at least a controller, a financial director, and a lawyer—whether internal or external, or both—to prepare all the corporate governance. Even if you have shareholders’ meetings or a board of directors, everything needs to be prepared and documented. (...) So when you do not give this the importance it deserves and you do not do it, then come the fines, the penalties, and the problems, right?”*,

it also frames this need for compliance (in this case with a formal governance structure) within a broader decision-framework perspective:

*“(...) professionalizing corporate governance and the decision-making process from a commercial, strategic, etc., perspective. (...) You make your own decisions however you like. And while that might be useful at certain moments, in general I think in the long run it is a drawback. You end up making mistakes, don’t you? (...) You are probably going to make, at some point, mistakes that are punishable or that could ruin you. They could sink you. (...) My recommendation is: the sooner, the better. And even if it seems a bit bureaucratic—which it is—a healthy and structured corporate governance is not going to harm you; it will help you. It will always help you”.*

Overall, the nature of Tipping Points and related Lessons learned suggests an emerging recognition of the importance of well-structured decision-frameworks in supporting a healthy development of a business - regardless of the firm’s life state. In some cases, this may take the form of formal governance structures (Lugo, Jerez); in others, it may relate to having clear and basic guiding principles that help introduce discipline to business decisions (Oviedo, Huelva).

### **5.3. Organizational-life cycle context as co-creator of meaning: firm classification grouping**

So far, we tried to understand the nature of moments triggering changes in the firm's decision-making frameworks while avoiding interpretations linked to their respective life-state. However, the focus of this thesis is to explore and understand how decision frameworks evolve as a firm grows over time until it can be considered a mature corporation. Since the focus is put on processes rather than outcomes, the underlying context cannot be ignored. As explained in chapter IV, for the purpose of this thesis, context will not be approached from the perspective of 'control variable' but rather as a 'key driver of meaning attribution'. This means that the relative importance of certain decision-making practices or the prevalence of certain perceptions conveyed by narrators cannot be dissociated from the particular state or transition profile the firm is experiencing. As a result, similar narrative themes may be interpreted differently depending on organizational maturity while apparent contradictions across cases can be explored as context-dependent responses rather than inconsistencies. That is the particularity of this thesis: it stands exactly at the intersection between the 'governance' and 'organizational life cycle' academic fields because it is impossible to understand the decision-framework of a young firm without locating it first against an 'organizational maturity' archetype.

The reading lens which will be applied to the narratives is anchored in three theoretical models discussed in previous chapters: Torrès & Julien (2005)'s Proximity model; Ingley et al (2017)'s Integrative model and; 'Life stages' as per the IFC guidebook. However, in order to classify all firms in the sample according to these three frameworks, some refinement in the underlying criteria in the case of Torrès & Julien (2005) was required along with some relaxation in the assumptions put forward by Ingley et al (2017).

Methodologically speaking, the firms' classification exercise was a truly abductive exercise: deductive to the extent that we were trying to apply theoretical models to empirical cases but equally inductive to the extent that those cases helped enrich and sharpen theoretical insights which we believe have been insufficiently explored until now. That is also the reason why this section is included in Results instead of Methodology: to classify firms, we had to create visible bridges between theoretical models and the empirical evidence on the ground, in what can be deemed a second derivative contribution from this thesis. As is common in qualitative research, this was an intense iterative process between theory, interview data and coding process, permanently infused by the researcher's interpretative lens.

The following tables provide a brief description of the criteria used to assign ranks and categories to each of the firms according to the theoretical models but, for ease of exposition, a technical clarification on the 'Analysis period' concept is required before moving ahead. As explained

in Chapter IV, firms were selected based on strict longitudinal financial criteria, typically covering a range between 10 and 20 years. The precise time span for each firm was a function of data availability and inception date. For firms with more than 20 years, the first year of analysis was 2004, while firms displaying shorter time spans have been incorporated and/or sold more recently (for more detail at firm level, please refer to Annex 1 - Firm profiles & Technical notes). As such, every firm will be assessed in terms of ‘Beginning of Period’ (‘BoP’) and ‘End of Period’ (‘EoP’) data points, corresponding to the beginning and closing of its specific ‘Analysis period’.

Beginning with Life states categorization, extant literature suggests that there is still ample debate about the nature, number and sequence of stages a firm needs to go through in order to reach corporate maturity but there appears to be some convergence around the ‘4 to 5 stages’ model. Hence, we considered the 4-stage sequence proposed in IFC’s SME Governance Guidebook (also replicated in the Metamorfose programme) as an acceptable benchmark, having categorized all firms in the sample according to IFC’s scale. Table 26 briefly summarizes the main features of each state in terms of organizational complexity, information flow, decision-making styles and stakeholder management while Table 27 details the granular criteria taken into account in order to assign classifications.

**Table 26: Life state categories – main features**

Start-Up	Growth	Development	Maturity
Small multitasking Team	Some task differentiation	Increased professionalization of functions	Continuation of trends observed in Development stage
High degree of informality	Organizational structure starting to emerge	Formalized organizational structure, policies and processes	
Highly centralized decision-making by founder(s)	Emergence of delegation to management	Decentralization of authority	Separation of strategic and operational decision-making
Founders fully involved in operations	Some internal controls	Detailed authorities and accountability	Institutional decision-making style, based on defined organizational structure, roles and procedures
Everyone knows everything	Information shared within silos	Formalized, automated systems	
Single owner / founders	Very few information shared external	Emerging internal control procedures	Focus on proactive and strategic risk management
Autocratic leadership style	New minority shareholders possibly and/or increasing number of family members getting involved	Improving cross-divisional information disclosure	Internal communication flow between management, board and shareholders
	Consultative leadership style	Enhanced external business-related information	Targeted information for different stakeholders
		New minority shareholders or new investors not involved in operations	Disperse ownership base (Founders, private equity and others; Increased family involvement; IPO)
		Collaborative management style	Investors require monitoring tools

Source: Adapted from IFC’s SME Corporate Governance Guidebook (please refer to Chapter III for the complete table).

**Table 27: Life state buckets – granular criteria**

Elements taken into consideration to assign life state (general approach)	
<b>Relevant Items</b>	
<b>Objective data</b>	<b>Behavioural data</b>
<ul style="list-style-type: none"> <li>. Team size</li> <li>. Level of informality</li> <li>. Number of internal departments / management layers</li> <li>. Finance unit and relationship with banks</li> <li>. Composition of management team</li> <li>. Corporate Bodies</li> <li>. Ownership structure and investor type</li> </ul>	<ul style="list-style-type: none"> <li>. Leadership style</li> <li>. Relation with delegation</li> <li>. Awareness about/relevance attributed to formal governance</li> <li>. Role attributed to mentorship (formal or informal)</li> </ul>
<b>Some inferences:</b>	
<ul style="list-style-type: none"> <li>. Having operations outside home country requires some level of organizational infrastructure</li> <li>. Small teams in absolute terms equates to some level of informality</li> <li>. For similar levels of organizational development, classification will be determined by the degree of decision centralization in the hands of the founders ('Growth' for still centralized or 'Development' for less centralized models).</li> </ul>	
<b>Tie-breakers (examples which required weighing various factors to reach a classification)</b>	
<ul style="list-style-type: none"> <li>. Oviedo could have been classified as 'Development' because its expansion abroad required some organizational infrastructure. However, the absence of a stable finance unit led to a 'Growth' classification.</li> <li>. Although Queluz operates in various geographies and has developed an adequate organizational infrastructure for that purpose, decision power remains highly concentrated in the founders, leading to a 'Growth' classification.</li> <li>. Ferrol has points in common with Queluz but, despite a still heavily concentrated decision making model, its organizational infrastructure includes intermediate forums with delegated authority, leading to a Development classification.</li> <li>. Donostia and Santarem were both classified under 'development' because they are small firms in terms of # employees: while the structure is adequate to their current state, that also implies some informality degree in the <i>modus operandi</i> of their management teams.</li> </ul>	
<i>Source: Author's own elaboration.</i>	

Moving to the SME proximity model proposed by Torrès and Julien (2005), which defines an SME around the dimensions of Shareholding, Ecology and Hierarchy, we considered it necessary to introduce more granular criteria in order to ensure a consistent categorization, as displayed in Table 28. We also deemed a terminology update was required: since the term 'ecological' has expanded significantly over the past two decades along with the emergence of the ESG discussion, we have relabelled this dimension as 'Ecosystem', which we believe better captures the authors' original intention.

**Table 28: SME Proximity model – Granular criteria**

Proximity in terms of:	Definition as per Torrès & Julien (2005)	Possible ranks	Elements taken into consideration to assess rank
<b>Shareholding</b>	Degree of closeness of the relationship between owner and managers and how that translates into communication routines (very or little fluid)	High Medium Low	If the Owner is still CEO, the rank will be High. If the Owner is part of the executive team but not in a CEO capacity, the rank will be Medium. If the Owner is not part of the management team, the rank will be Low.
<b>Ecosystem</b>	Dimension and degree of interconnectedness of the ecosystem of external stakeholders, including institutional ones, in which the firm operates	High Medium Low	Rank will be a function of the breadth of geographical diversity, client segments and external stakeholders (such as funding and official entities) of Firm's operations. If these are still mostly based within the region where Firm's headquarters are located, rank will be high. Firms with material operations outside their home country will be ranked Low.
<b>Hierarchical</b>	Intensity of the role played by the founder/general manager in terms of defining management style and firm culture.	High Medium Low	Regardless of whether the Owner may still be part of the management team, whether or not in a CEO capacity, firms with more complex organizational infrastructures will likely display various middle management layers, which can act as mitigators to the Owner's influence. As a general rule, the larger the firm, the lower the Owner's influence level will be. This assessment may require adjustments given the specific business context.

**Tie-breakers (examples which required weighing various factors to reach a classification)**

- . Despite having a mature governance model in place, Santarem has been assigned a 'Medium rank' on the Ecosystem dimension because the firm revolves around a limited, albeit sophisticated, external stakeholder setting.
- . Despite having expanded organically in its home country, Braga's dominance in its original region is still visible, resulting in a 'Medium rank' in the Ecosystem dimension.
- . Ferrol and Queluz are exceptions to the the 'Hierarchy' rule, in that medium-developed organizational infrastructure co-exist with highly centralized decision-making models.

*Source: Author's own elaboration, adapted from Torrès & Julien (2005) (please refer to Chapter II, for more context).*

Finally, all firms have also been classified against Ingley et al (2017)'s Integrative model, an exercise which also required some adaptation to the reality of the sample. In fact, Ingley et al (2017) appear to implicitly assume that the 'professional management' state equates to i) a certain level of segregation between ownership and management and ii) a disperse ownership structure, both of which consistent with Agency Theory. However, in our sample, several firms display properly functioning boards and/or executive committees and reasonably mature organizational infrastructure even though founders remain actively involved in management. Also, as seen before, the majority of the firms has concentrated ownership structures, with few shareholders or even a single shareholder (Aveiro, Escorial and Lugo). Therefore, for the purpose of this thesis, we opted for relaxing Ingley et al (2017)'s assumptions on board composition and ownership, having classified various firms of the sample in the 'professional management' bucket.

**Table 29: Ingley et al (2017)'s Integrative Model – Granular criteria**

Transition profiles	Elements taken into consideration to assign classification
<b>New venture -&gt; High growth</b>	Start-up which has already proven the potential of its business model but still displays centralized decision making power in the hands of founders and a rudimentary organizational infrastructure.
<b>New Venture -&gt; Professional management</b>	Ventures which have been able to move to mature governance frameworks, including a functioning board and other corporate bodies (Advisory Board, internal committees). Requires an already stable organizational infrastructure, which can be deemed adequate to the firm's activity level.
<b>High growth -&gt; Professional Management</b>	Similar to above.
<b>New venture -&gt; Plateaued growth</b>	Start-up with a proven business model entering a period of growth stabilisation due to resource constraints or organizational capacity limits (ex: talent gaps, missing challenging mechanisms).
<b>High growth -&gt; Plateaued growth</b>	Similar to above.
<b>Plateaued growth -&gt; High growth</b>	Long-standing firms already displaying various degrees of organizational infrastructure coupled with highly concentrated decision power which have entered a new growth stage and are still in the process of adjusting its organizational setup
<b>Plateaued growth -&gt; Professional management</b>	Long-standing firms already displaying some level of organizational infrastructure coupled with highly concentrated decision power which were able to jump-start growth and ultimately moved to mature governance frameworks along the process.

**Tie-breakers (examples which required weighing various factors to reach a classification)**

. Despite still being in 'Development', Santarem has formal corporate bodies in place (Board and committees) together with an active Advisory board, having been assigned a 'Venture - Professional Management' classification.

. Despite a highly concentrated decision-making model, Ferrol has been classified as 'Venture - Professional Management' because on its mature organizational setup.

*Source: Author's own elaboration taking Ingley et al (2017)' Integrative model as a starting point (please refer to Chapter II, for more context).*

The following tables display the full categorization of the sample according to the three frameworks, along with a frequency analysis. Preliminary observations include: i) a high number of firms (14) which were start-ups or in a 'start-up state' at the beginning of the period, a few of which (7) have been able to move to a maturity state; ii) a roughly equal weight of those which are still experiencing a 'venture-high growth' transition profile (7) and of those who have already moved to 'professional management' (6) and; iii) an absolute dominance of 'owners-managers' (19), who continue to retain significant influence in hierarchical terms even though most firms (15) have been able to expand business and reduce dependence of their original ecosystem.

Regarding the ownership structure, it is important to highlight that two of the firms (Escorial and Lugo) were family businesses at BoP but became a 'single shareholder' type in the course of the Analysis period. Those firms and Regua, which remains a family business, have in common being the sole three categorized in the 'Plateaued Growth-Professional Management' state, highlighting how

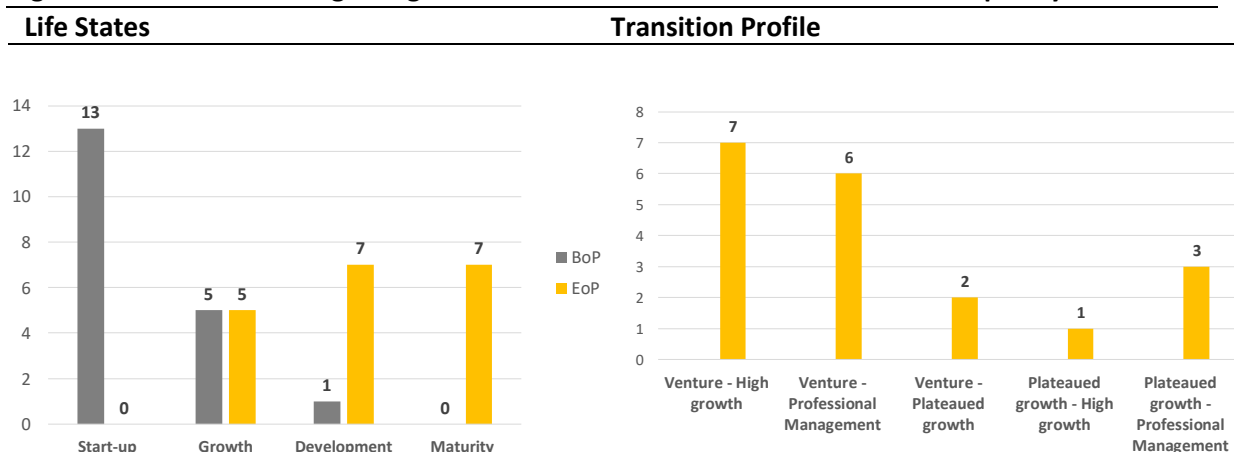
generation changes may structurally change the business course of a firm. For the remaining firms, there could have been minor changes in the ownership base during the Analysis period but without implications in terms of firm classification.

**Table 30: Firms’ categorization per theoretical models**

Firm	# Years	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Proximity		Ecosystem Proximity		Hierarchical Proximity	
		BoP	EoP		BoP	EoP	BoP	EoP	BoP	EoP
Aveiro	> 20 Yrs	Growth	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Braga	> 20 Yrs	Growth	Development	Plateaued growth - High growth	High	High	High	Medium	High	High
Cordoba	10 - 15 Yrs	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Donostia	15 - 20 Yrs	Start-up	Development	Venture - Plateaued growth	High	High	High	Low	High	High
Escorial	> 20 Yrs	Development	Maturity	Plateaued growth - Professional Management	High	High	Medium	Low	Medium	Low
Ferrol	> 20 Yrs	Growth	Development	Venture - Professional Management	High	High	High	Low	High	High
Guarda	10 - 15 Yrs	Start-up	Development	Venture - High growth	High	High	High	Low	High	Medium
Huelva	< 10 Yrs	Start-up	Growth	Venture - High growth	High	High	High	Low	High	High
Irun	15 - 20 Yrs	Start-up	Growth	Venture - Plateaued growth	High	High	High	Low	High	High
Jerez	< 10 Yrs	Start-up	Growth	Venture - High growth	High	High	High	Low	High	Medium
Kripan	15 - 20 Yrs	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Lugo	> 20 Yrs	Growth	Maturity	Plateaued growth - Professional Management	High	High	High	Low	High	Medium
Madrid	10 - 15 Yrs	Start-up	Growth	Venture - High growth	High	High	High	Low	High	Low
Nelas	> 20 Yrs	Start-up	Development	Venture - High growth	High	High	High	Low	High	Medium
Oviedo	10 - 15 Yrs	Start-up	Growth	Venture - High growth	High	High	High	Low	High	High
Porto	15 - 20 Yrs	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Queluz	> 20 Yrs	Start-up	Development	Venture - High growth	High	High	High	Low	High	High
Regua	> 20 Yrs	Growth	Maturity	Plateaued growth - Professional Management	High	Medium	Low	Low	Medium	Low
Santarem	10 - 15 Yrs	Start-up	Development	Venture - Professional Management	High	High	High	Medium	High	High

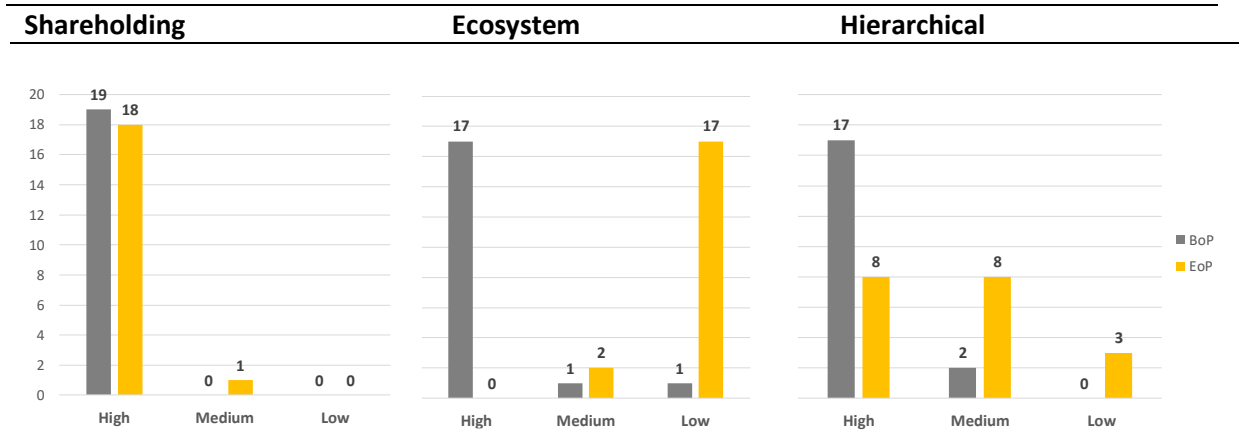
Source: Author’s own elaboration. ‘BoP’: Beginning of analysis period; ‘EoP’: End of analysis period. ‘Analysis Period’ corresponds to the time span of financial data used to assess the firm’s trajectory, typically covering between 10 and 20 years, depending on data availability and firm’s inception date. For firms with more than 20 years, first year of analysis was 2004. For more detail at firm level, please refer to Annex 2- Firm profiling.

**Figure 19: Life States at Beginning and End of Period and Transition Profile – frequency**



Source: Author’s own elaboration. Note: BoP: ‘Beginning of Period’; ‘EoP’: End of Period.

Figure 20: SME Proximity model – Frequency at Beginning and End of Period

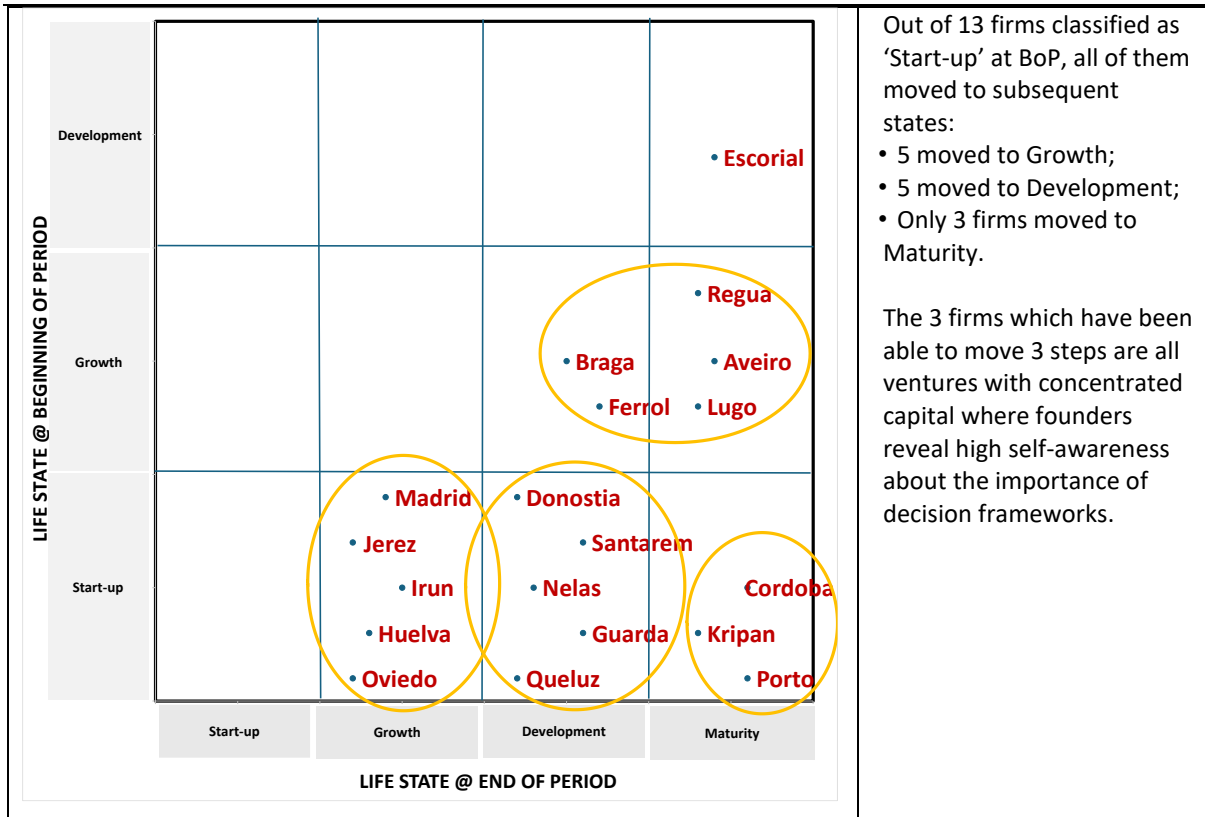


Source: Author's own elaboration. Note: BoP: 'Beginning of Period'; 'EoP': End of Period.

### 5.3.1. Grouping based on contextual variables

The classification per theoretical models opened the door to a different perspective of the sample in addition to the one coming strictly from the coding exercise (which will be presented later on in this chapter). The next figures provide a cross-reading of the sample in terms of attributes such as Life state at Beginning and End of Period, Transition Profile and Ownership Structure, allowing for the identification of certain groups.

Figure 21: Life State: Beginning of Period versus End of Period



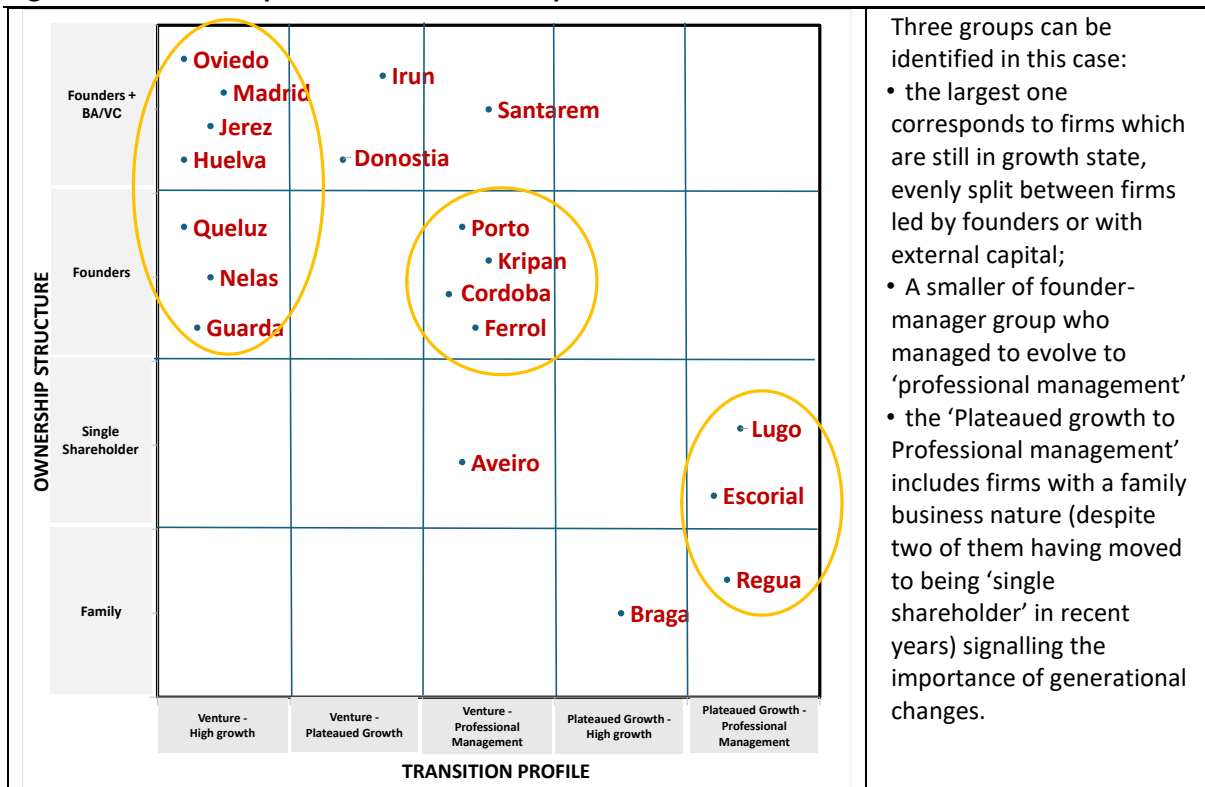
Out of 13 firms classified as 'Start-up' at BoP, all of them moved to subsequent states:

- 5 moved to Growth;
- 5 moved to Development;
- Only 3 firms moved to Maturity.

The 3 firms which have been able to move 3 steps are all ventures with concentrated capital where founders reveal high self-awareness about the importance of decision frameworks.

Note: Relative position inside a quadrant is not analytically significant.

Figure 22: Transition profile versus Ownership structure



Three groups can be identified in this case:

- the largest one corresponds to firms which are still in growth state, evenly split between firms led by founders or with external capital;
- A smaller of founder-manager group who managed to evolve to 'professional management'
- the 'Plateaued growth to Professional management' includes firms with a family business nature (despite two of them having moved to being 'single shareholder' in recent years) signalling the importance of generational changes.

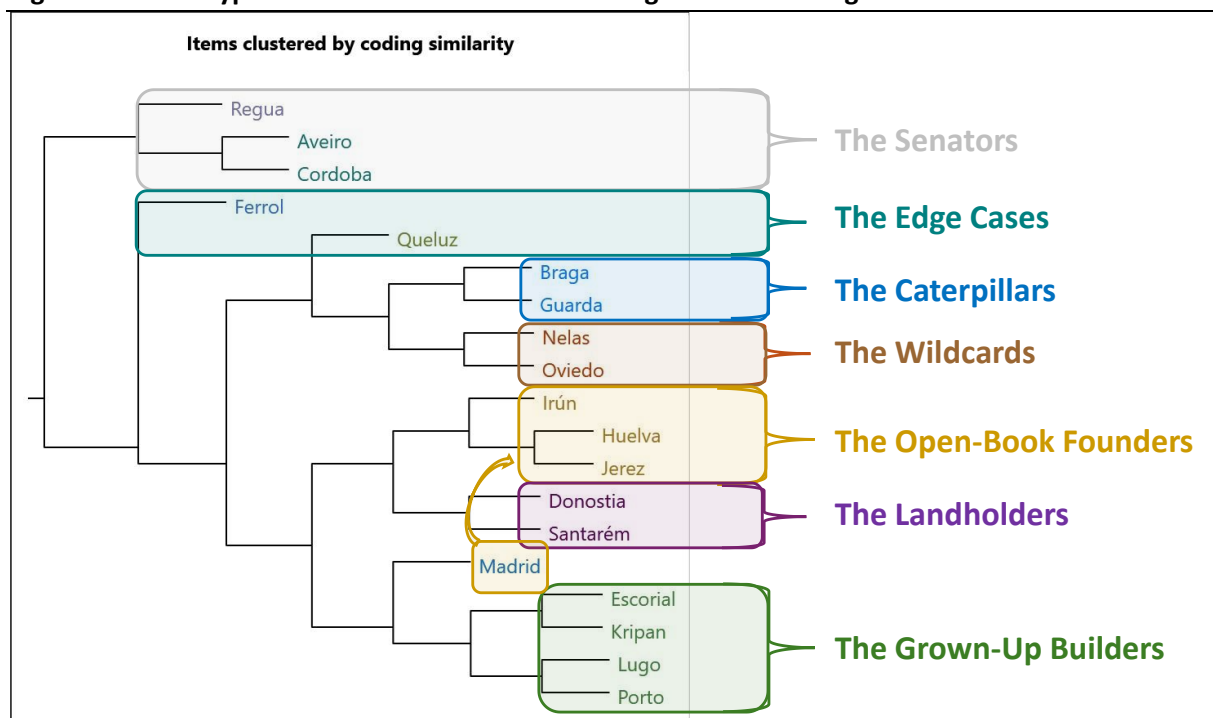
Note: Relative position inside a quadrant is not analytically significant.

### 5.4. Decision frameworks' archetypes

According to (Creswell & Poth, 2016), 'Daiute (2014) identifies four types of patterns (across narratives of one individual or two or more) for meaning-making related to similarities, differences, change, or coherence'. This exercise, crucial to narrative inquiry paradigms, is nowadays facilitated by the visuals provided by Nvivo®, such as the dendrogram below, which groups cases on the basis of coding similarity. The next sections will therefore delve on the commonalities of each group – the insights from interviews coupled with contextual variables suggest each one of them represents, in fact, a different archetype in terms of decision frameworks' development.

It is important to clarify that, for the purpose of this thesis, the meaning attributed to the word 'archetype' has a different connotation to its more common use in qualitative research: instead of an ideal, theoretically grounded configuration, the designs to be presented below have been inductively derived from the sample - they correspond to analytical abstractions resulting from an intense reflexive engagement with data. However, the configurations do reflect systemic coherent patterns and interrelated attributes that can work as an empirically grounded interpretative model to realities beyond the sample, therefore offering a certain level of analytical transferability. Therefore, we believe the underlying meaning of the word 'archetype' remains the most adequate to describe the explanatory power of the configurations which will be presented below.

**Figure 23: Archetypes as drawn from Nvivo®'s Coding Process Dendrogram**



Source: Author's own elaboration from Nvivo®.

### 5.4.1. The ‘Senators’ archetype

**Table 31: Senators archetype – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Aveiro	CFO	C-Level	Portugal	Secondary	> €100M	Single shareholder	Venture	> 20 Yrs
Cordoba	Founder & CEO	Corporate Person	Spain	Tertiary	< €50M	Founders	Venture	10 - 15 Yrs
Regua	C-Level	C-Level	Portugal	Secondary	> €100M	Family	Family-based	> 20 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Aveiro	Growth	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Cordoba	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Regua	Growth	Maturity	Plateaued growth - Professional Management	High	Medium	Low	Low	Medium	Low

Source: Author's own elaboration.

The three firms part of this archetype have in common being mature firms, which have already moved to a ‘professional management’ state. They have formal governance frameworks, including functioning boards and, in the cases of Aveiro and Cordoba, committees and independent board members. While both Aveiro and Cordoba are ventures and Regua is a family business, each of them has a distinct ownership structure. Cordoba could be considered a particular example, given the regulated nature of the business. However, as noted in section 5.1.<sup>51</sup>, the respondent seems to operate at a deeper level, identifying her family background as the driver for her understanding of the importance of good governance.

Aveiro deserves a special reference, given that it is probably the most mature governance-wise firm in the sample despite being a single-shareholder venture. As mentioned earlier, the main driver behind the adoption of a mature governance framework was the need to diversify funding sources with a view to reduce risk in foreign operations, a bet which the respondent (independent CFO) confirms has materially paid off in terms of low-risk high growth. Aveiro thus moved from a ‘legal fiction’ board composed of the Founder’s old acquaintances to a professional and independent team, whom the Founder, in his CEO capacity, frequently exposes to intense ‘checks & balances’ dynamics while respecting the group’s sense of collegiality:

*“I mean, he forces us to vote, forces us to go. He complains if everyone votes the same way and gets upset when there are too many unanimous decisions (...). And sometimes it happens and*

<sup>51</sup> “Where did that come from for me? (...) I am a third-generation entrepreneur. So I was born with it. Born with that language that is only spoken about companies and business and...where the company comes first. And that for a company to truly survive and be strong and all that, it needs good governance. I mean, that is absolutely clear to me.”

he says, ‘Fine, look, the vote went the other way, I lost, but you are the majority. The Board has decided. That is my decision. From this moment on, it is my decision.’ He has said that several times in board meetings”.

Cordoba shares a similar experience:

*“The founder is obsessed with something, wants to do it, and going against him is complicated. And right now, that is exactly what is happening to me in this committee. I want to do something and the committee does not see it and I have to hold back. I mean, it is not easy. And sometimes the committee— it has to be a very strong committee, one that dares to say no to the founder (...) and that is not easy”.*

In both cases, the founders’ drive to grow the business and make it more credible in face of external stakeholders fostered a cultural context in which a healthy exchange of ideas and collegiality naturally became integral components of decision-frameworks.

The case of Regua is different: having enjoyed a stable governance framework for long, a disruptive moment for the sector combined with generational transition led to the revamp of the management team, composed by the Founder’s old acquaintances. This left some scars in the family but unleashed a material growth revival. In the words of the C-level owner, talent was the differentiating factor that allowed the firm to move from a founder-centred team, where the ‘trust’ element was critical, to a collegial model, which ultimately implied handing over the role of CEO to a person external to the family:

*“The biggest mistake my father made was not really a mistake. It was a setback (...) it started to close in around two people wanting to dominate the business”. (...) The second big lesson was (...): Culture, culture — people are the key element of this and starting from the bottom does not work. We have to start from the top, define a strategy, and from that strategy, understand who fits and who does not”.*

Despite their different nature and ownership structure, the journey of these three firms suggests a recognition that sustained growth requires decision-making to be progressively decoupled from personal authority and re-anchored in structured collegial scrutiny.

### 5.4.2. The ‘Grown-Up Builders’ archetype

**Table 32: Grown-up Builders archetype – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Escorial	CEO	Corporate Person	Spain	Primary	> €100M	Single shareholder	Family-based	> 20 Yrs
Kripan	Founder & CEO	Corporate Person	Portugal	Tertiary	€50-100M	Founders	Venture couple-based	15 - 20 Yrs
Lugo	CEO	Corporate Person	Spain	Secondary	> €100M	Single shareholder	Family-based	> 20 Yrs
Porto	Founder & CEO	Corporate Person	Portugal	Primary	€50-100M	Founders	Venture couple-based	15 - 20 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Escorial	Development	Maturity	Plateaued growth - Professional Management	High	High	Medium	Low	Medium	Low
Kripan	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium
Lugo	Growth	Maturity	Plateaued growth - Professional Management	High	High	High	Low	High	Medium
Porto	Start-up	Maturity	Venture - Professional Management	High	High	High	Low	High	Medium

Source: Author's own elaboration.

All firms in this archetype are either first-time ventures 100% held by founders or refoundation of family businesses now 100% held by a single shareholder. All respondents have in common an explicit long-term perspective of the business which does not include the possibility of a sale in the foreseeable future. With the exception of Escorial, all firms evolved from basic organizational infrastructures to a ‘professional management’ state where the Board is nowadays the ‘apex’ of their firms’ decision-making. All respondents hold the CEO role, fitting perfectly into what academic language designates as ‘owners-managers’. In fact, the respondents in this archetype could all be categorized as ‘*empresarios*’ – a Portuguese and Spanish word which, unfortunately, lacks an equally powerful English equivalent but which adds a more corporate, long-term perspective to the more familiar English word ‘entrepreneur’. Despite the different underlying meanings of these two words, ‘*empresarios*’ and entrepreneurs do have in common a clear interest in scaling a business. Lugo is very assertive on that:

*“This is the part where I define myself best. I believe that a company that does not grow, declines. There is no other way”.*

While Porto conveys a similar message:

*“That is part of our DNA. I cannot manage a company that is stagnant”.*

Having been approached several times to sell the business, Kripan adds another element:

*“They ask me why we never sell, and I always answer the same way. (...) we are creating systematic value, so I do not see much advantage”.*

In light of these firms' concentrated ownership, a natural question arises about the funding of such ambitious growth visions. External funding has indeed played a role, implying these firms got accustomed to maintaining a transparent relationship with funding entities from their early days. Porto, for which bank funding was an essential piece in the firm's growth equation, states the following:

*"That was never a problem for us, because from day one, when we started working with the banks, our day-to-day has been 100% an open book. The banks are our partners, and we have always had that mindset. Even today, we still do. We have several banks working with us and they know as much about the business as they want to - they know everything about our company, our day-to-day operations. So, we share 100% of the information. That is why we have always had the banks on our side - because they felt confident, they knew they had full knowledge of the company's activities, with absolutely nothing hidden. We have been transparent from the very beginning."*

Kripan, more familiar with financial investors, easily got accustomed to the routine of road shows and their inescapable due diligence processes, something which would have not been possible without a focus on the finance function at the early stages of the business:

*"We hired a financial director in 2010 [less than three years post inception]. And then in 2013, we hired a CFO. The area today is completely different. We have things now that we did not have in the beginning (...) we have accounting, we have treasury, we have a lot of things, and then we have financial analysis, then we have management control".*

Lugo also recognizes the broader value brought about by this function to the global functioning of the business:

*"We realize that we cannot continue without strengthening the structures. This is when the company hires its first CFO. The first management committee is established. We are no longer just a group of friends running the company, but we formally set up a management committee with regular meetings, decision-making processes, minutes, etc".*

Overall, this focus on finance seems to derive from a more fundamental 'decision discipline' approach to decision-making that Porto summarizes well:

*"Then it is about choosing clients very carefully. Choosing suppliers very carefully. So, we have never, ever accepted every company to be our supplier. We have never accepted every company to be our client, from day one until today. And I will always do it this way. So, we are very selective about who we want as clients. We are very selective about who we want as suppliers. So, people who are not reliable, non-compliant companies simply do not work with us."*

Another aspect in common across this archetype is the importance given to the ‘talent’ element as a catalyst for a mature organizational infrastructure, as recognized by Kripan:

*“I think the most important part was that we started hiring people who themselves began building teams and we also hired people who brought know-how, brought experience that we could benefit from and they were the ones who started creating structures for their areas.”*

Naturally, this acknowledgement of the value of talent went hand-in-hand with a natural willingness to delegate:

*“When did it become clear to me that I had to delegate? From the beginning. I believe it does not make much sense to have people and teams just so we can be the ones telling them what they have to do. When someone is hired - or when I hire someone who has to report to me - the idea is not for me to make the decisions, but for the people hired to make decisions, to take responsibility, to take risks”.*

Size brings complexity which must be managed by talent which then requires delegation which then leads to the definition of transparent decision frameworks. Lugo was able to pinpoint the precise moment in which a mere organizational infrastructure begins to convert itself into a decision framework:

*“I believe that [they are] not directors yet, but yes - people responsible in different areas, capable of making decisions but not used to making decisions. And this is where we begin to set up the governance structure of the company as such. It is the transition from being an owner-led company to a company with different management levels. This is the first step.”*

However, different layers of management bring other problems of their own, especially in the case of a firm with a single shareholder:

*“This was simply doing what we were already doing, what we already knew how to do - just with more volume and with relatively little difficulty. The problem is when things get complicated and you have operations in Chile, operations in Paris, operations in Brussels, and people making decisions in too many places without a clear set of criteria. And then a lot of uncertainties arise, along with many risky decisions that all have to come to me. And two things happen here: one, I become a bottleneck<sup>52</sup>. The company does not move at the pace it should because I do not have the capacity to make all the decisions.”*

The tension described by Lugo encompasses a two-fold challenge. On one hand, it shows that it is not possible to delegate without making the underlying criteria more transparent for the wider organization; this in turn increases the formality degree of the firm and, hence, its complexity. On the

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<sup>52</sup> Original in Spanish: ‘Yo soy un embudo’.

other hand, it shows that it is useless to create delegated decision frameworks if the end point remains the same. As a firm grows in size and that size brings complexity, decision collegiality becomes a logical route. However, for the pair “organizational infrastructure – decision framework’ to be fully functionable, so that structured scrutiny and collegiality can naturally emerge, the key element of Talent is required. If the virtuous cycle between ‘talent - organizational infrastructure – decision framework’ may not seem obvious at a first glance, moments of stress, such as the one experienced by Lugo, can help make it very visible:

*“And this brings us once again to a major financial crisis—prior to COVID. And it is here that I realize that my finance team is better at finance than I am, that my operations team is better at operations than I am, and that my general management team is better at general management than I am. One-on-one, they are all great. I lead them very well, but each one is better, and I cannot be the one making decisions for them. First, because the best people will not want to stay with me - because they want to be where they feel important”.*

The criticality of the ‘talent’ element is better expressed by deeds more than words in the case of Porto:

*“We currently have 170 employees on staff, and we pay 25% more. Salaries are 25% higher compared to the regional average and 15% higher compared to the national average”.*

Given the importance the ‘Decision discipline’, ‘Finance’ and ‘Talent’ elements have played as catalysts for improved decision-frameworks in this archetype, it would be acceptable for these firms not to have implemented formal governance structures such as a Board. However, that is another common feature of this archetype despite their highly concentrated ownership structure. Escorial recognizes the apparent paradox:

*“I do not need a board to defend the shareholder, because in the end, the top executive and the majority shareholder - in this case, the sole one - is me, it is me. What we do have (...) is a very strong Executive Committee that I use as a board in order to, first, agree on the strategy, on the moves and the important decisions for the group, obviously to make sure that once we agree on what the strategy is and the steps to take in terms of timing, decisions, investments, etc., they are supported by strong checks & balances and, third, that we execute in unison in a group that right now, I believe, has over 10,000 people, colleagues, working.”*

In fact, and despite being a single-shareholder firm, Escorial’s approach goes beyond the need for checks & balances to encompass a broader concept of collegiality:

*“It helps you to maintain, at least at (...) the level of the 18 members, a close relationship, which means that everyone at a certain level feels very integrated - not only in understanding where we are going as a group, but also in being heard as an important part of long-term decision-*

*making within the group, not just within their own business unit, but also in the group's long-term strategy.”*

Porto’s journey may have started differently but gets to a similar end point. While the respondent acknowledges that decision power was concentrated in the hands of the founders for a period, it also emphasizes the importance of mentorship channels as a key support element:

*“Yes, it was concentrated on us, solely on our hands. But obviously, for us to form our ideas and take our steps, we have to be ‘sponges’<sup>53</sup>, so to speak, right? So, we need to have access to a lot of information, talk to many people, understand the market. We cannot just enter something for the sake of it. We need to be knowledgeable, we need to study, we need to ask questions, we need to talk. So, we have to be very well informed in order to act. We grew as a family business, but we always had an informed and thoughtful approach.”*

Nowadays, this ‘knowledge dynamic’ has been transposed to the Board, which Porto believes must have an element of diversity:

*“The advantage of mixing generations. So, having people of different ages in management who end up bringing in different perspectives - situations that we do not bring ourselves. So, we have a lot of advantages. The sharing of ideas, the exchange of opinions. So, it is better to have four or five heads making decisions than just one.”*

Alike Escorial, Porto seems to have made the journey from a founder-centred model to a collegial one by recognizing the importance of checks & balances and diversity of perspectives as key elements behind robust decision-making.

In the case of Kripan, which implemented a formal Board six years post-inception, the need for a formal governance structure arose from a pragmatic risk management perspective:

*“I was initially the manager, then [the firm] became a corporation (SA), and then I became the sole director. And so, I was the one who approved everything, I was the one who did everything. Then there came a moment when we said, this does not make any sense, right? Because if I die, if I have an accident, if something happens...”*

Handling succession is obviously a risk management issue – it is a sign of maturity when firms have been able to protect themselves from ‘key person’ risk. However, there are other angles associated to succession which also play a role in the implementation of formal governance structure. Lugo adds a prescient one:

*“What happens is that, along the way, I personally come face to face with real-life dramas. On the front line, you see business owners who are 82 years old, still carrying the company on their*

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<sup>53</sup> Original in Portuguese: ‘esponjas’.

*backs, with no way out. These companies are indebted and cannot stop, because if they do, the debt will consume their owners' personal assets. And their children - with well-established careers, often having inherited a home from their parents and settled in life - have no intention of returning to the business. So these people cannot afford to retire. They face many difficulties. And this is the goal I set for myself since 2017: this cannot happen to me."*

Despite being a single shareholder, the pressure of succession brought the ownership-management tension to the table, leading the firm to adopt a governance model which effectively protects both sides: the business is protected by a collegial decision framework, ownership is protected when the time comes for a succession (whether it takes the form of a family business in second generation or a sale to third parties).

Porto is also aligned with this longer-term perspective:

*"Because if I have to step away tomorrow, the company must continue on its path. And the people in management need to know how to take the next steps. That is the work we are doing now. In the end, these days, we are really working on organizing the group's future in terms of day-to-day management and potential growth."*

The statements above suggest a variety of reasons why single shareholders or founders would deliberately move to a more collegial decision framework, notably through the implementation of formal boards. Between a certain 'loneliness at the top' phenomenon that leads them to favour more collegial decision-making process or an acute conscience of succession risks, it seems there is a moment in which they realize they created something bigger than themselves that must endure beyond themselves. Alike the 'Senators' archetype, the result of that awakening is a glad acceptance that long-term survival depends on a gradual shifting of decision-making patterns away from individual authority in favour of collective scrutiny and shared responsibility.

### 5.4.3. The ‘Open-book founders’ archetype

**Table 33: The ‘Open-Book Founders’ archetype – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Huelva	Founder & COO	Entrepreneur	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	< 10 Yrs
Irun	Founder & COO	Entrepreneur	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	15 - 20 Yrs
Jerez	Founder & CEO	Entrepreneur	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	< 10 Yrs
Madrid	Founder & CEO	Entrepreneur	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	10 - 15 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Huelva	Start-up	Growth	Venture - High growth	High	High	High	Low	High	High
Irun	Start-up	Growth	Venture - Plateaued growth	High	High	High	Low	High	High
Jerez	Start-up	Growth	Venture - High growth	High	High	High	Low	High	Medium
Madrid	Start-up	Growth	Venture - High growth	High	High	High	Low	High	Low

Source: Author's own elaboration.

The dominant feature across this archetype could be summarized in the founders' profile: they are all *entrepreneurs* – that English word lacking a precise translation into Iberian languages – who launched ventures meant to be scaled with resort to external capital and sold at some point in the future. Jerez was the first venture of an entrepreneur who already successfully sold two, Irun was sold in 2023 and Huelva in early 2024. Whether that capital comes from business angels, such as the case of Irun ('family and friends' investors), or venture capital funds such as those of Huelva, Jerez and Madrid<sup>54</sup>, these are narratives in which the existence of independent shareholders not involved in day-to-day management activities imposed formal decision frameworks in the early stages of the business, bringing recognised benefits. From the viewpoint of Huelva,

*"Once you have a business model and move into a growth phase, then having a board is essential. (...) having an entity to report to, where the CEO and middle management are held accountable and where certain company decisions will be questioned".*

Irun agrees with this view:

*"The board brings regularity, it forces you to be systematic (...) They do not do anything extraordinary, but since you have it every month, well, every month there is no excuse. The*

<sup>54</sup> Despite looking closer to the 'Grown-up Builders' archetype in the Nvivo® dendogram, Madrid has been included in this archetype because the business was always meant to be scaled on the basis of external capital (the founder sold 50% to another party one year post launch) and references to investment rounds frequently came up during the interview. Having said this, the respondent was able to articulate foundational business principles more recurrently than the rest of the archetype, which can possibly explain its different positioning in the dendogram.

*meeting is next Tuesday. You have to prepare the documents. That's it. So that gives you a discipline that, otherwise, you would not have".*

But recognizes other added-value channels opened by the Board:

*"They also help you generate value for the shareholder, they help you seek funding, to negotiate".*

The case of Madrid adds a different colour, as the implementation of the Board was designed to mitigate tensions between the main shareholders:

*"There came a point when that 50/50 joint decision-making setup I had with my partner, with whom I had a shareholders' agreement, was not really being followed, because there were management interferences. That led me to say, 'I need to do a funding round or something to bring in professional capital so that this problem gets diluted in some way'. So what I said was, 'To prepare the company for a fund to come in, we need to change the governance structure to a board and bring in a third person, so that the board is more balanced, and appoint a CEO.' And with quite a bit of friction, I managed to do it in 2020."*

While the previous statements are clear about the role of the Board in improving decision-frameworks, it is nonetheless surprising that the narratives in this archetype contain elements of a founder-centred approach to decision-making, which were not evident in other archetypes. Irun provides a good example:

*"The conversations [the founders] used to have—we would go running together almost every day at noon instead of going out for lunch. And then we would constantly see each other at the office all the time and we were always talking about important things and decisions would just come up naturally".*

While Madrid adds a more personal note, albeit certainly a wise one:

*"It is like having a rested body and a mind that makes good decisions—and being very aware that your job is to make one or two good decisions each week, rather than a thousand decisions weekly. (...) You need to make one or two good decisions, and for that, you need balance. And that is sometimes much more important than the number of hours you put in. (...) Because when a crisis comes, you need to have a high level of awareness—to know what part is ego, what part is truly good for the project, and be able to have that deep awareness. So, for me, that is kind of the main foundation.*

In a certain sense, although there is a board in place imposing discipline and challenging founders, it seems the lifeblood of the business originates from somewhere else. Looking at the

example of Jerez (vide section 5.1.)<sup>55</sup>, a seasoned entrepreneur in his third venture, making these two dimensions converge seems possible but it may take years of experience and a personal propensity to consolidate lessons from the past.

#### 5.4.4. The ‘Caterpillar’ archetype

**Table 34: The ‘Caterpillar’ archetype – Contextual variables**

ALIAS	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Braga	CFO	Corporate Person	Portugal	Tertiary	€50-100M	Family	Family-based	> 20 Yrs
Guarda	CEO	C-Level	Portugal	Secondary	€50-100M	Founders	Venture	10 - 15 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Braga	Growth	Development	Plateaued growth - High growth	High	High	High	Medium	High	High
Guarda	Start-up	Development	Venture - High growth	High	High	High	Low	High	Medium

Source: Author’s own elaboration.

Braga and Guarda are good examples of firms recently transitioned from the ‘Growth’ to ‘Development’ life states. Both are actively expanding their footprint, organically in Braga’s case and non-organically in Guarda’s. This has entailed the need to develop an organizational infrastructure which, in the case of Guarda, already includes a strategic planning unit even though the firm still lacks a formal board (at the time of the interview, Guarda was considering the best course of action for its corporate legal format, with support from external advisors). Both have specificities of their own, Braga being a sort of a family spin-off, which the respondent describes as a ‘Rebirth’, while Guarda is a venture where founders were able to embed internal control features in the business design, creating a material competitive advantage in a sector prone to high failure rates.

In practical terms, in both cases, growth is finally being accompanied by the reinforcement of the organizational infrastructure, helping unlock the intangible value that comes from managing a group rather than a scattered group of teams working under a founder – a process we would describe

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*“(…) professionalizing corporate governance and the decision-making process from a commercial, strategic, etc., perspective. (…) You make your own decisions however you like. And while that might be useful at certain moments, in general I think in the long run it is a drawback. You end up making mistakes, don’t you? (…) You are probably going to make, at some point, mistakes that are punishable or that could ruin you. They could sink you. (…) My recommendation is: the sooner, the better. And even if it seems a bit bureaucratic—which it is—a healthy and structured corporate governance is not going to harm you; it will help you. It will always help you”.*

as a venture beginning to morph into a corporation<sup>56</sup>. While Guarda is already in the process of setting up a corporate centre:

*“We are creating a shared services centre here, meaning all the services that are in the companies and that we are able to transfer here. We have been following that path, always ensuring that people remain in the company and keep their jobs.”,*

Braga has already captured the added value of such moves, which, like other examples in the sample, has been triggered by bringing in external talent:

*“The last department that was created is the most important, in my opinion, or at least the one that stands out the most, the one that is transforming the organization from within. And I even think the name is outdated and we need to review it. It is called control and internal audit. They are increasingly doing almost everything within the group.”*

This rearrangement had various implications for their respective decision-frameworks. Guarda’s founders, who do not have management education, soon realized the importance of keeping financial matters under control, having hired a Head of Finance around year 6; they were also lucid in handing over the role of CEO to another person (coincidentally, the Head of Finance) in order to focus on strategy and business development around year 9. This decision was one of the fruits of Guarda’s enrolment in a mentorship programme shortly before that, which has so far proved a catalyst for a more robust development of its organizational infrastructure. The respondent is adamant about the value this mentorship has brought to the firm:

*“Because it was a fantastic opportunity for us to learn through a growth process. If we have someone who can share their experience - what did not work, what did work - it allows us to move forward much more quickly, because we avoid making mistakes - or, we always make some mistakes, (...), but we avoid the more obvious ones. The advice of someone who says, ‘Look, we tried going down that path, but it did not work because of this, this, and that’ - we think that is reasonably realistic. And in fact, it helped us a lot, yes”.*

Finally, despite not having a board, Guarda has already organized strategic presentations to banks, revealing the value assigned to maintaining a transparent relationship with external finance stakeholders.

With Braga, the context is different: once the decision to spin-off the group was taken and freedom of decision was given to the second-generation, they became entrepreneurs in their own

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<sup>56</sup> *The last part of Escorial’s evolution provides a good example of the benefits stemming from such organization processes: the firm doubled its turnover in five years as a new Chief Operating Officer began to foster a ‘group identity’ from within the various autonomous business units (vide archetype ‘The grown-up builders’ in section 5.4.2.)*

right, even if under the watch of the Founder<sup>57</sup>, who remains part of a ‘legal fiction’ board since most important decisions are actually taken at an executive level.

In addition to the organizational infrastructure dimension, the other key elements in Braga’s rebirth include a sharp long-term perspective on the business (already mentioned in section 5.1.)<sup>58</sup>, which then translated into a strong decision discipline where the ‘go with the flow’ stances of the past began to be uncompromisingly rejected:

*“From here on, the group practically stops looking at other opportunities. It stops spreading itself across other business areas. ‘Stops’ in quotation marks, because culture and values do not change in just a few years. Even today, we are still fighting against that. Even today, we are still rooting, creating the foundations of this new culture and these new values”.*

This strategic focus had very concrete financial implications though:

*“Since we also wanted to grow in the [sector] and did not have such extensive resources (...) we had to concentrate our own capital, which at the time was maybe around 10 million euros. (...) And if we continued to spread ourselves thin, we would not become a reference in any sector”.*

It is therefore unsurprising that Braga, like Guarda, maintains a transparent relationship with banks, which have played a key role in supporting the firm’s expansion efforts.

*“What happened was that we kept improving the information more and more, and in fact, time always gives us the opportunity for improvement. We did the essential part right at the beginning of the century. And at that point, banks immediately began to recognize this way of working (...) Even today, I still hear unbelievable things — even today. Let alone 20 years ago. From business owners who do not want to show their accounts, or whose accounts are all wrong, or who do not understand the importance and the impact this can or cannot have on the way we may or may not be supported”.*

Compliance with objective financial criteria has therefore proved foundational for the firm’s growth path, naturally facilitating the relationship with external stakeholders.

*“Effectively, when there is financial health, when there is financial strength. Nothing diverts us from this path we want to follow. It is, at most, either faster or slower depending on the financial strength we want to preserve”.*

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<sup>57</sup> Although Braga is, in strictu sensu, a family business, the features of its ‘rebirth’ process position it closer to a ‘venture couple-based’ firm.

<sup>58</sup> *“When this split happens (...) it is from there that the rebirth of the project takes place. (...) It is this new vision of the business and this long-term perspective. Provided that, as is obvious, we have the strength to execute it. But it is this long-term perspective that makes us start to take the steps of reorganizing a structure. (...) By growing in a structured way, we start to gain scale, gain scale, which allows us to aspire to other working tools.”*

Overall, despite none having functional boards in place, the growth narratives of Braga and Guarda are infused by a sense of ‘decision discipline’ around strategy, finance and organizational setup. Both pursue a disciplined focus on growth underpinned by conservative finance management. Both firms are like caterpillars on the way of morphing into butterflies.

#### 5.4.5. The ‘Landholders’ archetype

**Table 35: The ‘Landholders’ archetype – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Donostia	Founder & CFO/COO	C-Level	Spain	Tertiary	< €50M	Founders + BA/VC	Venture	15 - 20 Yrs
Santarem	Founder & CEO	Corporate Person	Portugal	Tertiary	< €50M	Founders + BA/VC	Venture	10 - 15 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Donostia	Start-up	Development	Venture - Plateaued growth	High	High	High	Medium	High	High
Santarem	Start-up	Development	Venture - Professional Management	High	High	High	Medium	High	High

Source: Author’s own elaboration.

While Donostia and Santarem could also be part of the ‘Open book founders’ archetype – they coincide in terms of ownership structure and have seen some shifts in their shareholder structure over the years – both firms are already in a development state, a feature which does warrant a different classification. Both firms boast organizational infrastructures which have been stable for a while and can be deemed adequate for their current state. Despite having opened ownership to third parties, both founders have a long-term perspective on their businesses and are therefore more aligned with a ‘corporate person’ profile instead of a pure entrepreneur like Jerez, for instance. They have built a business from scratch and have reached a comfortable position: proven business model, interesting returns, stable teams, critical variables under control. That is a good place to be in but it is also the point where the ‘complacency trap’ may begin to emerge.

Santarem is a good example of this tension. The firm’s setup at inception was deliberately designed to accommodate external capital as soon as an opportunity would arise to scale the business. This included formal governance structures (board/executive committee) and a fully compliant finance setup (ex: monthly accounting, external auditor). In fact, this is a business run by a leading founder who has the mindset of an independent shareholder:

*“There is a much stronger skin in the game, which implies almost a self-regulation, meaning that if I suffer a very significant loss in the asset, I will be heavily penalized for making a wrong decision”.*

In less than three years, the firm opened capital to a new investor, which led to the creation of a dual-share structure, executive compensation rules and a fairly robust shareholder agreement, which has been signed-off by other investors in subsequent moments. An Advisory Board was also set up, composed of those financial investors. Although this is an optional, purely consultive body according to Portuguese legislation, Santarem has been well-served by its Advisory Board - it has become the arena where strategic growth opportunities are consistently brought forward and discussed:

*“It is the committee that brings together management and the independent shareholders. This committee, at its core, does not interfere in day-to-day management, but it does have a constructive role in the company’s strategy, in new capital inflows, and in partnerships”.*

*“It is an active participation, because people (...) have the ability to add value, they have the ability to understand and help us make decisions”.*

At the time of the interview, 11 years past inception, those discussions were getting more intense:

*“It is a discussion that presents us with a certain challenge to defend. And to grow. Can we maintain this governance, this business model, or will we have to evolve toward [other business formats] where you have less economic interest and become more like third-party managers? These discussions are happening”.*

*“I think our challenge going forward (...) is to try to gain scale. And we will probably have to operate under a different model (...). And that is one of the issues — it is not entirely agreed upon that our value will remain the same or that the alignment of interests can be maintained, given the current shareholder structure”.*

In practical terms, gaining scale in Santarem’s case will mean opening capital to larger players with sufficient leeway to negotiate their own terms – possibly at the expense of the founders. This is a familiar trade-off for young ventures: is it preferable to remain small but in full control or to grow while letting go some of the grip? While the matter remains open to assessment, one point is clear: in the absence of an Advisory Board, such challenging questions would hardly be raised, increasing the risk of a transition to a plateaued growth state (which cannot yet be excluded).

In the case of Donostia, which has survived some difficult moments in the course of its 20-year life, including shareholder ruptures and potentially ruinous foreign expansions, the challenge has a different nature. Despite having a mature management team, the soul of the business still revolves around the Founder’s business capabilities but succession issues will shortly loom in the horizon and may weigh disproportionately in the business course:

*“And when he has an idea, he really has an idea. I mean, it is not easy to make him change it unless you have strong evidence. It is not easy to change it. He seeks consensus. He is one of those people who seek consensus. But still, the idea - he is the one who drives it”.*

While the frontier may seem blurred, it is important to note that this is not about delegation in *strictu sensu* but rather about business innovation, as Donostia’s respondent (one of the founders who ended up joining the firm in a C-level capacity a few years ago) succinctly puts it:

*“The real problem is him [the leading founder]. (...) He is not cloneable.”*

Alike Santarem, this is the type of issue that could possibly be addressed through mentorship or advisory mechanisms. At inception, Donostia did make the effort to have an informal ‘advisory board’ which could support business development:

*“The financial shareholders have often been chosen from a perspective of (...) having an advisory board that could bring value”.*

But shareholder rifts together with the natural stabilization of the business seem to have eroded that dynamic.

Donostia’s case has another (missing) point in common with other archetypes: the role of talent. It is unclear to what extent this ‘Founder-centred’ business model may have blocked the firm’s capacity to attract external talent in due time. At this point, however, it is difficult to avoid the impression that future growth prospects may have been hampered.

Santarem and Donostia’s narratives – unfinished stories at the time of the interview - suggest that, although there may be nothing fundamentally flawed about their business models, the ‘complacency trap’ – or the risk of a move towards a plateaued growth state – cannot be ignored. Refreshing decision-frameworks may require active mentorship, ensuring challenging mechanisms such as the ones provided by Advisory boards (whether formal or informal) and avoiding talent gaps.

#### 5.4.6. The ‘Wildcard’ archetype

**Table 36: The ‘Wildcard’ archetype – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Nelas	Founder & CEO	Corporate Person	Portugal	Secondary	< €50M	Founders	Venture	> 20 Yrs
Oviedo	Founder & CMO	Corporate Person	Spain	Tertiary	< €50M	Founders + BA/VC	Venture couple-based	10 - 15 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Nelas	Start-up	Development	Venture - High growth	High	High	High	Low	High	Medium
Oviedo	Start-up	Growth	Venture - High growth	High	High	High	Low	High	High

Source: Author’s own elaboration.

The narratives of Nelas and Oviedo have one particular thing in common: a strong enthusiasm of both founders when talking about their businesses, especially regarding product development and marketing differentiation. This focus on business development is typical of firms in the growth state, suggesting the remaining managerial dimensions may remain somewhat unsystematized. While Nelas recognized the value of a sound financial management long ago (the main reason why it was classified in ‘development’), Oviedo is painfully reckoning the financial side of the business should have been addressed much earlier (as per the quote in section 5.1.)<sup>59</sup>.

There are other aspects shared by these two firms, even if they are expressed in slightly distinctive terms. While Oviedo assumes decision-making is fully concentrated in the hands of the founders:

*“Decisions are made, much more, by intuition (...) So my husband and I sit down with the general manager because my husband and I are executives and we are involved”,*

Nelas concedes the same line in a more diplomatic manner:

*“I am the CEO, so the company had practically all functions under my responsibility except, at the time, the finance one”.*

Also, while both recognize the importance of having the right people in the right place, they continue to struggle with delegation, a tension Oviedo illustrates particularly well:

*“In fact, one of the things I used to complain about a lot with the former general manager was that he would say, ‘Tell me what you want, and we will set it up for you. And once it is set up and done, we will not waste much time.’ The thing is, I know what I want, and I also want to be part of that foundation, of those building blocks. I mean, I want to say how I want it to be done. And I am very clear about what I am looking for”.*

While Nelas simply gives up on the experience with delegation:

*“Very difficult, and it continues to be difficult”.*

In practical terms, there seems to be some gap between the aspiration level and reality in the ground. Nelas is cognizant that a revamp in the global decision-framework may be required, also with a view to ensure a better work-life balance for the founders (if not a full succession):

*“We are at a stage where we are thinking on two levels - the company is too big to be considered an SME and too small to be a large company. First, we need to make that decision, because it is necessary for the next step, and we are considering putting in place a general manager, an*

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<sup>59</sup> *“I will tell you this: information is fundamental, and that is where we have learned the most. (...) We have been growing very fast and that growth has not been accompanied by solid financial management (...) They see it as just accounting. But it is not just accounting—it is about decision-making. For me, that is fundamental. And honestly, one thing we should have done years ago is exactly that - and we are only doing it now”.*

*operations director, a president with more muscle and more capability, so that we can have a life. And us? Maybe it is also time, since we have some money — we made some money — to start spending a bit and enjoying life a little now? Now let others come. So, that is exactly what we are thinking about, because I also want to do other things. (...) We might have some kind of board, some position to manage the various companies or groups, or to figure out how we can support them with our experience — how we can help the family members or external people who may come in. That is the phase we are in right now”.*

It is unclear whether this repositioning reflects an implicit recognition that the firm has reached a certain complexity threshold which requires additional guidance. It is also unclear whether leadership styles can be adjusted accordingly or whether these founders are more of the ‘entrepreneurial’ type after all, with no personal interest in converting themselves into a full-fledged ‘corporate leader’<sup>60</sup>.

Overall, Nelas and Oviedo stand at a crossroad as their current junctures entail either strategic uncertainty or lack of adequate organizational infrastructure. The same way an adult is not simply an adolescent who has grown up in size, both firms are beginning to realize a different, more disciplined, decision framework is required. Oviedo is pointing in the direction of more data-driven decision making. Nelas is pointing in the direction of a more professionalized organizational infrastructure. However, both require substantive changes in their leadership styles to ensure these processes are successful. Whether these steps will be sufficient to avoid the firms from moving to a plateaued growth state, a sale to third parties or, ultimately, failure, remains to be seen.

#### 5.4.7. The ‘Edge Cases’ archetype

**Table 37: Edge Cases – Contextual variables**

Firm	Respondent Role	Respondent Profile	Country	Sector	Turnover	Ownership Structure	Nature	# Years
Ferrol	COO	C-Level	Spain	Tertiary	> €100M	Founders	Venture	> 20 Yrs
Queluz	Chief of Staff	C-Level	Portugal	Secondary	€50-100M	Founders	Venture	> 20 Yrs

Firm	Life Stage		Transitioning profile (Ingley et al's Model)	Shareholder Prox		Ecosystem Prox		Hierarchical Prox	
	@ BoP	@ EoP		@ BoP	@ EoP	@ BoP	@ EoP	@ BoP	@ EoP
Ferrol	Growth	Development	Venture - Professional Management	High	High	High	Low	High	High
Queluz	Start-up	Development	Venture - High growth	High	High	High	Medium	High	High

Source: Author’s own elaboration.

<sup>60</sup> Nelas’s respondent was categorized as a ‘corporate person’ given the firm’s age (above 20 years) and because in no moment in the interview the possibility of a future sale was discussed.

Despite ranking in the older segment of our sample, Ferrol and Queluz<sup>61</sup> continue to display interesting growth rates which have led them to expand to various countries. As a result, they have been classified in ‘Development’ state because managing geographical dispersion naturally requires some organizational infrastructure and, hence, some level of delegation. However, their main common feature is that this moderately developed organizational setup coexists with an over-reliance on a founder-centred decision-making model, which Ferrol, represented by a C-level respondent, could not describe better:

*“Plato said: ‘The best kind of government is to be well governed by one mind’ – especially if it is someone with unquestionable, recognized, and proven ability and values. No one questions their decisions. (...) The governance is very simple in the sense that there are some people who set the direction, and then there is a highly capable team that is able to carry it out.”*

In the case of Queluz, this founder-centredness pattern retains features more commonly seen on start-up firms:

*“The way of working is very particular. The founders are really hands-on — they look at things in detail. There are extended meetings, all together with the forums”.*

While the move to foreign countries naturally implied expanding its talent pool, Queluz approaches the topic in a particular way:

*“They are trustworthy people, very trustworthy, especially the CFO. And he was already known to the families. In other words, he was a trusted person”*

*“Putting the right, trustworthy people in the right places. In other words, at the beginning in [country X], it was necessary to have trusted Portuguese people there on behalf of the founders and the founders had to go there several times”*

While there is awareness about the importance of talent, the emphasis is put on the ‘trust’ element more than anything else, creating a subtle difference versus other archetypes for which talent is also important. This approach to talent acquisition further hints at incipient delegation practices, not yet fully aligned with the organizational infrastructure complexity required by a firm with an already diverse geographical footprint. We would call this the ‘Trust trap’<sup>62</sup> – the risk that a founder favours closeness in detriment of competence as he/she begins to delegate, therefore jeopardizing the emergence of the delegated decision channels commonly seen in firms in ‘development’ states.

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<sup>61</sup> As mentioned earlier, Queluz’s SABI data significantly underestimates the size of the firm, given the consolidating entity is not based in Portugal.

<sup>62</sup> Not to be confounded with discussions on the importance of trust led by other academic fields such as human resources management.

This archetype therefore represents a model which we would describe as ‘over-developed growth with underdeveloped governance’. The main issue with such a model lies on how to manage succession – replacing highly influential founders, particularly if attempting to transition to a more collegial decision framework (Ferrol) or passing the baton to the next generation (Queluz), is poised to be a high-tension process with uncertain outcomes.

Deep-diving on the reasons which could have led both firms on such an unbalanced trajectory, we realized that, despite coming from different economic sectors, they shared a very specific feature: the decision to expand abroad entailed a low level of risk (both operational and financial) as, more than an unilateral decision on their side, both firms were lured to external geographies by some of their existing clients. Unlike Lugo, for instance, which was compelled to expand abroad to compensate for a poor domestic economy, neither Ferrol nor Queluz were confronted with complex strategic decisions about how to pursue and sustain attractive growth rates. That is another risk factor weighing on succession – potential successors will have been deprived from learning opportunities about substantive decision-making processes. Lugo did manage to overcome such tensions by fully recreating itself but no end can be known *a priori* for narratives like those of Ferrol and Queluz.

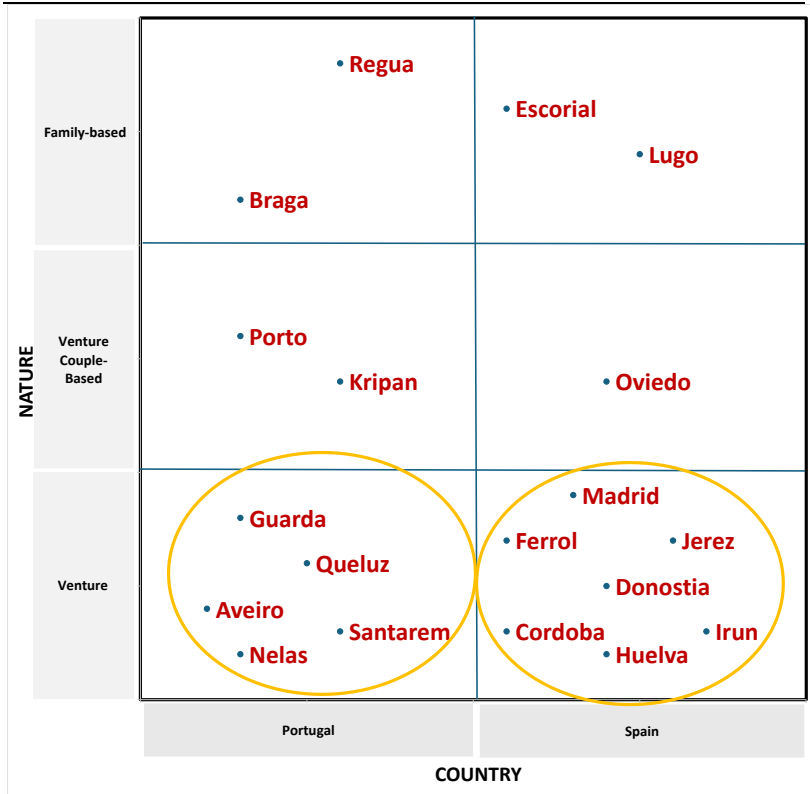
## 5.5. On country and sector as contextual variables

Until now, we had not approached the sample from the perspective of two classical contextual variables: country and sector. As stated in chapter IV, the key drive for selecting participants was the firms’ long-term financial performance – with a focus on high growth multipliers - and, to a second extent, some country balance between Portugal and Spain. In no moment, sectorial, firm type or ownership features were considered for the purpose of sample construction. We can now approach the sample from those perspectives to conclude that, out of the 19 participants:

- the sample is balanced in terms of firm nature between Portugal and Spain: in both countries, founder-led ventures account for the largest group, with family-based and couple-venture firms equally split between the two countries;
- in terms of sector, Spain accounts for most firms operating in services whereas Portugal has a higher representation of industrial firms. Of the two firms of the sample acting in the primary sector, each comes a different country.

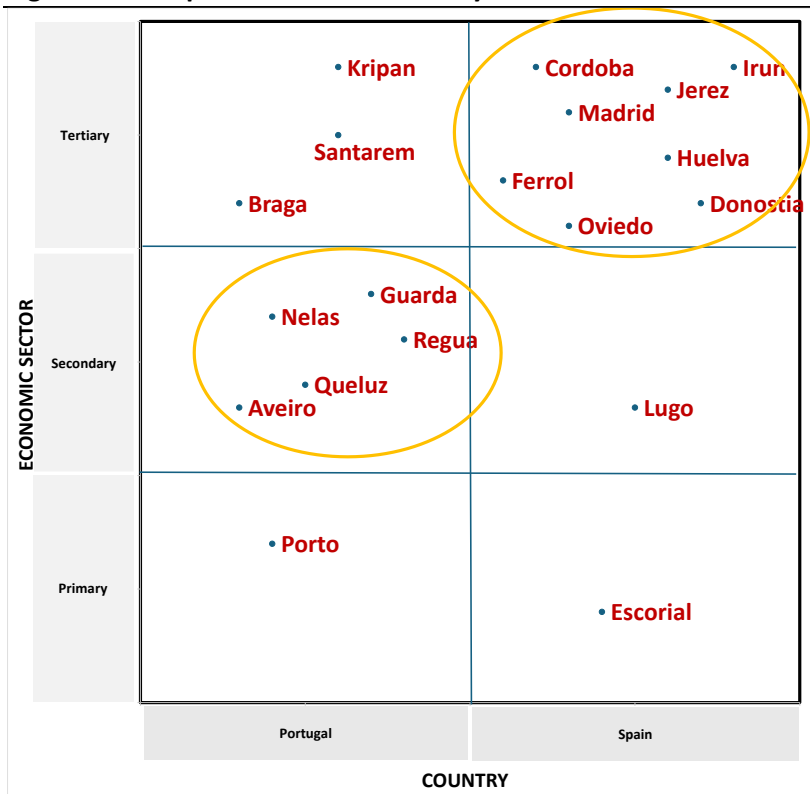
Looking at the sample from these two perspectives against the analysis carried in the ‘Decision framework analysis’ section, one is led to conclude that neither sector or country considerations played a substantive role in the definition of the archetypes or in the proposed interpretative diagnostic.

Figure 24: Sample distribution: Country versus firm nature



Note: Relative position inside a quadrant is not analytically significant.

Figure 25: Sample distribution: Country versus economic sector



Note: Relative position inside a quadrant is not analytically significant.

### 5.5.1. On country boundaries

Specifically regarding country implications, as already mentioned in chapter IV, the main difference that can be noted is related to the different meanings attributed to the concept of ‘board’ – although with no material impact on the findings presented before. In Spain, this is a corporate body entailing a majority of independent members – more visible in the ‘Open-book founders’ archetype but also in the case of Lugo. In Portugal, the first ‘functioning Board’ in the life of a firm is normally composed by executive members, as suggested by Kripan and Porto (this would be closer to Spain’s ‘*comité de dirección*’, which is also the operating model of Escorial, for instance). In Portugal, the introduction of independent, non-executive members – a common staple in all listed companies - can thus be seen as a further step in the firm’s transition to a more mature state, as suggested by the case of Aveiro.

Having said this, the reality of ‘fiction boards’ seems transversal to both countries, as illustrated by Braga and Oviedo. The same cannot be said about Advisory Boards, though: Cordoba, Donostia and Lugo (in this case, the current Board evolved from a previous Advisory Board) provide examples of this reality whereas Santarem is the only case in Portugal.

### 5.5.2. On sector/industry boundaries

In addition to a fair distribution in terms of the most basic sector split (primary, secondary and tertiary), the sample also presents a great variety in terms of industries (please refer to Annex 2 – Firm profiles and Technical Notes). However, in tandem with the country boundary, the archetypes presented in section 5.4. exhibit a largely industry-agnostic character. Take for instance, the ‘Grown-up Builders’ archetype: two of the firms operate in agriculture, one in engineering and another in financial services. The ‘caterpillar’ archetype comprises an industrial firm together with a services one.

This ‘industry-agnostic’ pattern could not be more evident in the ‘Edge cases’ archetype: one of the firms operates in services, requiring only a very lean organizational infrastructure, whereas the other is an industrial player where components’ sourcing and logistics are critical. What brings these two firms together under this archetype is not the nature of the services/products they provide but rather whether their growth decisions entail capital risk and require complex strategic reasoning.

There is one emerging finding with some correlation with sectorial considerations but related to the respondents’ background. For respondents who were exposed to high-regulation industries in the past, there seems to be a bias towards early adoption of formal governance frameworks. That is certainly the case of Cordoba’s respondent, which adopted a formal framework at inception of her second venture, but also of Jerez – which was subject to selected regulatory requirements - and

Santarem, in which the regulatory background of the leading founder led him to deliberately chose a non-regulated industry format while keeping the governance staples required in a regulated industry. Coincidentally or not, Cordoba and Santarem are the sole examples in the sample where the importance of internal committees as intermediate decision-bodies is highlighted. In both cases, committees emerged to support growth. In the words of Santarem:

*“We started creating, as we kept growing, committees for the three areas in which we are present.”*

Whereas Cordoba says:

*“There are two committees and if they are not there from day one, they might have showed up about six months later. These were formed when we realized they were needed. They are not like the ones in [first venture]<sup>63</sup>, which stem from regulation.”*

While recognising their broader added value for the firm:

*“I believe the committees have helped to establish procedures, to ensure there is a procedure in place and to make things much more professional”.*

While this finding should not be surprising – once accustomed to more formal governance structures, it is likely that respondents will want to retain some features of those mechanisms -, the finding stemming from the ‘Edge Cases’ archetype deserves further future research - to what extent does the capital intensity associated to strategic growth decisions work as a catalyst for more developed decision-frameworks?

Overall, though, these findings appear to support the notion that the so-called ‘SME heterogeneity’ factor may be more related to life states, and their inherent decision-making styles and organization infrastructure, than sectorial considerations.

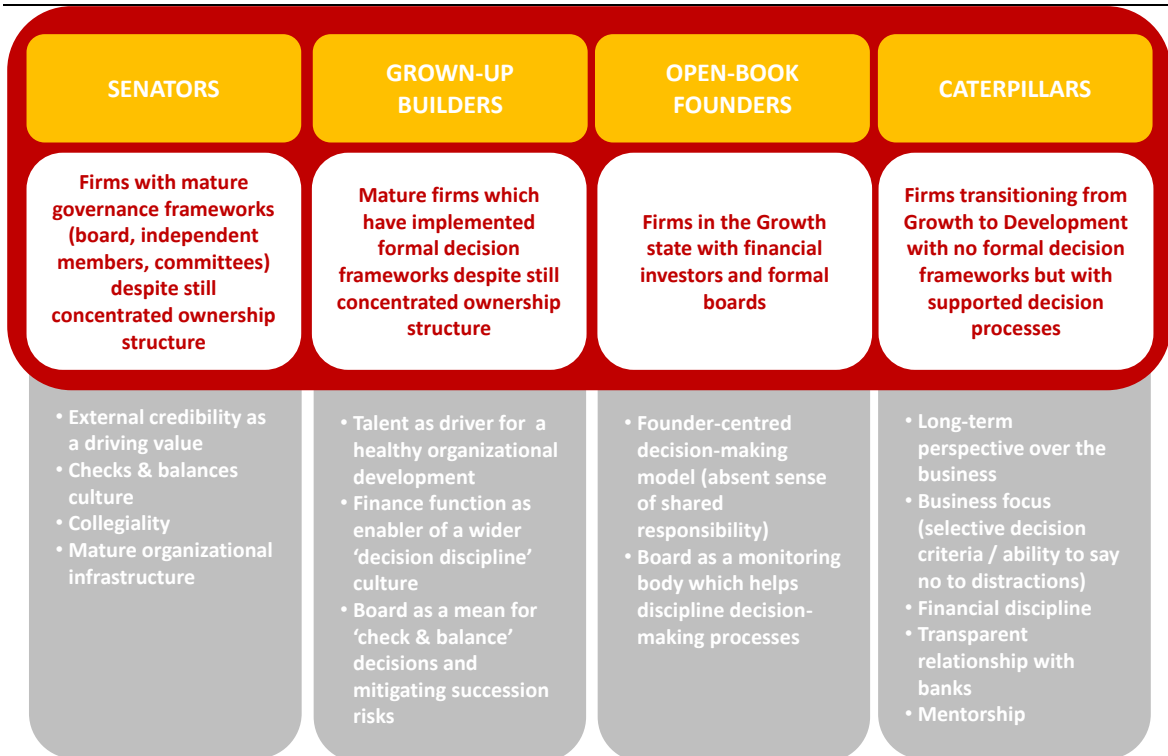
## 5.6. Results: a synthesis

The archetypal framework presented before can be situated within the broader stream of OLC theories, which conceptualize firm growth as a sequence of qualitatively distinct configurations rather than as a smooth, linear expansion. The framework below summarizes the main features of the archetypes, capturing their specificities as shaped jointly by life state and governance arrangements as firms grow in scale and complexity. While the first group emphasizes the elements that may have enabled successful journeys towards mature governance models, the second highlights the challenges faced by younger firms which, if unsuccessfully navigated, may lead them to a plateaued growth state or, ultimately, failure.

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<sup>63</sup> Cordoba’s respondent is referring to her second venture, a parallel project she launched while remaining fully engaged in Cordoba.

Figure 26: Archetypes – Group 1



Source: Author's own elaboration

Figure 27: Archetypes – Group 2



Source: Author's own elaboration.

The condensed approach presented above makes it clear that the evolution of governance arrangements may be seen as a consequence of firm growth - to the extent that it requires organizational development - but also of the founders' leadership styles and their ability to create a

cultural context in which the values of decision discipline and ‘checks & balances’ are nurtured across the organization.

Consistent with OLC theories, the framework emphasizes that growth is inseparable from rising organizational complexity. As firms expand, task specialization, interdependence and information asymmetries intensify, progressively highlighting the limits of informal coordination and the founder’s personal authority. Each archetype therefore reflects a relatively coherent combination of decision frameworks (whether formal or informal), leadership styles and accountability practices, which then impact the development of the organizational infrastructure (and, ultimately, of the firm itself). The central contribution of this archetypal approach lies in its ability to make visible in an intuitive fashion both the tensions that emerge as firms transition from one state to another as well as the elements that may help navigate those tensions. The proposed archetypes should therefore be understood as an analytical lens which helps the interpretation of empirical narratives and organizational journeys - while never assuming those journeys are unidirectional towards fixed-end states.

Also consistent with OLC theories, the framework also confirms that growth – both in business volumes and organizational terms – is not linear or merely quantitative and that qualitative shifts in governance arrangements (whether informal or formal) may help shape the journey to a more mature state. Healthy growth demands formalization, delegation and a growing sense of shared responsibility across the organization. The archetypes therefore illuminate how practices that may be effective and legitimate at early stages - such as founder-centred authority or informal coordination - may become active constraints as organizational scope widens and interdependencies intensify.

Therefore, from a governance perspective, the archetypes support the view that governance frameworks evolve *endogenously* as responses to changing organizational conditions brought about by scale. Early configurations are typically characterized by high decision centralization on founders and reliance on trust. As firms advance along the life-cycle, governance needs to shift toward more formalized and collective configurations, including delegated decision channels, structured deliberation forums and the gradual implementation of ‘check & balance’ mechanisms. In this sense, governance is not treated as an exogenous “add-on” but as an integral component of organizational adaptation.

Taken together, the archetypal framework offers an integrative view of growth that bridges managerial, organizational and governance considerations. By situating firms within recognizable yet flexible configurations, it provides both researchers and practitioners with a structured way to reflect on developmental challenges, anticipate transition points and better understand the specific governance requirements as firms expand over time.

## CHAPTER VI: DISCUSSION AND THESIS FORMULATION

*'The domain of corporate governance is itself in flux; as corporations and societal norms evolve, so do the boundaries of what constitutes governance'.*  
(Hambrick et al., 2008)

### 6.1. Governance in SMEs: the concept of 'decision framework'

#### *A tale of two routes to the Ice-cream shop*

*John: Fiona, let's go get ice cream! It's right over there. We just need to walk in a straight line - that's always the shortest!*

*Fiona: Always? Are you sure?*

*John: Of course! That's how the world works.*

*Fiona: That's true only if the world is perfectly flat, John. Your rule comes from Flat-World Geometry - the grown-ups call it Euclidean.*

*John: Flat-World? What does that mean? What is the rule book there?*

*Fiona: It says:*

- *The ground is flat like paper.*
- *Straight lines never bend.*
- *Space behaves the same everywhere.*

*John: Ah! So my "straight line = shortest path" rule only works if the world behaves nicely.*

*Fiona: Exactly. It's a great rule...if the Earth is basically a giant pancake.*

*John: Mmm... pancake. Almost as good as ice cream.*

*Fiona: But what if the world is a giant orange? Or a hill? That's Curvy-World Geometry - what grown-ups call Riemannian.*

*John: And your rule book says...?*

*Fiona:*

- *The ground can curve, stretch, or squish.*
- *"Straight lines" must follow the curve of the world.*
- *Distances depend on the shape beneath your feet.*

*John: So your shortest path might look curvy?*

*Fiona: Yup! But it's still the straightest possible path on that curved world. We call it a geodesic - a fancy grown-up word for "the line your feet think is straight."*

*John: So Euclidean means: "Everything is flat and straight."*

*Fiona: And Riemannian means: "The world can curve, so lines curve too."*

*John: That's a pretty big difference.*

*Fiona: Big enough that if we lived on a giant beach ball...your 'straight' ice-cream path might actually send us walking in circles.*

*John: Walking in circles?! We'd never get ice cream!*

*Fiona: Exactly. That's why we need the right geometry. Getting ice cream is serious business.*

*John: So if the world is flat, we walk straight. If the world is curved, we follow a geodesic. Either way, geometry helps us get our ice cream.*

*Fiona: And that, John, is the true purpose of mathematics.*

*John: Ice cream?*

*Fiona: Ice cream. Always ice cream.*

*Dialogue generated by Chat GPT when prompted about how two youngsters would discuss the differences between Euclidean and Riemannian geometry paradigms.*

SME research tends to exhibit a tension between two poles: on one hand, the rejection of the idea that SMEs can be treated as 'little big businesses', i.e., a scaled down version of a large enterprise; on the other, a certain tendency to approach their configurations and needs based on analytical models derived from large enterprises.

We argue that SMEs belong to the Schumpeterian universe - they can be creatures in permanent change, sometimes in accelerated ways, sometimes through periodic disruptions. In a VUCA world – volatile, uncertain, complex, ambiguous world -, one could argue the same can be said of large corporations if they are meant to survive. However, despite the strategic or tactical reinventions large corporations are also subject to from time to time (some OLC theories would say from crisis to crisis), their skeleton is already formed: their organizational infrastructure, the layers of management, from senior to lower ranks, and the inherent delegation channels; their culture; in a word, their rulebook abides by Euclidean geometry. That is why we call them 'corporations' in the first place. Regardless of the number of steps prescribed by the various OLC theories in order for a firm to reach maturity, most authors recognize those elements as common features of mature firms.

While any large firm has been an SME at some point in its history, the reverse is not true. Not all SMEs become successful business stories – they are curvy bodies, following curvy lines which sometimes end abruptly in a gorge. OLC literature has also provided various descriptions about those journeys and identified reasons why that happens: fragile business cases, ill-judged management decisions, weak leadership, adverse contexts not adequately addressed, that can be summed up under three main umbrellas: growth crises (Greiner, 1989), strategic considerations (Chandler, 1962;

Churchill & Lewis, 1983; Miller & Friesen, 1983) and leadership styles (Adizes, 1979). Looking specifically at SMEs from the viewpoint of Governance, Singh & Pillai (2022) summarize the challenges in four dimensions: ‘centralized decision-making, retention of skilled manpower, succession and standardized internal control procedures’.

However, there is one feature large corporations and SMEs have in common: either to sustain growth or ensure survival, they both require careful and thoughtful assessments of long-term, high-impact, strategic decisions. Recovering the initial dialogue on geometry paradigms, well-pondered decision-processes correspond to the ‘ice cream’ John and Fiona are so eager to taste, no matter the route they make take to get there.

Large corporations have a well-recognized and established mechanism to ensure that goal: they have boards in place - the ‘apex of [their] decision-making’ (Machold et al., 2011) -, where decisions are taken and scrutinized, therefore enhancing their traceability and accountability. In fact, we fully abide by Huse (2005), as cited by Liljeström (2025), that ‘one of the key tasks of governance is to create accountability’, a synthetic formulation inspired by the work carried by Roberts et al. (2005). While the word seems to have fallen out of favor in recent governance literature, our sample suggests *accountability* is an attribute highly valued by economic agents when discussing their decision processes.

SMEs, especially in their earlier states and especially in contexts of ownership-management overlap, frequently lack board frameworks (Handley & Molloy, 2022; Karoui et al., 2017; Uhlaner et al., 2007). However, their challenge to develop sound decision processes is as pertinent as the one faced by large corporations - in the absence of a board, SMEs need to find the ‘right geometry’ for the way they take decisions about their future. This tension has been broadly acknowledged by various practitioner-related entities across the world, as described in Chapter III, which have all tried, in different ways, to support SMEs in developing transparent and robust decision processes.

The objective of this thesis is therefore to identify which elements help firms evolve towards more disciplined and traceable, i.e. accountable, decision processes as the firm gains dimension over time. Hence, for the purpose of this thesis, governance will not be approached as a fixed construct but rather as a developing process in which heterogenous elements continuously interact with each other in different degrees. Based on the qualitative evidence gathered from a sample of 19 Iberian firms with consistent growth and entrepreneurial journeys, we therefore fully embrace Filatotchev & Wright (2017)’s challenge: ‘There is something of a lack of ethnographic longitudinal studies. As strategic management has developed a growing field focused on strategy as process, there is scope for governance research to develop a subfield of “governance as process” too’.

Standing in the intersection of the governance and OLC academic fields, the originality of this thesis is two-fold: on one hand, from the governance field, we identify the need to go beyond the board when discussing decision frameworks for SMEs, following up on Handley & Molloy (2022)'s challenge; on the other, on the side of OLC theories, we need to add the 'decision framework' element as another dimension that may explain why some firms succeed and others fail.

Before we move on, the concept 'decision framework' needs to be properly defined. For that, it is worth revisiting both words' etymology. The word 'decision' has a Latin root and blends two elements: 'de', a prefix implying elimination, and the verb 'caedere', which literally means 'to cut'. The word 'decision' therefore supposes an action by which various alternative options are eliminated so that one can finally be elected as the way forward, putting an end to uncertainty. As for the word 'framework', it comes from old English and blends two elements: 'frame', meaning a supporting structure, and 'work', or the action of having something done. Its most common meaning in present-day English revolves around the concept of a '*structural support used as the basis for something being constructed*' (Merriam-Webster Dictionary).

For the purpose of this thesis, 'decision frameworks' will thus refer to any elements, tools or practices that help SMEs improve decision processes as they gain dimension over time. One advantage of this formulation is that it can be safely applied to the entire specter of a firm's evolution path: in firms approaching maturity, the main 'decision framework' would correspond to an executive board; in mature firms, the 'decision framework' may be a board composed by members unrelated to ownership and, ultimately, to management. In young firms, however, a 'decision framework' may simply involve a robust finance unit, which helps the firm to disregard unattractive growth options; or it may be an informal advisory board charged with challenging owners-managers' perceptions about viable growth routes.

From the perspective of OLC theories, the concept of 'decision framework' appears to fit well as a sub-group of the 'Systems formalization' problem category as developed by Phelps et al. (2007). As ventures morph into corporations, by formalizing an organizational structure and developing standard policies and procedures, increasingly structured delegated decision channels begin to emerge – if they do not, survival may be at stake. Metaphorically speaking, a 'decision framework' could thus be considered the bone marrow inside the skeleton (organizational infrastructure) that supports the body (the firm itself).

From this point onwards, the expression 'decision framework' will therefore be used interchangeably with the word 'governance', whose original Greek meaning was precisely 'to steer' or 'to pilot', i.e., to select the '*de-cisions*' that would ultimately allow a boat to safely roam across the seas.

## 6.2. Governance in SMEs: the context-dependency inevitability

The importance of institutional arrangements has long been highlighted in governance literature (Aguilera & Jackson, 2003; Huse, 2005), with country-specific legal configurations identified as an important determinant in the implementation of formal decision frameworks. When it comes to SMEs, where decision frameworks can take formal and informal configurations but, above all, tend to be in flux as firms gain dimension, an additional variable must be added: life state. Understanding how decision frameworks emerge as a firm gains dimension cannot ignore the nature of the challenges the firm is facing as it transitions to new business and organizational states.

Therefore, we argue that, to discuss governance in SMEs, the intertwining of the governance and OLC fields is inescapable. In fact, our analysis suggests that, regardless of ownership or sectorial/country considerations, the ‘SME heterogeneity factor’, as discussed by Torrès & Julien (2005), appears to be mostly related to the specificities of the firm’s life state, with its inherent decision-making styles, organizational infrastructure and possible future directions. This requires an adequate reading lens of reality which only OLC theories can provide and fully illuminate. Naturally, we also recognize that this twin relationship generates additional complexity when approaching Governance in SMEs and is the most likely explanation behind the low prevalence of governance research focusing on ‘threshold firms’ (Gabrielsson, 2017).

Having said this, the findings from our sample lead us to fully agree with Ingley et al. (2017) in their assertion that ‘transitions are decisive periods in the life of companies, bringing significant challenges’, which may dictate failure if inadequately addressed. The findings from our sample also give ground to Gedajlovic et al. (2004)’s view that poor CG arrangements are the ‘root cause’ behind the difficulties in navigating transitions: if the firm has developed adequate decision frameworks for its state, this can then enhance learning processes and facilitate the transition to the next state.

We can understand the disconnect between the two fields. As governance research revolved mostly around the board construct – a feature missing in many young firms – and OLC theories focused more on the pace of organizational infrastructure development, there were no obvious linking points. However, as calls for more expansive definitions of Governance began to emerge (Gabrielsson et al., 2020; Hambrick et al., 2008; Tihanyi et al., 2014), notably by highlighting the need to include managerial dimensions, the bridge between organizational infrastructure and emerging decision frameworks, with various degrees of formality, can begin to be explored.

### 6.3. Governance in SMEs: thesis formulation

Most extant research in SME governance shows two main bias: i) either broadly ignore governance issues in the context of founder-led firms where there is ownership-management overlap. Sometimes, this bias manifests itself in the way arguments are developed so that the end point of the discussion is a convergence to the ownership-management segregation (Karoui et al., 2017; Wirtz, 2011). In our view, this a direct consequence of a simplistic application of Agency Theory, which will be discussed in more depth in the next section; ii) or approach firm development from the ‘knowledge’ contribution that can be given by a Board in entrepreneurial firms, as broadly postulated by governance theories rooted in the Resource dependence stream (Brunninge et al., 2007; Zahra & Filatotchev, 2004). Despite their differences, synthesized in a clear way by Gabrielsson and Huse (2017) (please refer to Chapter II), both theoretical approaches appear to coincide in two aspects: when discussing governance, there must be ownership/management segregation and the sole relevant construct is the Board.

The evidence drawn from our sample supports the view that decision frameworks can emerge and ultimately evolve to formal mechanisms like the board before ownership dispersion occurs – this assessment fully aligns with Lepage & Tarillon (2025)’s finding. The process behind this journey combines elements and steps in different moments and must therefore be approached from the viewpoint of emerging informal decision frameworks.

There are elements related to the Founder’s values and culture which may help shape decision frameworks in the early stages, from which we would highlight an inherent propensity for ‘decision discipline’, understood as foundational guiding principles for managing the business. The comments provided by Braga (Caterpillar archetype) on the need to be strategically focused and by Porto on the importance of a careful selection of clients and suppliers (Grown-up Builders archetype), for example, illustrate the value of this commitment to a set of ‘non-negotiable’ guidelines.

Within this ‘decision discipline’ element, the importance attributed to the finance function and financial discipline in general emerges as a very strong pillar. In particular, evidence from the sample suggests it is hard for a firm to remain on a sustainable growth path without a robust finance unit, as this brings a necessary element of monitoring/control to the business while infusing the more intangible value of ‘decision discipline’ across the entire organisation. Drawing from the evidence in our sample, notably the Caterpillar archetype, on one hand, and the Wildcards on the other, we argue that a robust finance function appears as a critical enabler for firms to be able to move solidly into the development state. Heuristically speaking, a firm which has developed a robust finance unit in the growth state has more probability of moving successfully to the development state than a firm which

has not. A second derivative of this acknowledgment is that a firm which has developed a robust finance unit in early states will also have more probability of being successful with third-party funding entities, therefore amplifying its ability to sustain growth.

External talent hired at early states may also give a fundamental contribution to the development of the firm's organizational infrastructure and, ultimately, the establishment of traceable decision frameworks, a phenomenon more evident in the Grown-Up Builders archetype. In making this assertion, we recognize we are drawing from well-known elements of other management academic fields. However, the novelty here is not that *Talent* is an important element for firm development; it is the contribution that external talent can give to forcing the development of well-defined and transparent decision channels in the wider organization. There seems to be a virtuous interaction between organizational infrastructure and decision frameworks, for which talent is essential. Again, while OLC literature profusely describes the emergence of organizational infrastructures, the link to how this evolution correlates to the founders' learning process of more collegial decision frameworks remains unexplored. Future studies could pay attention to which elements in an organizational setup come first and which are more helpful in supporting the development of decision frameworks.

However, there is also a pre-condition for the contribution of talent to a firm's development: that the founder is willing to delegate. Our sample shows divergent trends here, with the Grown-up Builders archetype standing in stark contrast to the Wildcard one. In the former, the founders' drive for growth naturally opened the room for healthy delegation, which then led to the recognition of the value-added brought about by external talent. This then fosters the implementation of transparent decision channels, which in turn stimulates a sense of shared responsibility across the firm. In the Wildcard archetype, though, the inability to delegate may ultimately prove costly for the founders (even if not for the firm, if there is a sale to a third-party).

In fact, our sample leads us to argue that the transition between the Growth and Development states is probably the most complex one, because it is where organizational demands and leadership styles are all put to test at once - it is the point where the challenge of moving from a founder-centred decision model to a more collegial one is more delicate. It is the juncture where failure to address basic organizational infrastructure components such as the finance function or incapacity to begin embracing delegation may dictate a firm's failure.

A natural consequence of the former proposition is that only once that critical Growth/Development juncture has been surpassed, may the firm begin a healthy development of its organizational infrastructure which will allow for a natural emergence of more formal decision channels, which will in turn make the concept of 'shared responsibility' a more visible feature of the

firm. Again, this means that, when a founder willingly embraces delegation, he/she is also engaging in a learning process on how to move to a shared responsibility/collegiality model later on in the future.

**Figure 28: From delegation to collegiality**

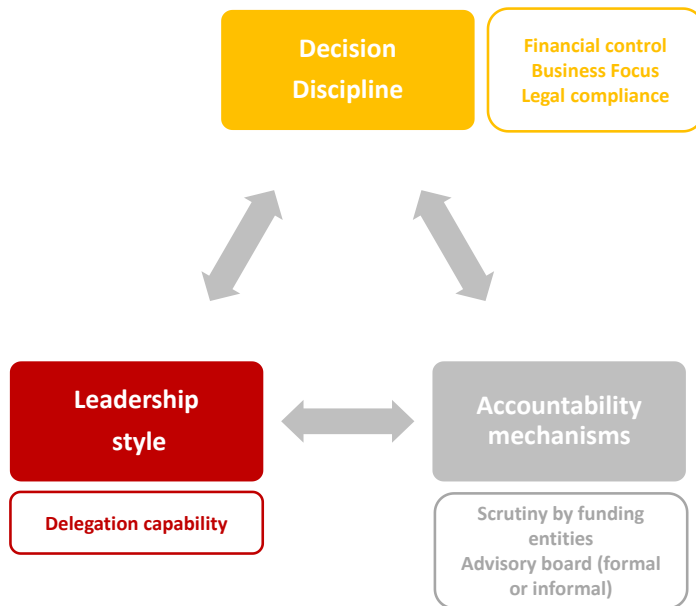


*Source: Author's own elaboration.*

If the Growth/Development juncture is successfully crossed, – setting in motion a process whereby the venture begins to morph into a corporation -, the nature of the challenges changes: the risk now is more related to inertia, a certain ‘complacency trap’ whereby founders may simply get diluted as the organizational infrastructure increases in size and complexity. While an unsuccessful transition between the ‘Growth’ and ‘Development’ states may ultimately lead to failure, an unhealthy ‘Development’ state may lead the firm to a ‘plateaued growth’ state as defined by Ingley et al. (2017). Decision frameworks need to be refreshed through challenging mechanisms such as Mentorship pools or Advisory boards.

Therefore, the archetype framework developed in Chapter V helps bring to light the importance of the interaction between three critical pillars: 1) the founder’s inclination to decision discipline, understood as the commitment to a consistent set of decision criteria, which seems especially important in the transition between the Start-Up/Growth states; 2) the evolution of personal leadership styles as organizational infrastructure increases in complexity, with a focus on delegation propensity, especially important in the transition between the Growth / Development states; and; 3) the openness to accountability mechanisms, such as the scrutiny from third-party funding entities (especially important in the Growth state) or advisory board-like bodies (especially important in the Development state).

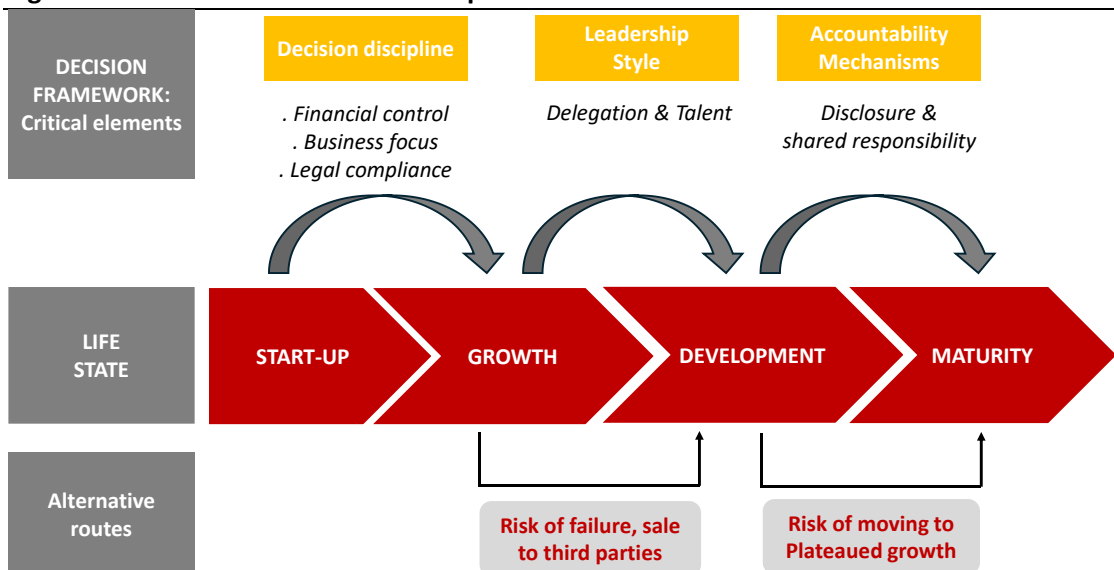
Figure 29: Governance in SMEs: Key elements as derived from the archetypes



Source: Author's own elaboration.

While there seems to be a virtuous interaction between the three dimensions throughout the full specter of the life of a firm, the relative pertinence of each one of them may differ depending on the specific life state the firm is in – again, highlighting the inextricable link between governance and life state. The figure below summarizes the critical elements that need to be in place to ensure a successful transition between the various possible life states – and what may happen if that is not the case.

Figure 30: Decision framework development – critical elements over time



Source: Author's own elaboration.

Until now, we have discussed the elements which appear critical to help develop informal decision frameworks. However, the findings of our sample lead us to argue that it is possible for formal governance frameworks – i.e., functioning boards - to emerge and reach a mature state in the context of founder-led firms, with concentrated ownership (including single shareholder firms). Incentives for firms to adopt formal governance frameworks include i) a mean to ensure external credibility; ii) succession issues (as a risk management perspective, unrelated to generational transitions) and iii) a culture element related to an inherent appreciation of the value of ‘checks & balances’ and ‘shared responsibility’ for good decision-making. Underlying these different motivations is a clear reckoning by founders that they have created something bigger than themselves that needs to last beyond themselves. As such, we agree with Lepage & Tarillon (2025) that formal governance can emerge prior to ownership changes as a result of growth pressures.

We also found that boards can be effective in founder-led firms where there is ownership/management overlap. The main necessary condition for this is that a healthy culture of checks & balances has been developed in the firm, for which the virtuous ‘talent => organizational infrastructure development => decision frameworks’ cycle described before is essential. Drawing from our sample, the ability to move to effective boards – regardless of whether there is ownership/management overlap - lies on whether founders have apprehended the value of collegiality/shared responsibility in previous states, as the ‘Senators’ and ‘Grown-up Builders’ archetypes illustrate.

When this type of culture has not evolved, firms may have boards which play an important role in setting discipline through its monitoring function but which do not appear to be the core centre of the firm’s decision-making, as illustrated by the Open-book founders archetype. While the value of ‘checks & balances’ is recognized by founders in this archetype, the same cannot be said of the ‘shared responsibility’ culture which emerges in other archetypes.

Again, this reconnects with the previous comments on the risk of ‘legal fiction’ boards. In the cases in which the virtuous cycle described above has not developed in a healthy fashion, the imposition of a board will likely mean the founder will be led to select board members based solely on the basis of personal trust rather than talent quality. With the founder caught in the ‘Trust trap’, the firm will be stuck in the ‘Legal fiction board’ (Karoui et al., 2017), therefore perpetuating a founder-centred decision-making pattern with no room for ‘check & balances’.

As such, while we find Karoui et al. (2017)’s approach to board configuration as a function of the power split between owners/managers/directors insightful, we are also led to think that their model suffers from extant literature’s bias that a board can only be effective in a context of

ownership/management segregation. When that assumption is not fulfilled, Karoui et al. (2017)'s intermediate archetypes (supervision, advising, supporting) appear as second best to the 'pilot' archetype, for which Karoui et al. (2017) assume an already disperse ownership base. The Senators and Grown-Up Builders archetypes suggest that may not always be the case.

As a conclusion, rather than a function of ownership dispersion or formal board adoption, governance in SMEs should be understood as the progressive development of decision frameworks, often informal and context-dependent, that are shaped by the founders' decision discipline, delegation capacity and openness to accountability mechanisms alongside an increasingly complex organizational infrastructure as the firm gains dimension.

#### **6.4. SME governance must be approached in multitheoretical and multidisciplinary terms**

The power of good theoretical paradigms lies on their analytical power but also on their ability to make complex phenomena easier to understand in conceptual terms. This has certainly been the case with Agency Theory, which opened the way for substantive and impactful discussions around board dynamics and incentive structures. It is undoubtful that the theory has garnered sufficient empirical validity in contexts where there is clear segregation between ownership and management. However, complications emerge when simplicity degenerates into 'simplism'. It is simplistic to superimpose the model in contexts lacking ownership/management segregation, an issue that has characterized much of SME governance research in the past years (Handley & Molloy, 2022; Li et al., 2020). A second derivative of this bias is the attempt to assume that all firms will ultimately converge to a segregated ownership/management model at some point in the future, hence inevitably falling in the Agency paradigm, as acknowledged by Lepage & Tarillon (2025).

The evidence from our sample suggests SME governance must be approached in multitheoretical and multidisciplinary terms. Once the 'context dependency' is fully acknowledged, through the recognition of the specific life state / transition profile, then existing theories provide sufficient elements to explain the nature of the problems and propose possible diagnostics. Agency and Resource Dependency theories appear capable of shedding sufficient light on the nature of the transition challenges faced by young firms, which hover between decision-making accountability, on one hand, and strategical capabilities on the other (Brunninge et al., 2007; Zahra & Filatotchev, 2004).

The importance of strong 'decision discipline' borrows from corollaries stemming from Agency theory: it is important to 'monitor' and 'control' the business in early stages; it is equally important that the founder infuses a degree of 'decision discipline' in their decision frameworks, even when these frameworks are still incipient, whether through strategic focus to avoid dispersion (Braga) or strict financial discipline (various firms in the sample). In fact, evidence from the sample suggests

founders attribute a far broader content (i.e. meaning) to the concept of ‘Governance’, largely revolving around the Agency-related concepts of ‘accountability’ and ‘checks & balances’.

Evidence from our sample also highlights the importance of learning processes, as proposed by Resource Dependence theory, along with mentorships and informal ‘advisory boards’, which can bring expertise, enterprising and networking capacities to the firm, albeit via alternative channels to a formal board – these are all elements critical to reinforce the robustness of decision frameworks (Filatotchev et al., 2006; Zahra et al., 2004).

In our view, Bonn & Pettigrew (2009)’s proposed approach about which theories have strong explanatory power for the roles performed by a Board as a firm evolves over time can be easily transposed to the nature of the elements our thesis has highlighted as key enablers of successful transitions (financial control; talent; delegation/leadership style; mentorship).

**Table 38: Roles of the board as a function of life-stages (Bonn & Pettigrew, 2009)**

State	Key strategies	Key Board roles	Underlying Theories
<b>Start-up</b>	Securing financial resources Gaining customer acceptance Establishing legitimacy	Ensure access to resources through networking; Support shaping strategy	Resource-dependence
<b>Growth</b>	Stabilising production /service reliability Maintaining cash-flow Formalising company structure	Help demonstrate organisational legitimacy to potential investors; initiate strategies; Exercise control-related activities	Resource-dependence Agency
<b>Mature</b>	Improve efficiency by consolidating formal controls, budgets and performance measures	Maintain regular dialogue with shareholders/ stakeholders; Assist CEO in shaping strategy; Perform control-related activities	Resource-dependence Agency
<b>Decline</b>	Firm survival	Persuade directors to stay on board or appoint new ones, able to secure support from investors Initiate strategies able to reverse course Ensure effective control and monitoring mechanisms are in place	Resource-dependence Agency

*Source: Adapted from Bonn & Pettigrew (2009); ‘Underlying theories’ column added by the Author (table already presented in Chapter II).*

While we recognize the pertinence of the specific insights that can be drawn from both Agency and Resource Dependency theories depending on the life state, we also believe the broader framework provided by Team Production Theory (Blair & Stout, 1999) appears to be the one which better aligns in general terms with the findings from this thesis. On one hand, there is a clear emphasis on ‘value creation’ – in Team Production theory, the board has a fiduciary duty to the enterprise itself as a whole -, which correlates well with the stated purpose of young firms looking to gain scale over time. Additionally, Team Production theory’s emphasis on a more ample stakeholder coalition also finds echo, in the context of our sample, in the importance of talent (employees) or, for example, funding entities, through their ability to impose scrutiny.

**Table 39: General CG Theories: contribution to SME Governance**

Theory	Perspective on Governance	Emphasis
<b>Team Production</b>	Focus on Value Creation	The firm aims to sustainably create value drawing from a coalition of various stakeholders
<b>Resource Dependence</b>	Focus on adding resources to sustain growth	Governance resources bring additional value to the founding team (enterprising, networking)
<b>Agency</b>	Focus on control and accountability	Strategic decisions must be accountable and traceable

*Source: Author's own elaboration.*

Therefore, we believe that Filatotchev & Wright (2017)'s call for governance to be understood 'as a process' and Roberts et al. (2005)'s call for a multitheoretical approach to governance are especially applicable to the reality of SMEs: existing theories cover the nature of most challenges faced by firms while providing empirically tested solutions; all of the three theories mentioned so far (Agency, Team Production, Resource dependence) have something to offer for a better framing of SME governance. The bridging element is that their contributions must be considered in relation to a clear understanding of the context in which firms operate. This requires addressing governance and OLC simultaneously.

Retrieving the dialogue on the differences between Euclidean and Riemannian geometries from the beginning of this chapter, whereas the governance model pursued by large corporations with disperse ownership can follow Euclidean rules because their formal decision frameworks are grounded on very mature organizational infrastructures, SMEs' curvy reality requires a Riemannian approach: instead of a straight line, we need a dynamic puzzle composed of different theoretical perspectives, all of them with relevant explanatory power.

#### **6.4.1. On the various theoretical models used for the purpose of this thesis**

In addition to the general CG theories, this thesis has resorted to specific models to better situate each narrative, in an abductive exercise whereby theoretical models shed light on context while evidence from the ground generated further insights into the models. The next section will revisit those models with the lens provided by the sample's evidence.

##### **6.4.1.1. OLC theories**

The archetype framework presented in Chapter V provides a relevant contribution to the ongoing discussion in the OLC field about the nature of firm growth as a linear, deterministic path (Levie & Lichtenstein, 2010; Phelps et al., 2007). In particular, the Wildcards and Edge Cases archetypes represent firms facing complex crossroads in their strategic and organizational

infrastructures, where the sustainability of growth is uncertain without substantial revamping – in these cases, past growth is no assurance of future success.

These perspectives align with Uhlaner et al. (2007) and Gedjalovic et al. (2004) that ‘governance arrangements’ can be the ‘make it or break it’ factor during transitions. Therefore, we agree with Phelps et al. (2007) that the evolution of a firm cannot be considered a deterministic path towards maturity. As a result, we have deliberately used the word ‘state’ instead of ‘stage’ when discussing the different periods a firm may go through. Our findings raise sufficient questions about the ability to succeed of firms in different evolution states (especially, those still in the growth/development states) – the risks of not being able to move past the Growth state or the risks of moving to plateaued growth (and ultimately failure) in the Development state are high if decision frameworks remain incipient. Therefore, the avenues opened by this thesis call for more research on the embeddedness of ‘decision frameworks’ within the ‘organizational infrastructure’ of a firm, in order to deepen the convergence between the governance and OLC fields – this is an approach that, alike this thesis, calls for qualitative, process-focus, research paradigms.

#### **6.4.1.2. Ingley et al. (2017)**

While extremely useful to understand the concept of ‘governance as a process’ (Filatotchev & Wright, 2017), Ingley et al. (2017) implicitly assume that a mature corporation will always have a perfect distinction between ownership, board and management. Our sample contains specific examples which appear to contradict this assumption, with some firms still retaining a single shareholder who remains CEO and has not shown any interest in the future sale of the business. As mentioned before, one of the findings of this thesis is that decision frameworks can evolve towards mature models, including highly functioning boards (i.e including independent members) prior to opening ownership to other investors.

Ingley et al. (2017) provides a well-defined roadmap to understand the evolution of decision frameworks but does not resist the temptation of repositioning the main ‘decision-framework’ tension at the owner-manager level. The model is helpful to understand the triggers that may be pulling a firm in a certain direction but it falls short of explaining how governance maturity is achieved in contexts prior to ownership dispersion.

It is important to clarify that the specific feature about Ingley et al. (2017)’s is precisely the identification of the triggers behind each transition profile and, in particular, the contributions the board can give depending on those triggers, as proposed by theoretical paradigms such as Agency and Resource-Dependence theories. While we are equally interested in understanding what happens as

firms evolve from one state to the other, our focus goes beyond the board to consider decision frameworks in general.

#### **6.4.1.3. Torrès & Julien (2005)**

We found Torrès & Julien (2005)'s Proximity model very intuitive in the way it condenses the driving forces behind most SMEs: the founder's centrality in terms of ownership and decision-making along with the ecosystem range in which the firm operates. Our sample had an evident bias in terms of shareholding proximity (all firms had concentrated ownership) and varying degrees in the evolution of hierarchical proximity (most firms within the medium-high range). The only dimension which saw significant longitudinal change across the sample was the Ecosystem one. This suggests some correlation between the Hierarchical and Ecosystem dimensions: increasingly complex ecosystems will trigger more complex infrastructure settings, which will then enlarge the layers of middle management and mitigate the owner's influence over the firm's cultural context. Drawing from the sample, out of the three dimensions signaled by Torrès & Julien (2005), the ecosystem one appears to be the main driver behind governance adoption, i.e., governance maturity was achieved despite shareholder and hierarchical proximity remaining at high levels.

### **6.5. Governance and Growth**

Having reached this point, we cannot avoid the question that has long guided much extant research: what is the relationship between growth and governance? To answer this question, we need to retrieve the Euclidean versus Riemann paradigms and set a clear boundary between the context of large corporations, which abide by the former, and that of growing entrepreneurial firms, which live according to the latter. In the case of large corporations, which have been the preferred focus of most, primarily quantitative, research, with board dynamics as the sole relevant construct, the answer has proved elusive – despite the more objective, Euclidean, setting. In the case of SMEs, where many different dimensions combine to produce dynamic configurations (hence, the Riemann metaphor), empirical evidence has also remained largely absent when seen through the lens of quantitative approaches (Teixeira & Carvalho, 2024).

Lepage & Tarillon (2025)'s qualitative approach therefore stands out by concluding that 'changes in governance can occur simultaneously with or sequentially in relation to growth. Governance is also not necessarily a prerequisite for growth, as both can evolve concurrently'. The evidence from our own sample would lead us to argue that governance mechanisms may enhance firm resilience in navigating transitions - but do not constitute guaranteed levers of growth. Growth appears to require governance for firms to develop in a healthy and sustainable manner, along the

lines of the as suggested by OLC theories. However, once governance arrangements have reached a relatively stable level, a range of other factors may contribute to firm failure, a conclusion that is also consistent with OLC theory.

## 6.6. Some suggestions for public policy and practitioners

Our findings may have practical policy implications. One is the acknowledgement that, for a firm in the Development state, i.e., in the process of formalizing decision frameworks involving more visible ‘check & balance’ mechanisms, advisory boards understood as consultive bodies with no executive power may be more acceptable to founders than a straight-forward board composed by independent members. The temptation of filling in the roles with acritical people when the firm is forced to move to a corporate legal format imposing a formal board will be high, degenerating in a ‘legal fiction’ board (Karoui et al., 2017). Therefore, corporate legislation could be reframed in order to incentivize the adoption of Advisory instead of formal boards at earlier states in the life of a business. Such an intermediate tool would help formalize decision frameworks in addition to bringing in enterprising and networking capacities along the lines proposed by Resource Dependency Theory while avoiding perceptions of power interference on the side of the Founder. In our sample, the case of Santarem (Landholder archetype) is a good example of how the two levels can interact with each other in a beneficial and effective fruitful way.

Another implication has to do with the availability of Mentorship pools, potentially to be provided by public entities operating in the SME ecosystem. As mentioned in Chapter 1, one of the triggers for this DBA thesis was the Voice Leadership training and mentorship program launched by Nova School of Business and Economics in 2023, targeting SMEs. The program is feeding three long-term research projects, one of them focusing on the mediating role of mentorship in SME performance. Another trigger was the *Metamorfose* program launched by Business Roundtable Portugal which also includes a Mentorship platform, to which SMEs can access via direct invitation. Unfortunately, as of January/2026, this feature has not been actively pursued, highlighting the cultural challenges posed by this type of instrument despite its tangible success when firms willingly embrace it, as illustrated by the example of Guarda in our sample. Therefore, we align by extant calls for public entities operating in the SME ecosystem to invest in sponsoring and publicizing the value of these initiatives and, potentially more effective, to find ways to bundle this type of support with the more common financial grants.

Finally, institutions closely connected to the SME ecosystem should place greater emphasis on the role of the finance function in the early stages of firm development, even when this function is initially provided through outsourced arrangements. Our findings highlight the importance of the

finance function as enabler of a ‘decision discipline’ culture for the wider organization, which may create the basis for more robust decision-making by founders in the Start-Up / Growth states. Put differently, while culture is something hardly taught through formal training, the same cannot be said of finance. A well-developed finance function provides an analytical framework through which strategic decisions can be scrutinised, thereby gradually infusing discipline, transparency, and accountability into a firm’s decision-making processes.

More broadly, if the core governance challenge for SMEs lies less in the formal adoption of board structures and more in the gradual development of a culture that embeds internal discipline in decision-making as firms increase in scale and complexity, the impact of public policy interventions in the SME ecosystem could be significantly enhanced through a bundled approach. Under such an approach, public funding instruments would be coupled with qualitative covenants—such as mandatory training and mentorship components—aimed at strengthening the awareness about the importance of robust decision frameworks.

#### **6.6.1. On SME Governance Codes**

While OLC literature is able to describe the typical patterns associated with firms’ evolution in moving from small to large organizational forms, no guidance is offered on the reverse. Yet, that is precisely the approach implicitly adopted by many governance frameworks designed for SMEs: models developed for large corporations are taken as benchmarks and then scaled down based on proportionality criteria. This bias could help explain the recurrence of Karoui et al. (2017)’s ‘Legal Fiction Board’: founders who are confronted with legal requirements without having internalized the reason why it is important to have checks and balances in strategic decision-making processes.

Against this background, it is difficult not to recognize that most SME codes other than the Dubai (2011) and IFC (2019) Codes continue to position the Board as the main apex of decision-making within the company. Drawing from the sample, we would agree with the notion that most SME codes seem more applicable to firms in the Development state – this is the point where the concept of ‘board’ can start to emerge in the perception of Founders as a more tangible tool to manage the firm’s increased organizational complexity.

However, the sample also highlights the importance of more disciplined decision making at earlier stages in the process. We believe this is where the IFC Guidebook can become a benchmark. Instead of a ‘scale down subject to proportionality’ approach, it provides valuable and pedagogical insights to firms in the Start-Up and Growth states, while emphasizing the very basic components of good ‘house keeping’, which is the basic principle behind disciplined decision-making. We therefore abide by the clear emphasis placed by the IFC Guidebook on topics related to ‘Culture and

Commitment to CG' as a key ingredient in the development of robust decision frameworks in earlier states of development.

We also need to highlight the novelty proposed by the Self-Scoring model (SSM) component of the Metamorfose program, as described in Chapter III. In fact, the questions included in the survey constitute a sort of a compendium of individual elements which, when combined, can underpin emergent decision frameworks. Therefore, as a voluntary self-assessment of governance practices, the SSM can play a powerful role in shaping a founder's approach to robust decision-making. While the Scoring is still being rolled out and may certainly require some fine-tuning, it seems a promising instrument, especially if funding entities start using its results as an additional element in their internal ratings.

## CHAPTER VII: CONCLUSIONS, LIMITATIONS & FUTURE DIRECTIONS

### 7.1. Conclusions

The research question underlying this thesis – ‘How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?’ – has led us through a long journey knitting the ever-evolving academic perspectives on governance, the various experiences with SME codes led by practitioners all over the world and empirical evidence drawn from a sample of SMEs with a long-term growth and entrepreneurial record. This section will now synthesize the main insights of this study, across the theoretical, empirical and practical dimensions, built out of the multitheoretical approach taken of both governance and OLC academic fields.

From an academic perspective, the main contribution of this thesis lies on the recognition that SME governance should be approached from a multitheoretical and multidisciplinary perspective. Frequently seen as an obstacle to SME governance research, the so-called ‘SME heterogeneity factor’ appears to be greatly contained once context dependency is explicitly acknowledged—particularly through the positioning of the firm in terms of life state and transition profile. Once that context is explicitly identified and appropriated into the analysis, we believe existing governance theories provide sufficient tools to diagnose governance challenges and inform adequate interventions. While we understand past calls for new governance theoretical models to be specifically developed for SMEs out of the need to evolve past the Agency paradigm, we believe the various streams within the governance field are sufficient to cover the governance specificities of SMEs.

Our findings suggest the core governance challenge for SMEs is less related to the adoption of formal governance structures such as boards and more to the gradual development of a culture that embeds internal discipline in decision-making processes as firms grow in scale and complexity, so that those processes become traceable and accountable. This will ultimately create the adequate environment for formal – and healthy - governance frameworks to be implemented.

Therefore, the importance given by this study to the founders’ values and organizational culture should not be surprising, as they seem to play a meaningful role in shaping decision-making frameworks in the early stages of firm development. In particular, an inherent propensity by the founder for *decision discipline* — understood as a set of foundational principles guiding how decisions are made and enacted—emerges as a critical early influence on governance practices. Mentorship, whether formal or informal, would be an adequate tool to help develop this awareness in the required cases.

Another relevant enabler for this development lies on a robust finance function, which appears to be a critical enabler for a firm to successfully transition from Growth into the Development state. Drawing from our findings, firms that establish a strong finance capability during the Growth state are more likely to complete this transition than those that do not. A further implication is that early investment in financial infrastructure increases a firm's ability to engage successfully with third-party funding entities, thereby enhancing its capacity to sustain growth over time.

While our findings confirm the importance of talent, the contribution of this research lies not in reiterating its relevance *per se*, but in identifying the specific role of external talent in accelerating the emergence of well-defined and transparent decision channels across the organization. The findings point to a virtuous interaction between talent, organizational infrastructure, and decision-making frameworks, in which each element reinforces the others.

The transition between the Growth and Development states emerges as the most complex and fragile phase in the firm's life cycle. At this juncture, organizational demands intensify while leadership styles are simultaneously tested. The challenge of shifting from a founder-centred decision model to a more collegial one becomes particularly acute. Failure to address basic organizational infrastructure, such as the finance function, or an inability to embrace delegation during this phase, may significantly increase the risk of firm failure.

For firms operating in the Development state, which already boast a relatively high degree of infrastructure development, more formal challenging mechanisms seem critical to ensure the firm does not drift towards stagnation. Advisory boards, whether formal or informal, appear an interesting tool to ensure decisions are subject to check & balances without preserving the founder's decision-making autonomy.

Importantly, the findings also show that formal governance mechanisms, including functioning boards, can emerge and reach maturity within founder-led firms, even in contexts of concentrated ownership or full ownership–management overlap. The key enabling condition is the presence of a healthy culture of checks and balances. Such a culture is sustained by the virtuous cycle identified earlier, whereby external talent supports organizational infrastructure development, which in turn strengthens decision-making frameworks.

From a policy perspective, these findings support a reconsideration of corporate legislation and public support mechanisms. Specifically, regulatory frameworks could incentivize the adoption of advisory boards at earlier stages of firm development. In parallel, the creation of mentorship pools, potentially facilitated by public entities within the SME ecosystem, could support founders during critical transitions. Aligning with existing calls in the literature, such initiatives may be most effective

if their value is actively communicated and, where possible, bundled with more traditional financial support instruments.

## 7.2. Limitations

Any empirical study such as this one, based on a qualitative design and relying on narrative enquiries as its main data source, is always subject to various limitations. The following list describes the main limitations we encountered in the various stages of the process along with possible mitigation factors.

### 7.2.1. Limitations related to sampling:

**Survivor bias:** One of the methodological delimitations of this thesis concerns the composition of the sample, which includes only companies that have followed relatively stable growth trajectories over time, measured through specific financial criteria (turnover, assets, employees). This inherent *survivorship bias* implicitly stemmed from the initial positioning of the research problem (How do decision frameworks take shape in SMEs as they navigate growth and life-cycle transitions?). As a result, the sample included many firms that already show some degree of organizational development or may be regarded as full corporations in their own right. An alternative design would have been to relax the financial criteria and/or resort to other, non-quantitative, variables, thereby enabling the inclusion of a more heterogeneous set of firms, where diverse growth patterns — including episodes of rupture or decline — could also be observed and analyzed. However, this would have required two substantial changes to this study: a different research question, to begin with, and a substantially larger sample size, which was not feasible within the temporal and resource constraints of this project. The framing of the research question therefore made it necessary to apply clear and objective criteria in defining the sample, hence respecting the purposeful sampling strategy proposed by Flick (2024) (2024). Having said this, the sample proved to be very diversified in various dimensions (sector, nature of the firm, maturity, ownership, etc) and the resulting archetypes contain examples of firms which currently stand at cross-roads, with potential impact on their future growth trajectories – past growth is not an assurance of future success.

**Representativeness:** Despite the focus put on growth as a key sample selection criteria, most selected firms remain small to medium in statistical terms and only one of them currently surpasses EUR1bn turnover. This could lead to generalization issues, implying a lack of representativeness of the sample. However, it is worth recalling that this is a thesis positioned in qualitative territory, where the goal is to explore depth rather than representativeness. Also, the study focuses on *recent* growth stories, where respondents still have a clear memory of the key decision milestones that led to the

firm's current position. Including larger, more mature companies would have increased the risk of recall bias and of responses being shaped by established, consolidated decision frameworks. This would have made it harder to extract unfiltered insights into the challenges of transitioning toward more structured decision frameworks. On a secondary note, we are aware that the available financial data likely underestimates the firms' real size in various cases, as noted in Annex 2 – Firm Profiles & Technical notes and explained further below.

### 7.2.2. Limitations related to data collection:

**Financial data:** Financial data was exclusively extracted from the financial database provider SABI, to ensure conceptual and longitudinal consistency, therefore strengthening the internal coherence of the analysis. However, this choice also entailed important limitations. In several cases, reported figures are likely to underestimate the true scale of the firm's operations, because consolidated accounts are unavailable, incomplete, or filed in jurisdictions which are not accessible through the data source. As a result, turnover figures may reflect only a partial view of the firm's real dimension leading some firms to be categorized as medium-sized despite having already reached the scale of large enterprises. This limitation must be kept in mind when interpreting results that depend on size classifications or revenue-based thresholds.

**Narrative self-reinforcement bias:** While the interview guide was deliberately flexible in order to capture the specific elements of each narrative, that flexibility also provided respondents ample space to present their own personal perspective on the firm's trajectory. Most of them still hold double roles as founders and managers of firms which have experienced significant growth. It is possible that some answers may be biased by an inevitable element of pride in the way respondents discuss their achievements. At the same time, the interview's flexible format meant the conversation flow largely depended on topics the participants felt were more important from their own perspective. This resulted in very diverse interviews across the sample in which not all elements were equally valuable for the purpose of the thesis.

**Over reliance on single respondents:** We have assumed that a firm within the sample that has reached the stage of establishing a formal Board or executive committee can be classified as a mature firm with professionalized management, even when an overlap between ownership and management persists. This assumption is consistent with a relaxed interpretation of Ingley et al.'s (2017) integrative model. However, in most cases where this governance structure is present (e.g., Cordoba, Escorial, Kripan, Lugo, Porto, Regua and Santarem), no other board members were interviewed, therefore limiting our ability to assess whether they possess genuine capacity to challenge the founders' authority.

Nevertheless, three cases provide relevant insights. In Aveiro, the recently appointed Chief Financial Officer emphasized the founder's deliberate effort to foster checks-and-balances dynamics within the Board. Similarly, in the case of Regua, the owner, who occupies a non-CEO C-level position, strongly highlighted the role of managerial talent in enabling constructive challenge and strengthening decision-making processes. In this case, failure to have introduced such capabilities could have jeopardized the firm's survival, given the radical shift in its contextual operating environment. Finally, Cordoba offers an additional illustration: although the participant is both founder and Chief Executive Officer, she openly acknowledged a preference for losing a committee vote rather than imposing her own decision, in order to preserve the quality and openness of deliberation among committee members.

### 7.2.3. Limitations related to context

**Macroeconomic context:** We have not included economic variables as contextual factors in our analysis, as our approach is based on long-term financial data sets that inherently capture periods of economic distress. Depending on the firms, these data sets encompass major events such as the 2008 Great Financial Crisis, the 2010-2012 European Sovereign debt crisis, which especially affected Iberian countries, and the COVID-19 pandemic. As a result, all firms within the sample have been exposed to economic downturns at some point of their trajectories.

**Confirmability** (Guba & Lincoln, 1994): The exercise of classifying firms based on theoretical models emerged from narrative-based interviews rather than standard assessment tools, such as closed-question scripts. The process therefore entails a significant level of researcher reflexivity and interpretive judgment. An alternative, more positivist-driven, design could have involved the prior specification of attributes and the development of a closed interview script. However, such a rigid protocol would have proved inadequate for the very senior profile of participants. It is thus acceptable that other researcher could have placed different emphasis or drawn different conclusions based on the same dataset. Therefore, the categorizations presented in this thesis – and the interpretive value attributed to the narratives anchored in those categorizations - should be seen as a coherent reading of the data but not the single or definitive one.

### 7.3. Future directions

This study opens several avenues for future research on the development and robustness of decision frameworks in owner-managed and growing firms. We believe the largest avenue opened by this thesis points in the direction of further convergence between the governance and OLC fields through more research on the embeddedness of 'decision frameworks' within the 'organizational

infrastructure' of a firm. We also believe this convergence would be better served by qualitative, process-focus, research paradigms.

In more detail, we believe there is scope to investigate the link between the complexity of organizational infrastructure and the development of decision frameworks. While OLC theories have identified a phase in which formalization of procedures and practices becomes a priority as firms transition from venture to corporation, the governance implications of this process remain underexplored. Specifically, it is still unclear to what extent increased formalization enhances transparency in decision structures and which governance mechanisms are most effective as this process unfolds. As firms expand their operational scope, research could identify which organizational elements become most relevant for strategic decision-making, potentially adopting a sector-specific perspective. Future studies could pay attention to which elements in an organizational setup come first and which are more helpful in supporting the development of decision frameworks.

Future research may also assess the role of external talent in fostering healthier, less founder-centred decision-making frameworks. Although the stand-alone effects of professionalization and governance structures have been widely studied, their combined impact on the robustness of internal decision frameworks calls for further empirical investigation.

Further research could examine the relationship between the capital intensity of growth decisions and the evolution of decision frameworks in owner-managed firms. In particular, future studies may explore whether increased personal capital at risk creates stronger incentives to formalize and strengthen decision frameworks.

Additional research could focus on board dynamics in founder-led firms, further developing the work carried by Karoui et al. (2017) and Liljeström et al. (2025), particularly in archetypes where boards continue to be dominated by founder-managers. Future studies could also explore the nature and impact of advisory provided by formal or informal bodies in contexts of concentrated ownership.

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## ANNEX 1: OECD Guidelines for Non-Listed Companies in Emerging Markets (2006)

### Annex 1 - IFC methodology

#### A. Commitment to Good Corporate Governance

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1. **Ownership structure.** Please provide a chart setting out the important shareholdings, holding companies, affiliates and subsidiaries of the company, indicating *ultimate beneficial* ownership and percentages of shares held by each.

2. **Governance structure.** Please provide a chart setting out the governance structure of the company, indicating the principal organs of the company's governance and to whom each reports (including the Shareholders Meetings, the Board of Directors, any Board committees, senior management, internal audit, external audit and principal management units).

3. **Major transactions and material events.** Please provide a timeline of major transactions and material events for the past five years (in particular, corporate acquisitions, mergers, restructurings and sales or purchases of major assets, etc.).

4. **Organic documents.** Please provide an English translation of the company's charter and other organic documents.

5. **Policies relating to corporate governance.** What written policies, codes or manuals have been elaborated that set out the company's approach to governance, the respective roles, responsibilities and composition of the Board, disclosure and transparency practices, and treatment of minority shareholders? Please provide IFC with English translations.

6. **Corporate events calendar.** Does the senior management and the Board approve an annual calendar of corporate events, including Shareholders Meetings and meetings of the Board of Directors?

7. **Company corporate governance code.** Does the company have a Corporate Governance Code (or "Policy" or "Guidelines") that outlines the governance practices of the company and, in particular, the role of the Board? What are the company's procedures for monitoring its compliance with the Corporate Governance code?

8. **Country corporate governance code.** Are the board and the senior management familiar with the voluntary code of corporate governance for the country (if such code exists)? Does the company comply with all those provisions of the code that are applicable to unlisted companies? Are there any explanations where it doesn't?

9. **Code of Ethics.** Does the company have a code of ethics? Please provide IFC with an English translation. What employees are subject to it? How are the company's ethical precepts communicated to employees? How is compliance overseen and enforced?

10. **Compliance responsibility.** Is a Board member or senior manager explicitly charged with responsibility for ensuring that the company complies with the law, its charter and its policies regarding corporate governance (i.e. the role of the Board, transparency and disclosure, treatment of shareholders), and code of ethics?

11. **Shareholders agreements.** Please provide details and translations of any shareholders' agreements or other informal arrangements among all or some shareholders.

12. **Succession planning.** What has been the history of succession of the chief executive officer? Does the company have a *written* policy concerning succession planning? How much longer does the current chief executive intend to remain in this position? Has a successor been identified and agreed upon by the family?

13. **Family tree and share ownership.** Please provide a family tree and accompanying explanation indicating the name, residence, occupation, birth-date and share ownership of each family member. Which family members are currently employed or are likely to be employed by the company or its subsidiaries in the foreseeable future? Which generation of the family has effective control of the company (founder, siblings, cousins, or later generations)?

14. **Family shareholding blocs.** Is there an informal arrangement or formal shareholders' agreement that aggregates the family members' shareholdings into one or more shareholding blocs? Are the family's shareholdings owned by intermediary entities, such as one or more family trusts, foundations or holding companies, or do individual family members own the shares separately?

15. **Family/non-family senior management.** Which members of the senior management are members of the controlling family and which are non-family managers?

16. **Family-member employment.** Does the company have a *written* policy concerning family-member employment and related human resources issues, such as recruitment, promotion and employment-termination for family members?

17. **The next generation.** Is it expected that management will continue in the next generation of the family when the current generation reaches retirement? Does the family have plans for how the next generation of the family will be prepared for working in the company?

How will family members be selected to work in the company or will all family members have the right to work in the company?

18. **Non-family share ownership.** Does the company have a *written* policy concerning non-family share ownership?

19. **IPO readiness.** In terms of governance practices, is the company close enough to best practices among listed companies to qualify to make an IPO or, at least, access the public debt markets?

## **B. Structure and Functioning of the Board of Directors**

1. **Establishment of a Board of Directors.** Does the company have a Board of Directors, which meets according to a regular schedule? What has been the company's historical experience with its Board of Directors? When was the Board established? How often does it meet?

2. **Board policies.** Please provide English translations of any policies or by-laws relating to the Board of Directors.

3. **Agenda and minutes.** Is an agenda prepared and distributed in advance of Board meetings? Are minutes prepared and approved after the Board meetings?

4. **Current Board membership.** Please provide a list of the current members of the Board with summary CVs indicating, at a minimum, their affiliations with the company, management and controlling shareholders, and other companies on which such persons sit as Board members.

5. **Composition of the Board.** As a practical matter, how is the composition of the Board of Directors determined? Are there any shareholder agreements or provisions of the company's charter that specify which shareholders appoint directors? Are there any informal understandings?

6. **Non-family and "independent" Board members.** Does the Board include non-family members? Are these non-family members "independent" of the controlling family, of other significant shareholders and of the senior management? (See IFC model definition of "independent".) Who are the independent members of the Board of Directors and how were they selected? What compensation do independent (and other) directors receive for their services?

7. **Skill mix.** What sorts of business and other experience are represented on the Board? What efforts are made to ensure an appropriate mix of skills and experience among Board members?

8. **Functioning of the Board.** Does the Board of Directors serve the classic functions of a Board (providing guidance to and monitoring the performance of the senior management for the benefit of all shareholders) or is the Board's primary function to act as a meeting of shareholders or a meeting of senior family members?

9. **The Board and the management team.** Are senior managers members of the Board or do they, in any case, routinely attend Board meetings? What is understood as the role of the Board vis-à-vis management, particularly with respect to the following?

- \_ Setting strategy and vision of the company;
- \_ Selection of CEO and senior management;
- \_ Oversight of internal controls, external audit and preparation of financial statements;

- \_ Major capital expenditures and large-value transactions; and
- \_ Human resources policy.

10. **Audit and other standing committees.** Does the Board of Directors have an audit committee or other standing committees, such as nomination, compensation or conflicts of interest? How are these committees established? Do they have written terms of reference? Who sits on them, and how do they function?

11. **Conflicts of interest and related party transactions.** Does the company have any special rules and procedures regarding Board review of transactions that involve conflicts of interest and related parties? Please provide a summary of these rules and procedures and a table of related party transactions reviewed by the Board or committees of the Board over the past three years.

12. **Board evaluation.** Does the Board conduct self-evaluations or other reviews of its effectiveness? How are such reviews conducted and with what frequency?

13. **The Board and the family.** What is understood as the role of the Board vis-à-vis the family?

14. **Advisory Board.** If the Board does not include outside members, or if no Board exists, does the company have an Advisory Board of independent professionals that is consulted on a regular basis? If such Advisory Board exists, who are its members and how were they selected?

### **C. Internal Control Environment; Transparency and Disclosure**

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1. **Internal audit and internal controls.** Please describe the company's internal controls and internal audit process. Does an independent external auditor review this system periodically? Does the company possess an internal audit function? How is it organized and to whom does it report? Is the internal auditor responsible for testing the company program for compliance with laws and regulations and company policy? Does the external auditor report on the adequacy of the company's system of internal controls?

2. **Information dissemination.** Please summarize the company's policies and practices with respect to the preparation and dissemination of periodic financial and non-financial information about the company. Who in the company is responsible for the preparation and approval of this information? Do lenders and outside shareholders receive this information? What are the company's policies with respect to dissemination of information concerning occasional material events?

3. **External audit and external auditors.** Are the annual financial statements audited by independent external auditors and approved by the shareholders' meeting? How are the external auditors selected? To whom, in form and in practice, are the external auditors responsible? Is it the company's policy to rotate the external auditors? Is the external auditor a recognized accounting firm? Who, in the company, has access to the working papers and management letters ("deficiency letters" or "recommendation letters") prepared by the external auditors?

4. **Financial reports.** How often does the company prepare financial reports (quarterly, biannually, or annually)? Are these reports approved by the board?

5. **Shareholders agreements.** Are shareholders' agreements with or among the controlling shareholders disclosed to all shareholders? Are shareholders' agreements registered with the securities regulator?

6. **Disclosure to interested parties.** How does the company ensure that all financial stakeholders of the same class (e.g. the controlling family, minority shareholders and lenders) are treated equally with respect to financial statements and other information on the company and have equal access to the same sets of accounts? How does the company ensure equitable treatment of all shareholders in the release of financial and non-financial information, including company strategy?

#### **D. Treatment of Minority Shareholders**

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1. **Ultimate beneficial ownership.** Does the company keep a record of *ultimate beneficial* owners of all shareholdings, which is disclosed to all shareholders?

2. **Differentiated classes of equity and quasi-equity securities.** Please outline the principal terms of, and differences in voting rights and cash flow rights between the company's various classes of equity and quasi-equity securities. Are there any "founder shares"? What are the characteristics of these?

3. **Shareholders Meetings.** Does the company have an Annual General Shareholders Meeting? If so, please provide a timetable for the annual meeting. When is the agenda provided? Are all shareholders provided with all material information in advance of shareholders' meetings? How can minority shareholders add items to the agenda? Under what circumstances does the company hold Extraordinary Shareholders Meetings?

4. **Attendance and results of Shareholders Meetings.** Please provide a summary of the attendance and results of all Shareholders Meetings (annual and extraordinary) for the past three years, including the shareholders represented, agenda items and record of votes.

5. **Related party transactions.** Please provide a table of related party transactions and other operations of the company that required shareholder approval over the past three years.

6. **Changes of control.** What would be the treatment of minority shareholders in the event of a change of control of the company? Are there tag-along rights for minority shareholders that require the new controller to make an offer to purchase their shares at the same price and conditions?

7. **Minority shareholder nomination of Board members.** What mechanisms, if any, permit minority shareholders to nominate members of the Board (cumulative voting, block voting, etc.)? Have such rights been exercised in the past?

8. **Special voting procedures.** Are there any types of transaction or events that require some sort of special voting procedures (such as supermajority approval by the shareholders, or majority vote of minority shareholders)?

9. **Transfer of shares.** What are the company's policies with respect to the sale and transfer of shares, either by the family shareholders or by the minority shareholders?

10. **Family Council.** Are there formal or informal mechanisms for coordinating the participation of family-member shareholders in the governance of the company? If the number of family members is large or if a substantial proportion of the family members are not working in the business, has a Family Council been established?

CORPORATE GOVERNANCE PROGRESSION MATRIX FOR FOUNDER/FAMILY – OWNED (UNLISTED) COMPANIES				
ATTRIBUTES	LEVEL 1 <i>Understanding the need to professionalize the Company</i>	LEVEL 2 <i>First concrete steps toward best practices</i>	LEVEL 3 <i>Implementation of best practices</i>	LEVEL 4 <i>Leadership</i>
<b>A. COMMITMENT TO CORPORATE GOVERNANCE</b>	<ul style="list-style-type: none"> <li>- The basic formalities of corporate governance are in place including:                             <ul style="list-style-type: none"> <li>- Board of Directors;</li> <li>- Annual Shareholders' meeting;</li> <li>- Shareholders and shareowners identified and recorded.</li> </ul> </li> <li>- Board member or high-level company executive explicitly charged with responsibility for improving corporate governance practices.</li> </ul>	<ul style="list-style-type: none"> <li>- Written policies established addressing key elements in family firm governance:                             <ul style="list-style-type: none"> <li>- Succession planning ;</li> <li>- Human resources and family-member employment;</li> <li>- Non-family-member share ownership.</li> </ul> </li> <li>- Management/Board approves annual calendar of corporate events.</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate Governance policy covers:                             <ul style="list-style-type: none"> <li>- Role of Board vis-à-vis management;</li> <li>- Long-term planning for corporate governance of company commensurate with business plan.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Applicable corporate governance, accounting, auditing and internal controls, and shareholder information practices are equivalent to those in place at best practice public companies (<i>i.e.</i> little would need to be done to qualify to make a public offering).</li> <li>- Company fully complies or explains any deviations from all applicable provisions of voluntary code of best practices of the country (some elements of which may be applicable only to public companies).</li> </ul>
<b>B. STRUCTURE AND FUNCTIONING OF THE BOARD OF DIRECTORS</b>	<ul style="list-style-type: none"> <li>- Board of Directors constituted and meets periodically.</li> </ul>	<ul style="list-style-type: none"> <li>- Board Meetings held according to a regular schedule, agenda prepared in advance, minutes prepared and approved.</li> <li>- Non-family members (probably company executives or ex-executives) appointed to the Board and core competency (skill mix) review of Board conducted, or advisory Board of independent professionals established and consulted on a regular basis.</li> </ul>	<ul style="list-style-type: none"> <li>- Board composition (competencies/skill mix) adequate to oversight duties.</li> <li>- Annual evaluation conducted.</li> <li>- Audit Committee of non-Executive Directors established.</li> <li>- Directors independent of management and owners appointed to the Board (perhaps "graduated" from the advisory Board).</li> </ul>	<ul style="list-style-type: none"> <li>- Audit committee composed entirely of independent directors.</li> <li>- Nominating Committee established.</li> <li>- Compensation Committee established.</li> </ul>

ATTRIBUTE	LEVEL 1 <i>Understanding the need to professionalize the Company</i>	LEVEL 2 <i>First concrete steps toward best practices</i>	LEVEL 3 <i>Implementation of best practices</i>	LEVEL 4 <i>Leadership</i>
<b>C. INTERNAL CONTROL ENVIRONMENT; TRANSPARENCY AND DISCLOSURE</b>	<ul style="list-style-type: none"> <li>- Adequate accounting and auditing systems in place including:                             <ul style="list-style-type: none"> <li>- Adequate internal accounting and control system periodically reviewed by independent external auditors and Quarterly financial reports prepared by internal accounting and approved by the Board;</li> <li>- Annual financial statements audited by independent external auditors and approved by Shareholders' Meeting.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Accounting and auditing performed in accordance with <b>highest national standards</b> and audit performed by recognized accounting firm.</li> </ul>	<ul style="list-style-type: none"> <li>- Accounting, auditing and internal control systems up to <b>international standards</b>.</li> </ul>	
<b>D. SHAREHOLDERS</b>	<ul style="list-style-type: none"> <li>- All shareholders kept informed of company policy, strategy and results of operations.</li> <li>- Annual shareholders' meetings held.</li> </ul>	<ul style="list-style-type: none"> <li>- Shareholders provided with all material information and detailed agenda in advance of shareholders' meetings.</li> </ul>	<ul style="list-style-type: none"> <li>- Family council established (if number of family members large or substantial portion are not working in the business).</li> </ul>	<ul style="list-style-type: none"> <li>- Company in position to quickly implement all aspects of best practice code with respect to shareholders when company to go public.</li> </ul>

Source: Copyright 2005, International Finance Corporation

## ANNEX 2: Firm Profiles & Technical Notes

### Technical Notes:

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- **On financial data:**

1. All financial data was extracted from Sabi INFORMA, a subsidiary of Moody's Analytics which gathers financial and other corporate information for listed and non-listed firms. Databases were accessed via Universidad Pontificia Comillas and Nova School of Business and Economics, where the Author also lectures.
2. For the purpose of this thesis, the period under analysis ranged between 10 to 20 years, with data extracted until the most recent year available in Sabi (2022, 2023 and 2024, depending on the companies). The general rule was to consider data since 2004 for firms incorporated before 2000; shorter periods mean the firm may have been incorporated at a later stage and/or may have been sold to new investors at some point in the recent past.
3. Analysis focused on the evolution of sales, assets and number of employees, in order to match the three variables used to assess a firm's size classification for statistical purposes. All values were rebased to the first year of the period of analysis for each firm.
4. In some cases, financial data retrieved from Sabi failed to display values for some years. The option was to use the immediate prior year's values to cover for missing data – we feel this is a conservative mitigation measure as it implies assuming zero growth between those years, which was probably not the case.
5. Sabi normally provides data for both individual and consolidated accounts but there may be exceptions to this pattern. For the purpose of this analysis, consolidated accounts were used whenever possible. When that was not possible, data refers to the main corporate entity within the economic group. The main implication of this choice is that the data presented will likely underestimate the real dimension of the firm. In other cases, the firm decided to start presenting consolidated accounts at some point during the period of analysis; in these cases, individual accounts were used so as to preserve the longitudinal series' integrity. Again, this option may underestimate the dimension of the firm by the end of the period.

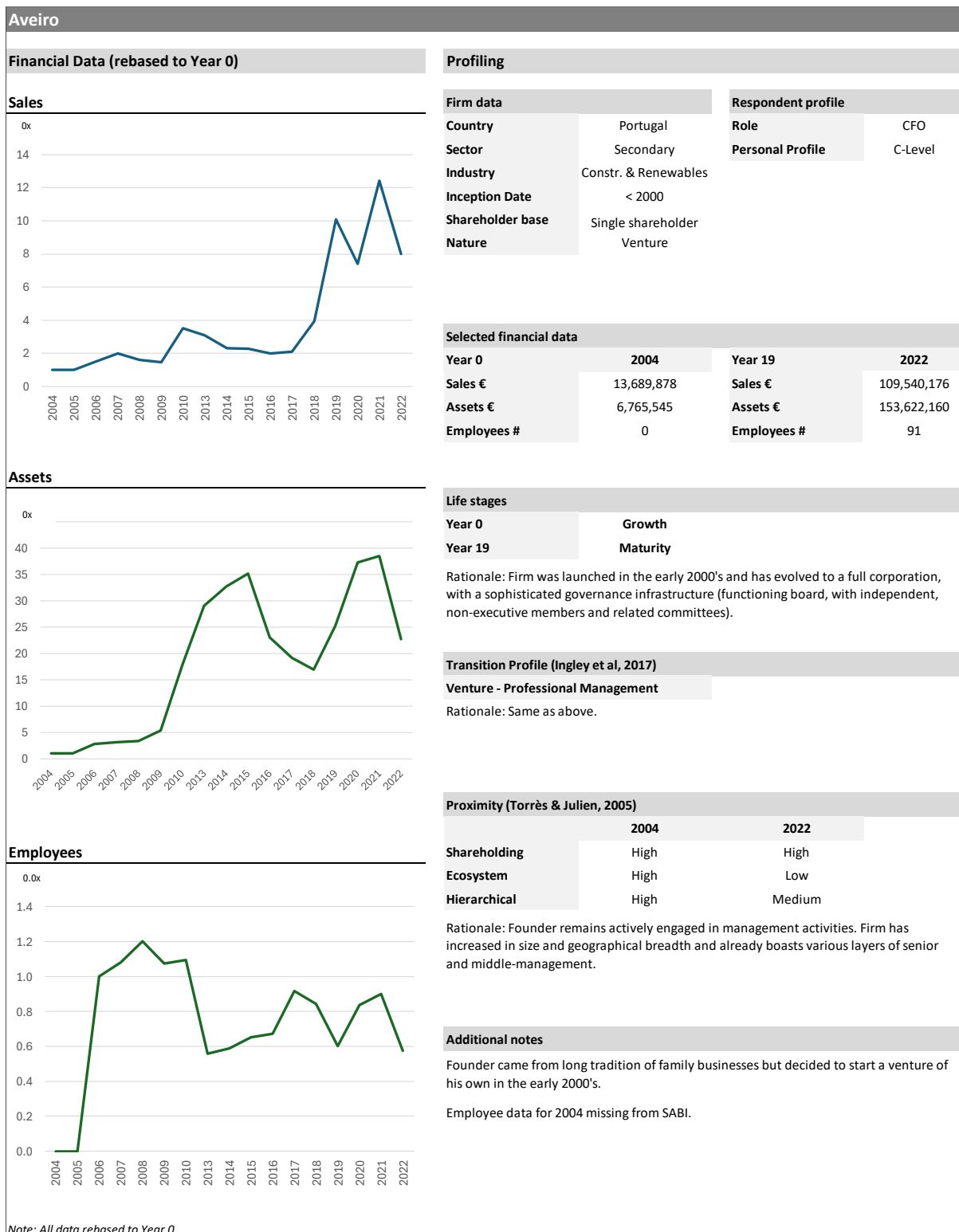
- **On firm categorization:**

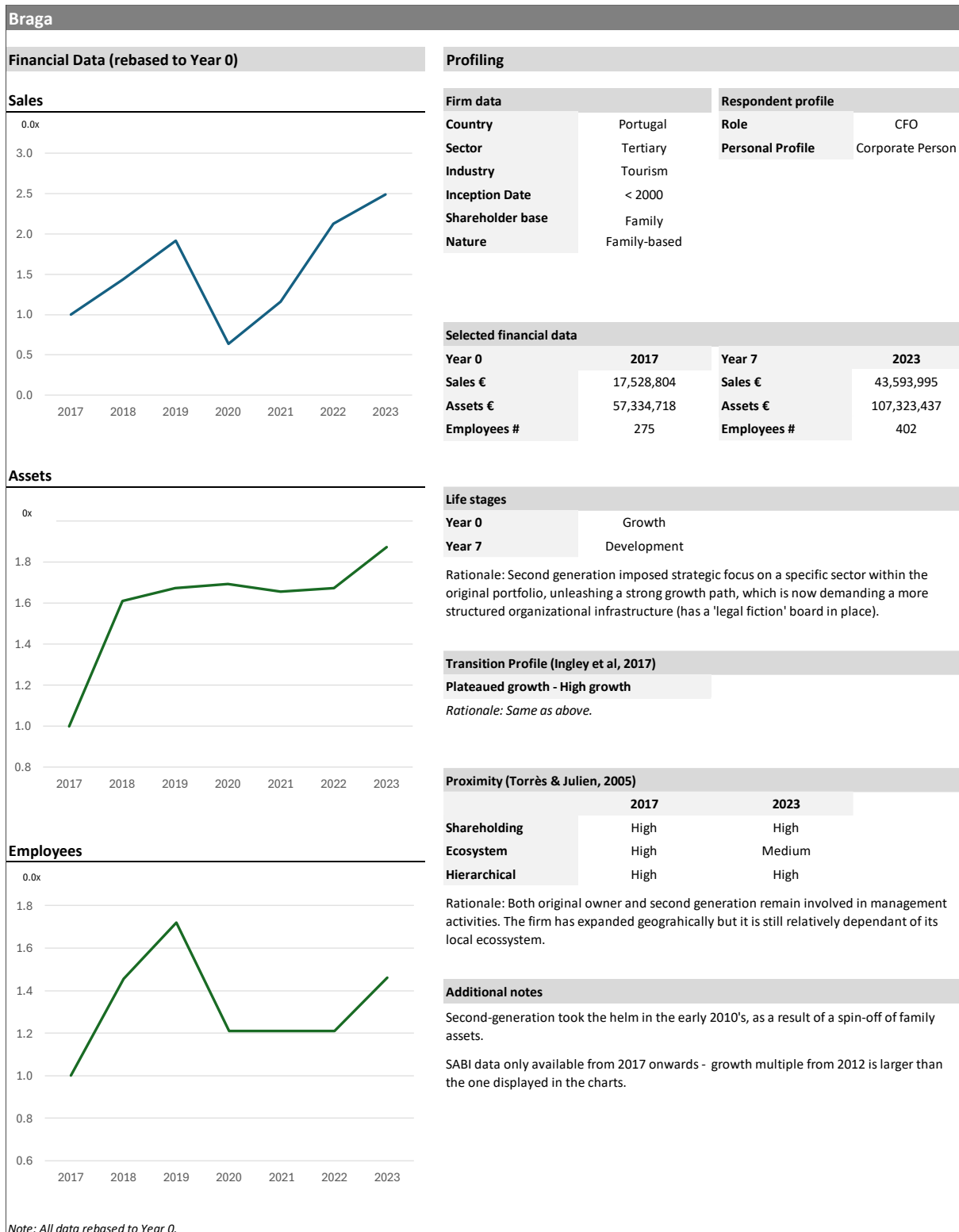
1. To help provide more colour on the evolution profile of each firm over time, we have used the various theoretical models discussed in the Literature Review chapter, as well as models presented in the Practitioners' chapter. Drawing on the information gathered during the interviews, firms were categorized against three models, as follows:

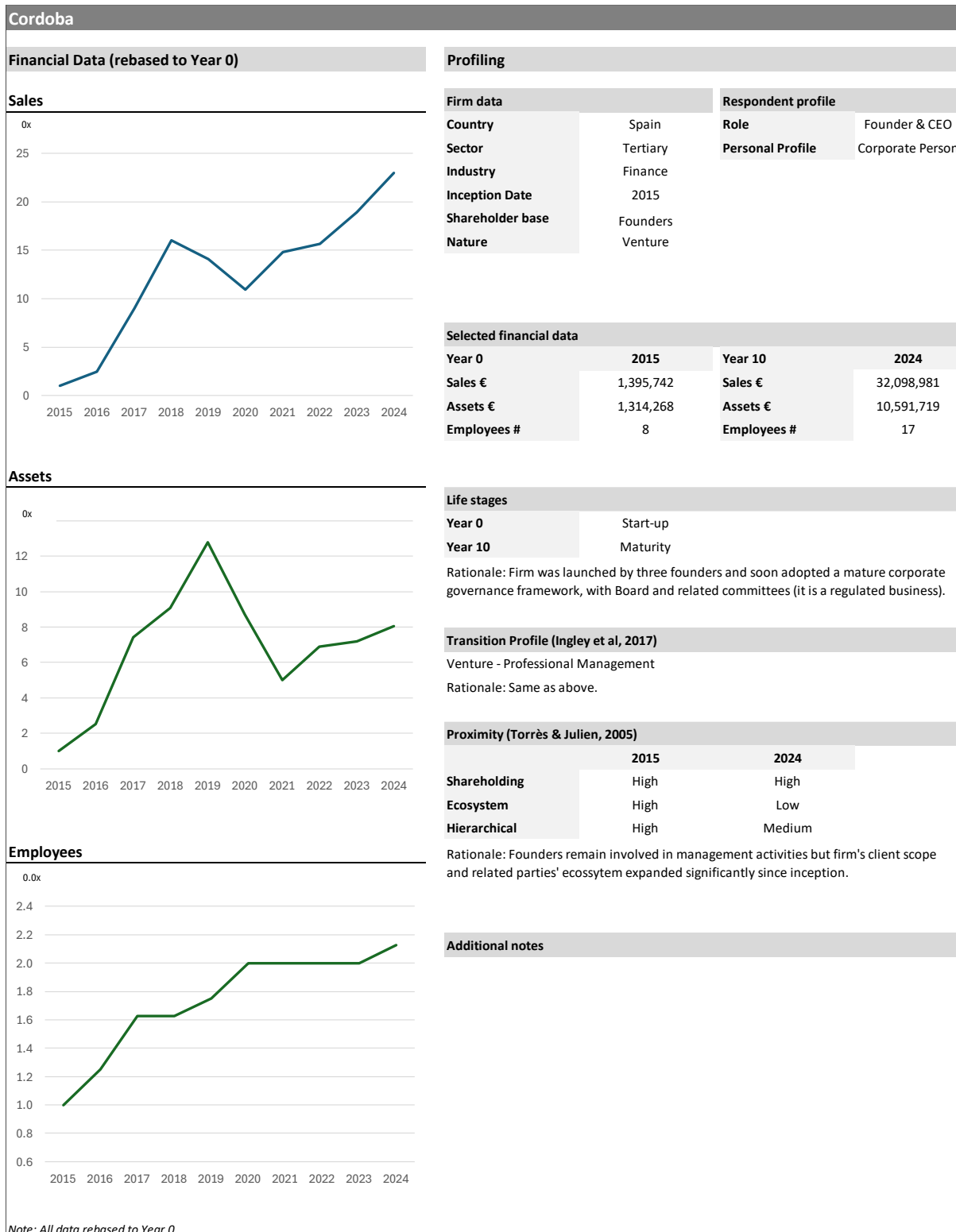
- a. IFC's 'life stages' model was used to position the firm in terms of the four possible life stages: Start-up, Active growth, Organizational Development and Business Expansion. For the purpose of our classification and merely for simplicity reasons, we renamed these four stages as: Start-up, Growth, Development and Maturity. Please refer to Figures 8 and 9 in Chapter III for a complete overview of the model and to Table XX in Chapter IV for the granular criteria applied to the sample.
- b. Ingley et al (2017)'s model was used to describe the 'transitioning profile' of the firm between the first and last years of the period of analysis. We did not consider what may have happened in intermediate stages but only the status of the firm at the beginning of the period and its status by the end of the period of analysis. Please refer to Table 29 in Chapter V for an overview of the granular criteria applied to the sample.
- c. Torres and Julien (2005)'s 'SME Proximity model', as presented by Ingley et al (2017), was used in a similar fashion, identifying the status of the firm at the beginning and end points of the period of analysis, with the three 'proximity' categories ranked from 'high' to 'low'. As mentioned in Chapter II, the three concepts can be summarized as:
  - 'Shareholding proximity': degree of closeness of the relationship between owner and managers and how that translates into communication routines (very or little fluid);
  - 'Ecological proximity': dimension and degree of interconnectedness of the ecosystem of external stakeholders, including institutional ones, in which the firm operates;
  - 'Hierarchical proximity': intensity of the role played by the founder/general manager in terms of defining management style and firm culture.

Please refer to Table 28 in Chapter V for an overview of the granular criteria applied to the sample.

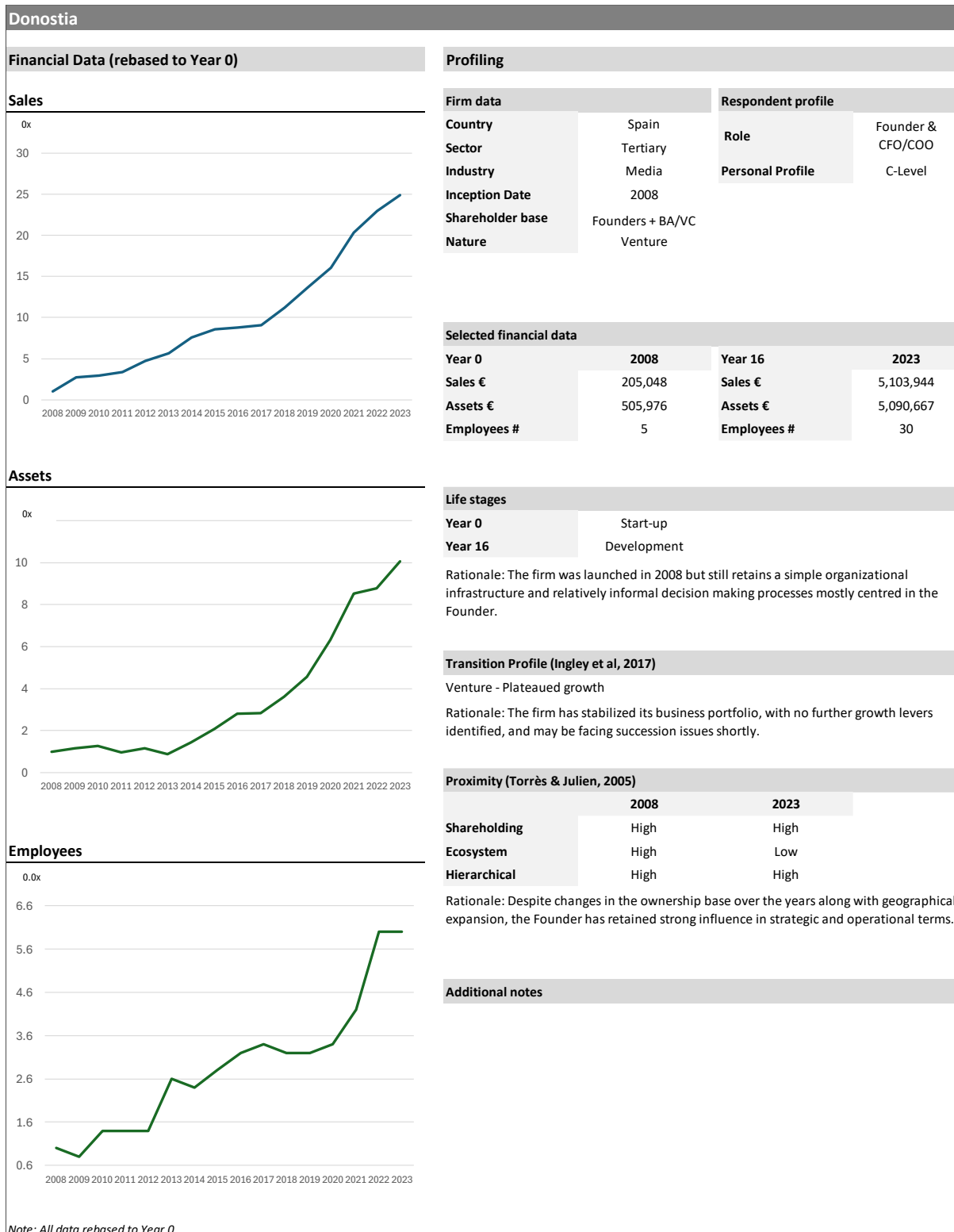
- **On the participant's personal profile:**
  1. Every participant was categorized in terms of his/her role in the firm (Founder, CEO, CFO, COO, other C-level, etc).
  2. Participants were also split in three more subjective categories: 'entrepreneurs' for those cases in which the business has been launched with a view to a future sale; 'Corporate Person' for those where there is long-term commitment to the business and; C-level, for members of the board holding positions other than CEO.



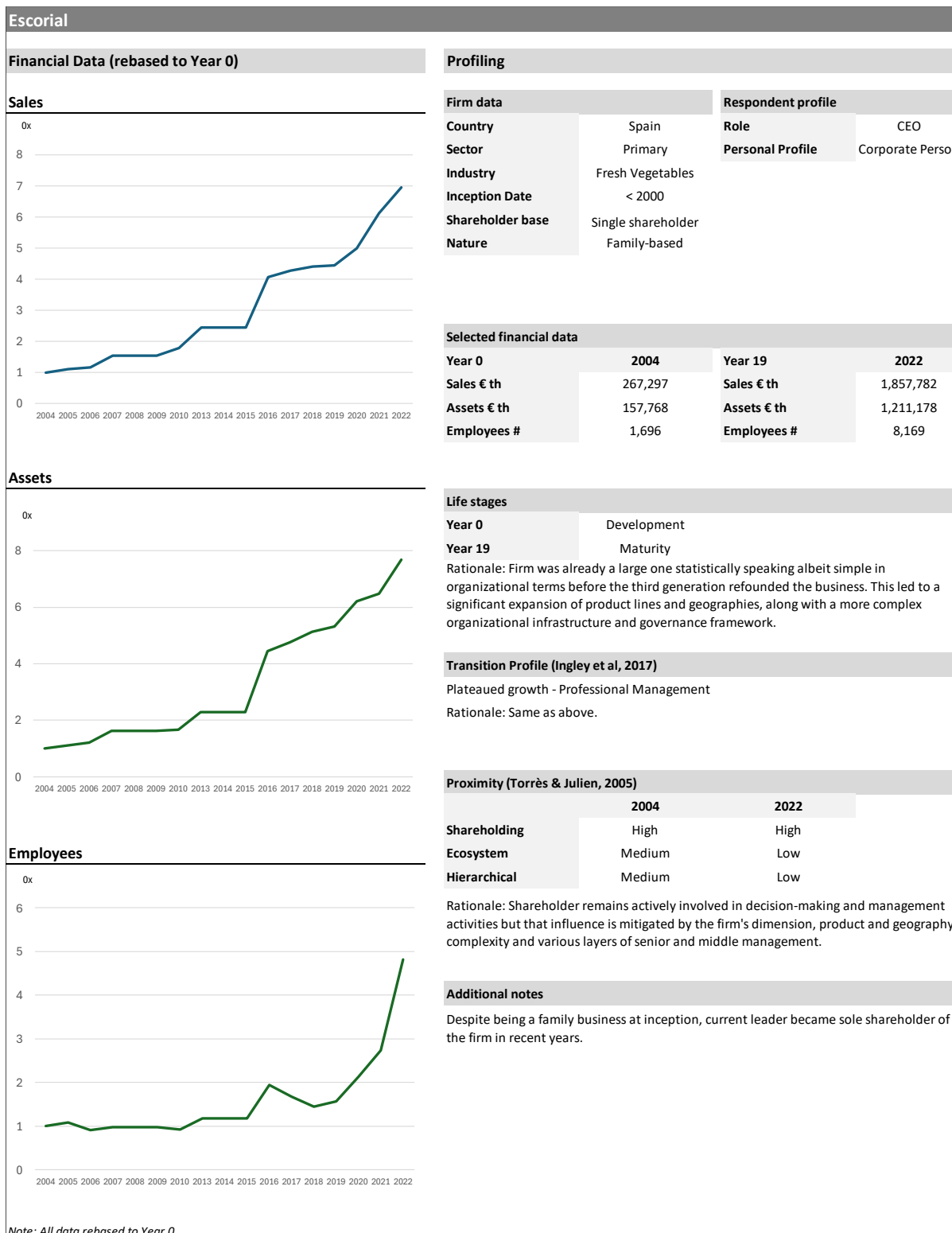




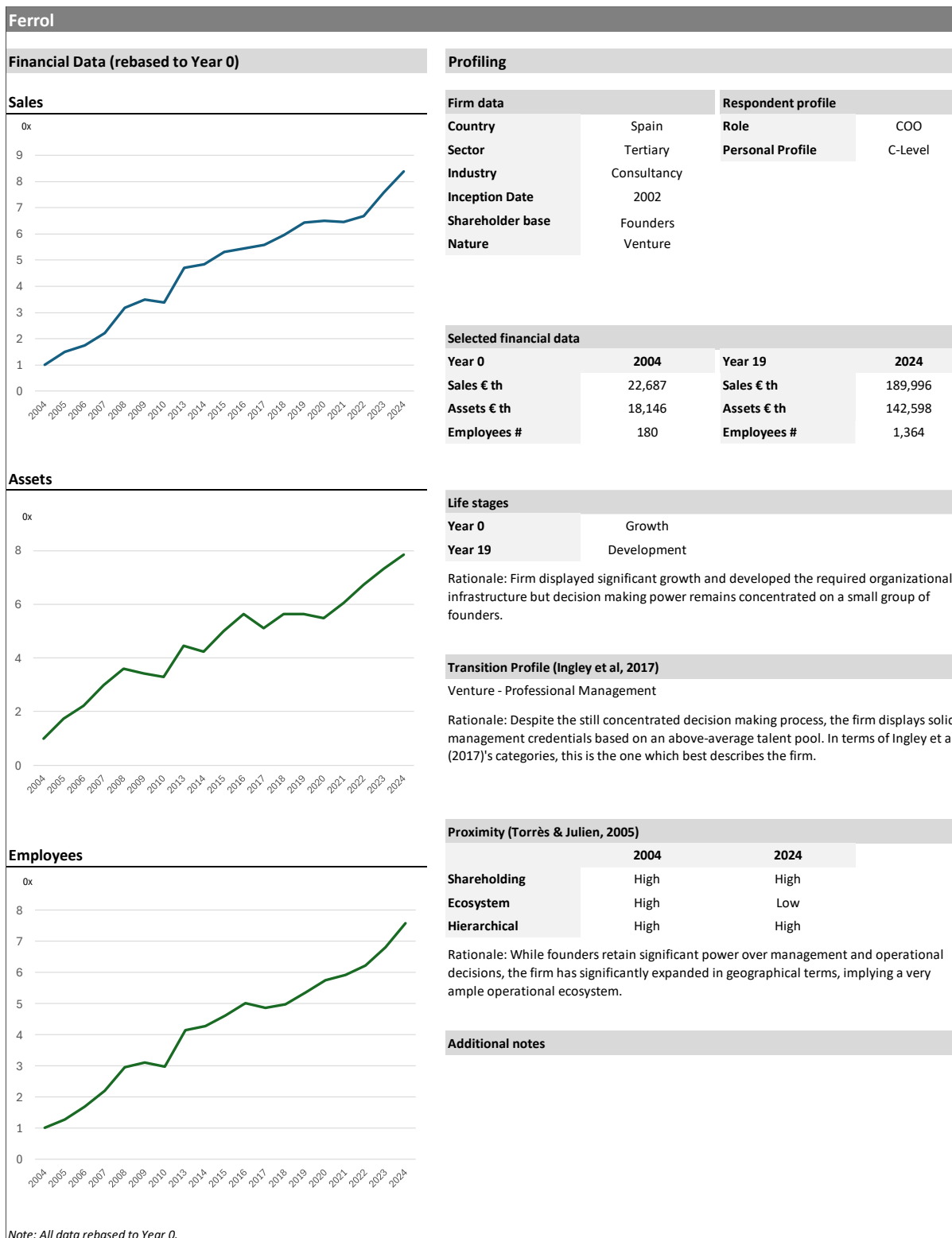
Source: Author's own elaboration. Financial data from SABI.



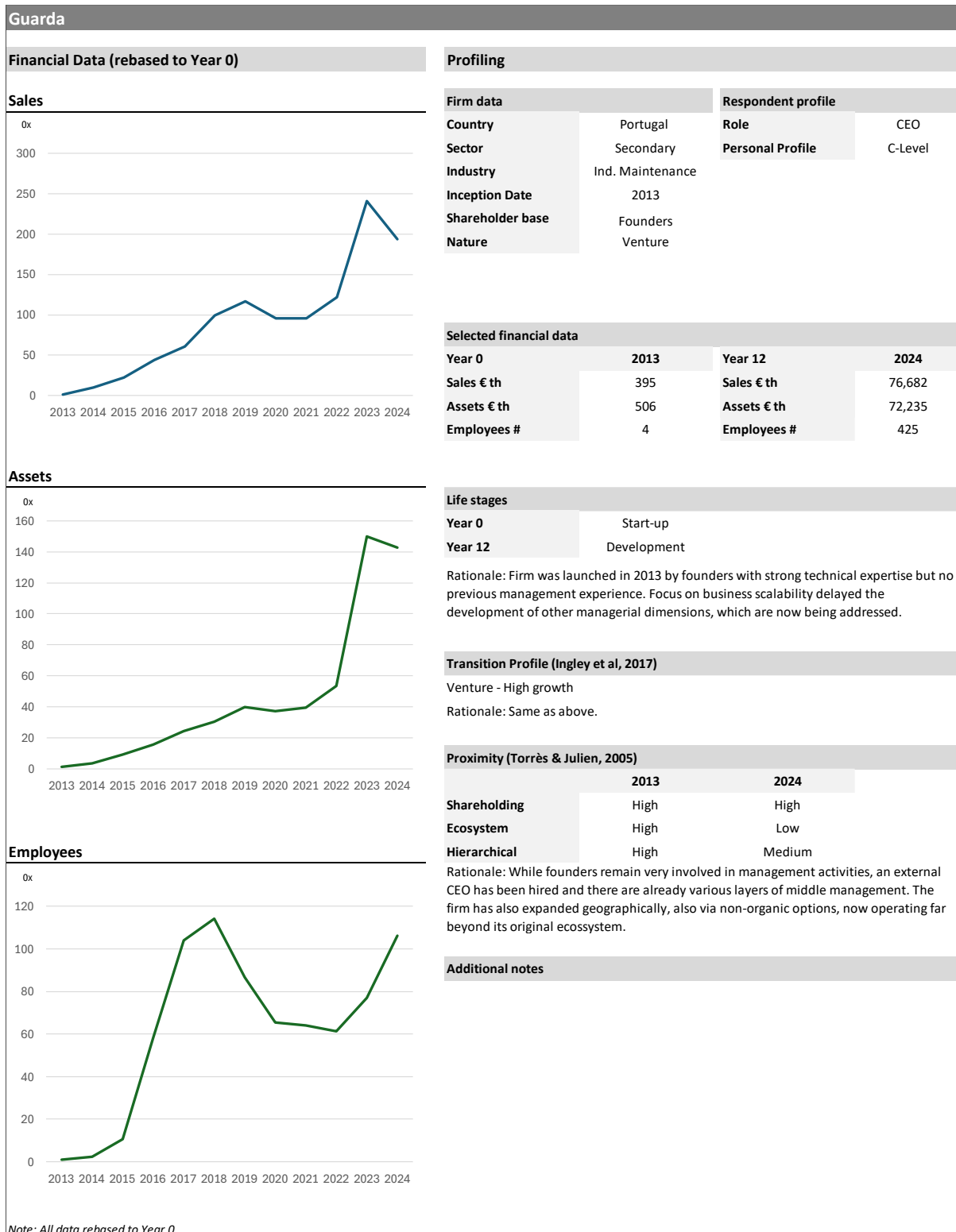
Source: Author's own elaboration. Financial data from SABI.

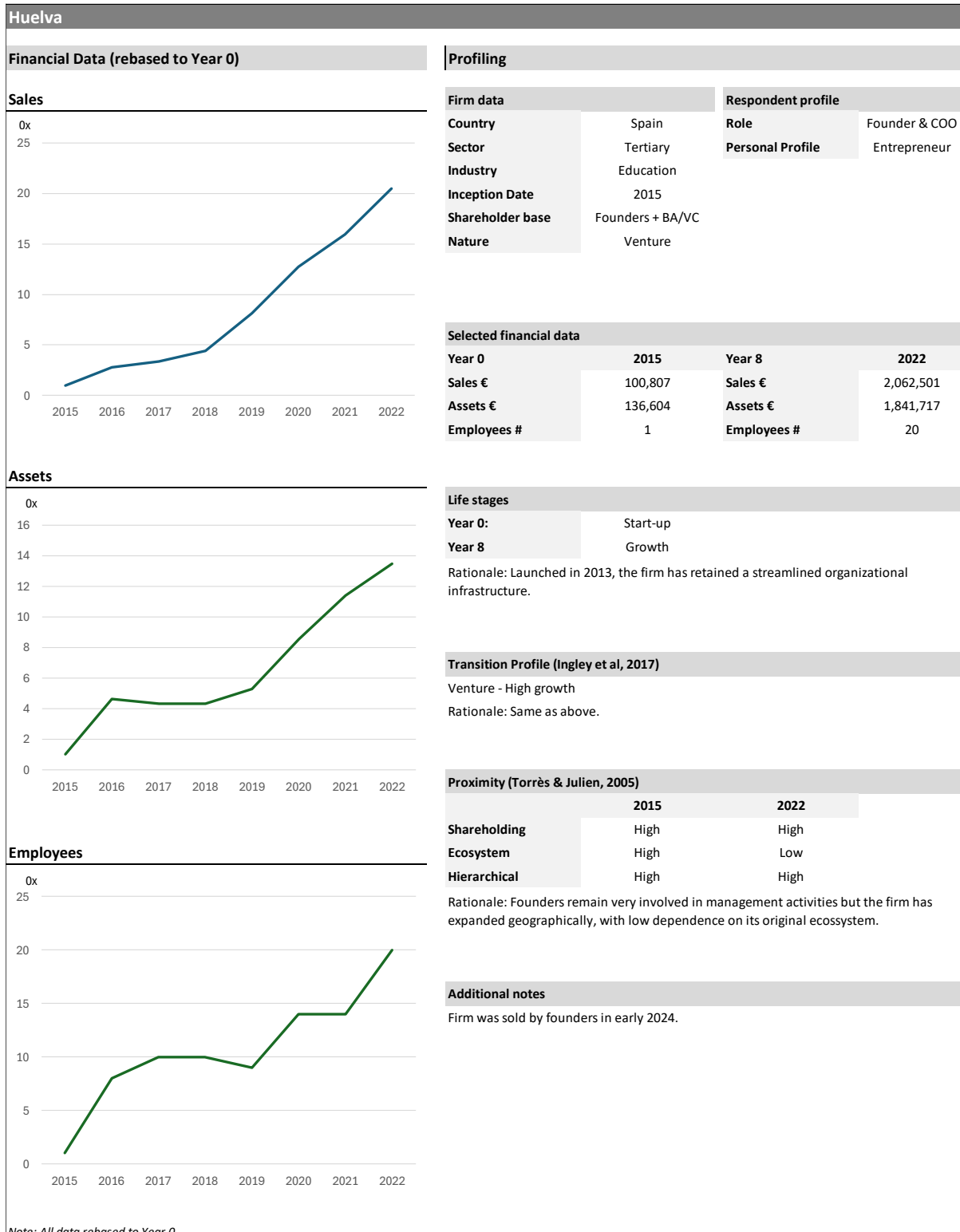


Source: Author's own elaboration. Financial data from SABI.

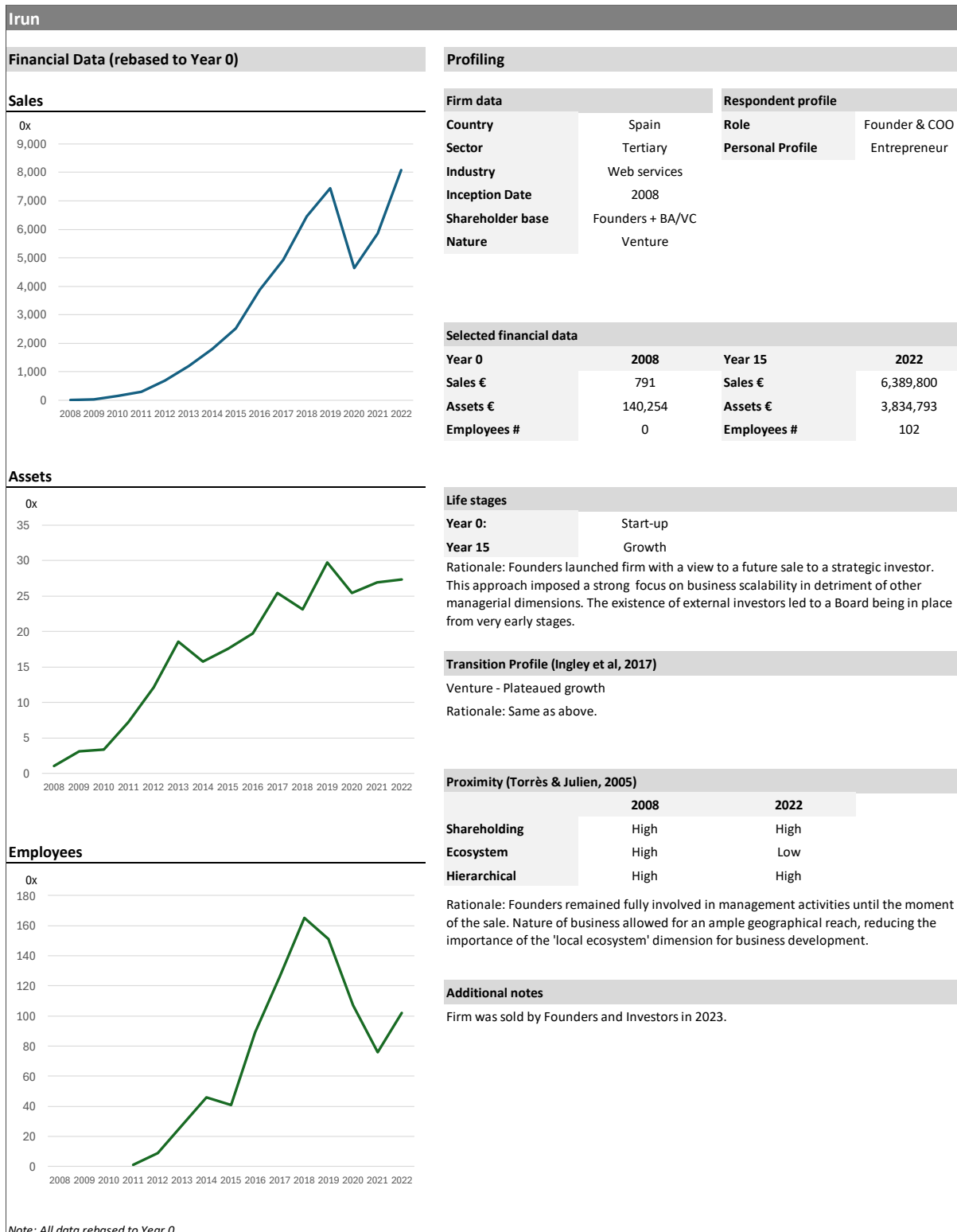


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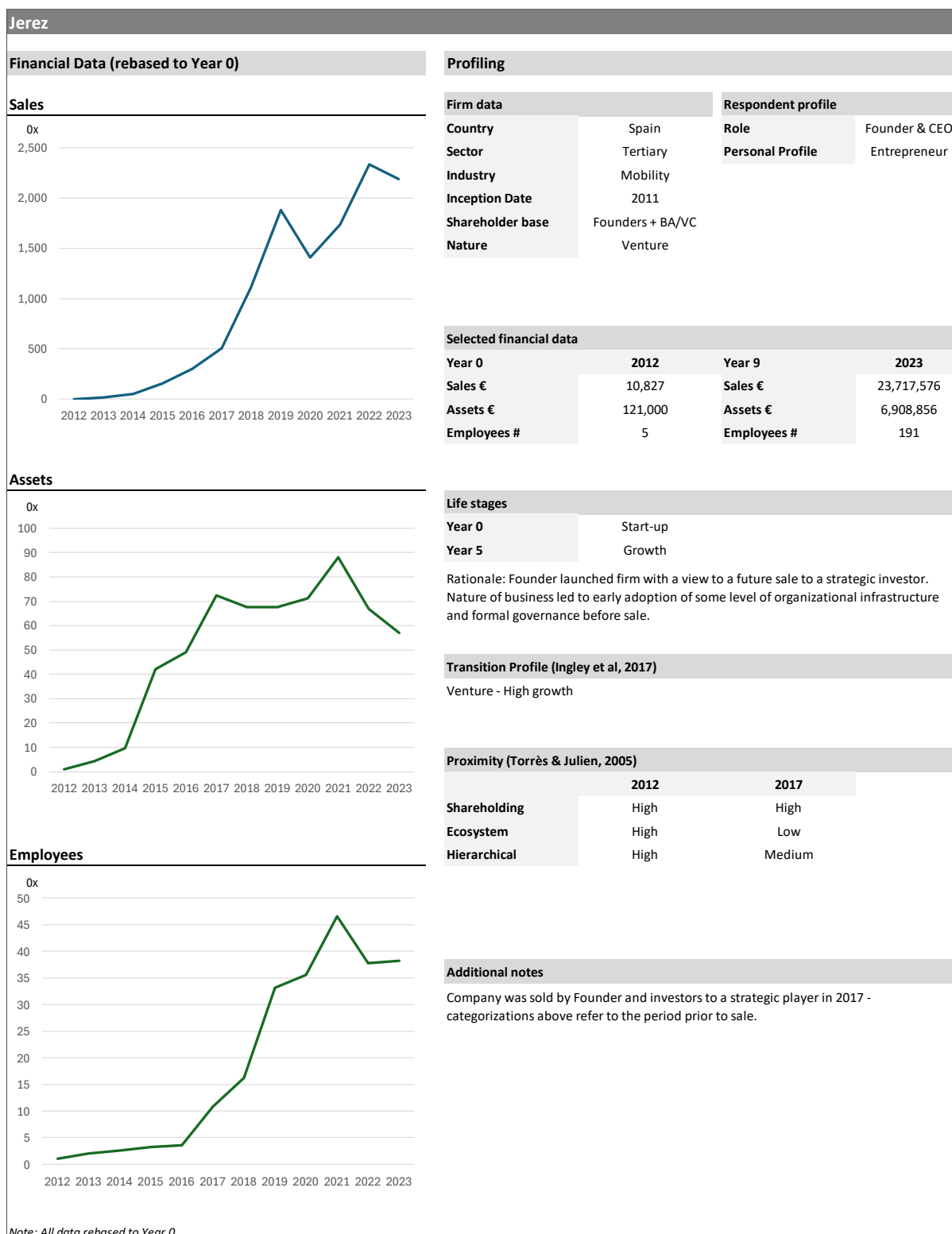




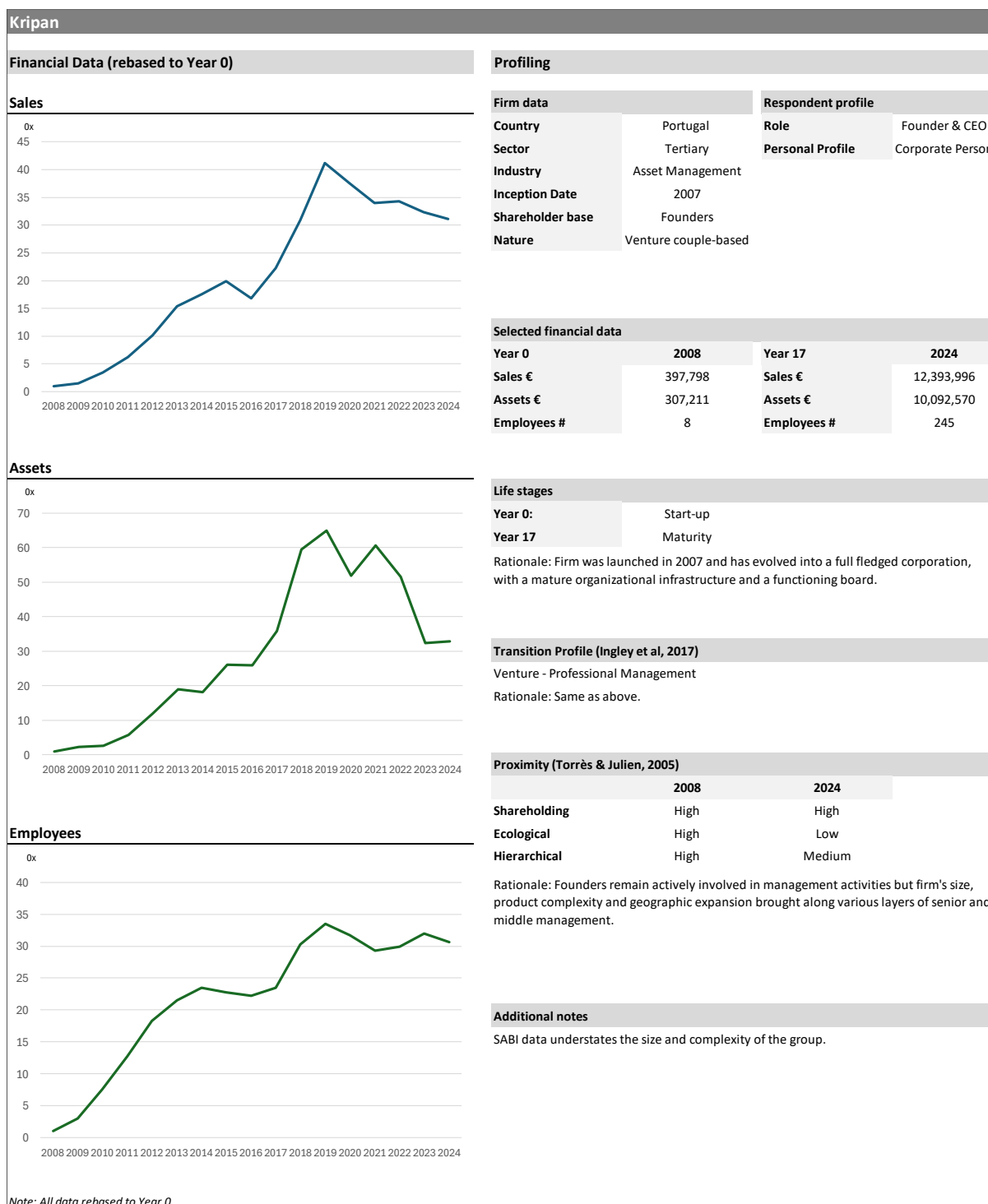
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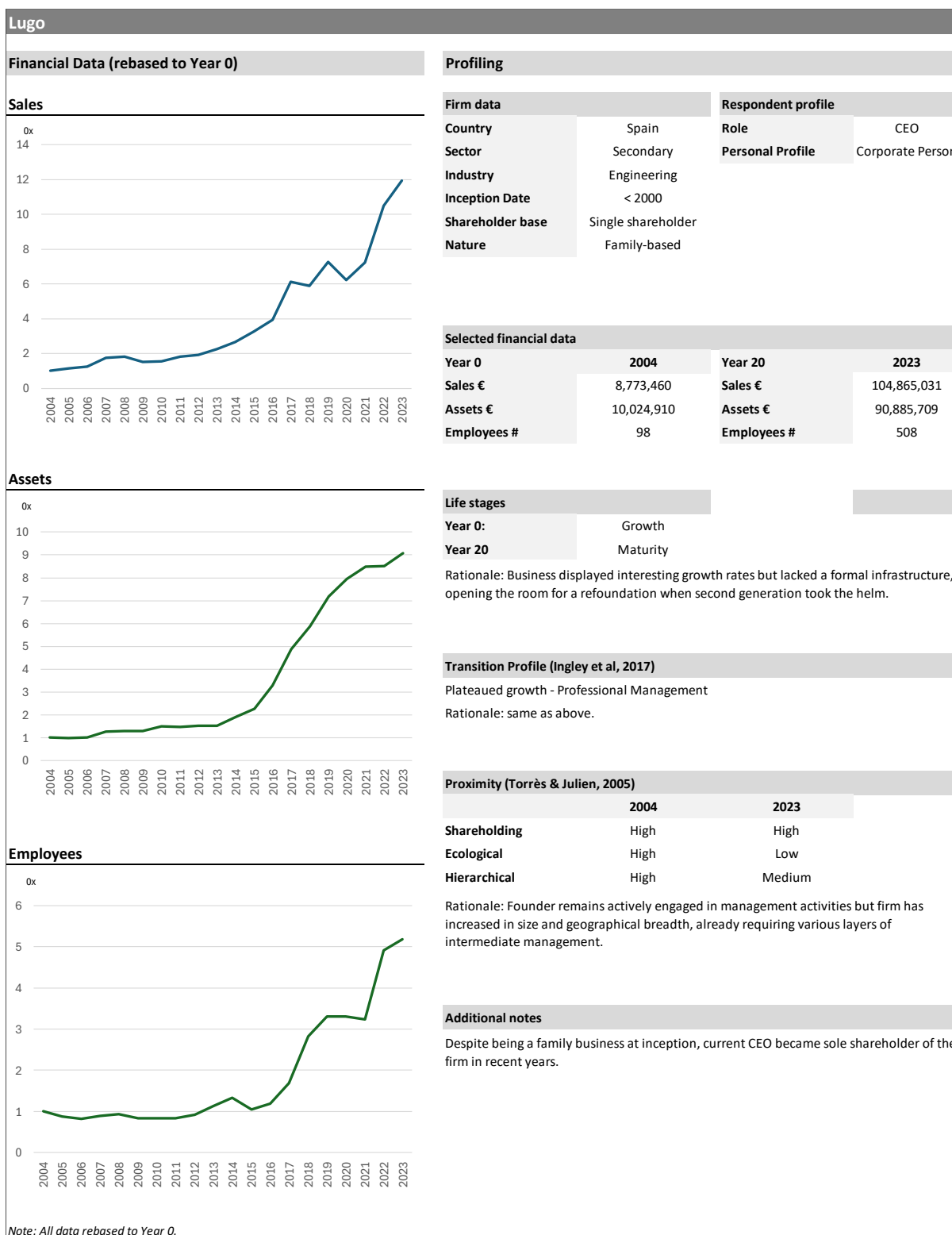


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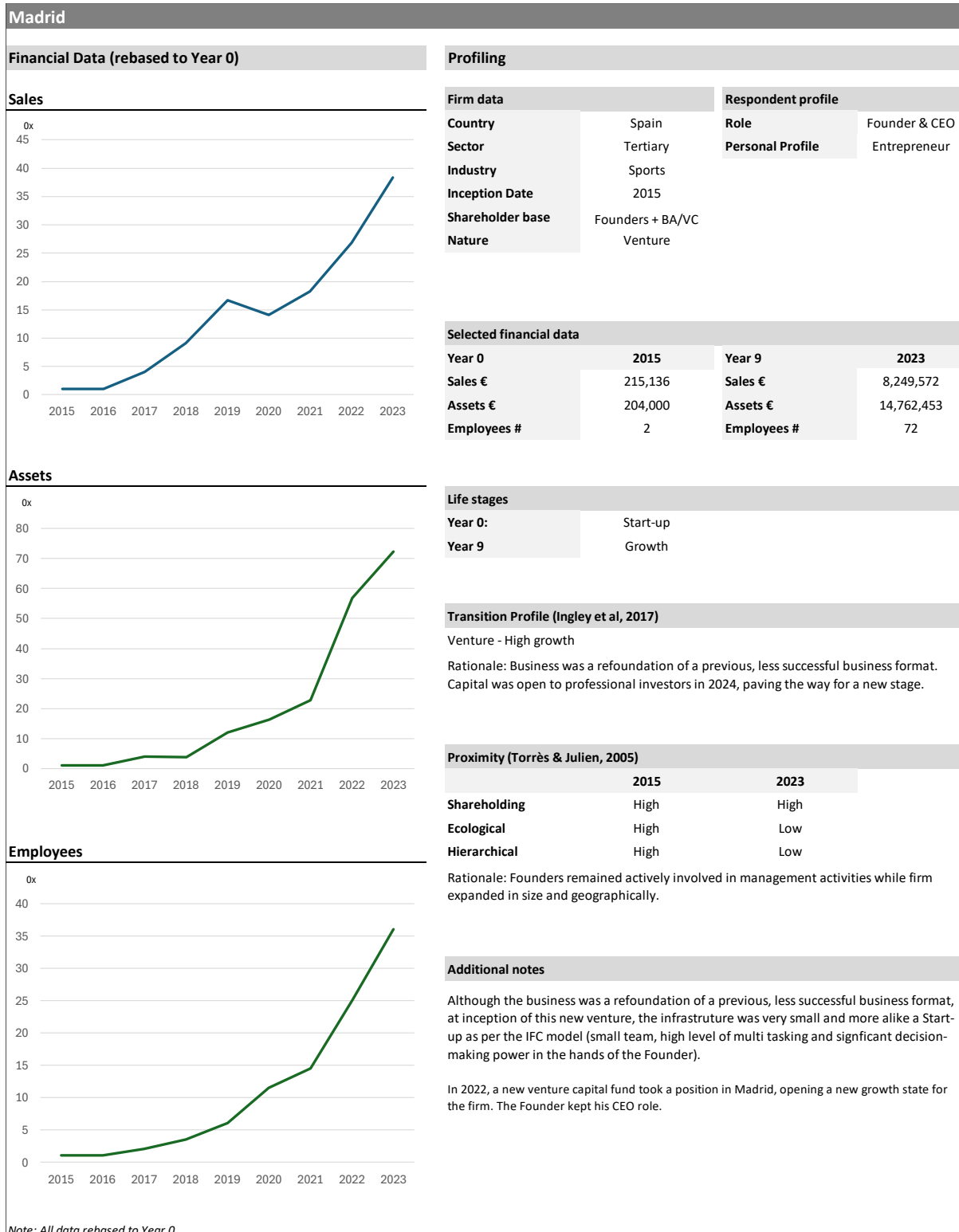


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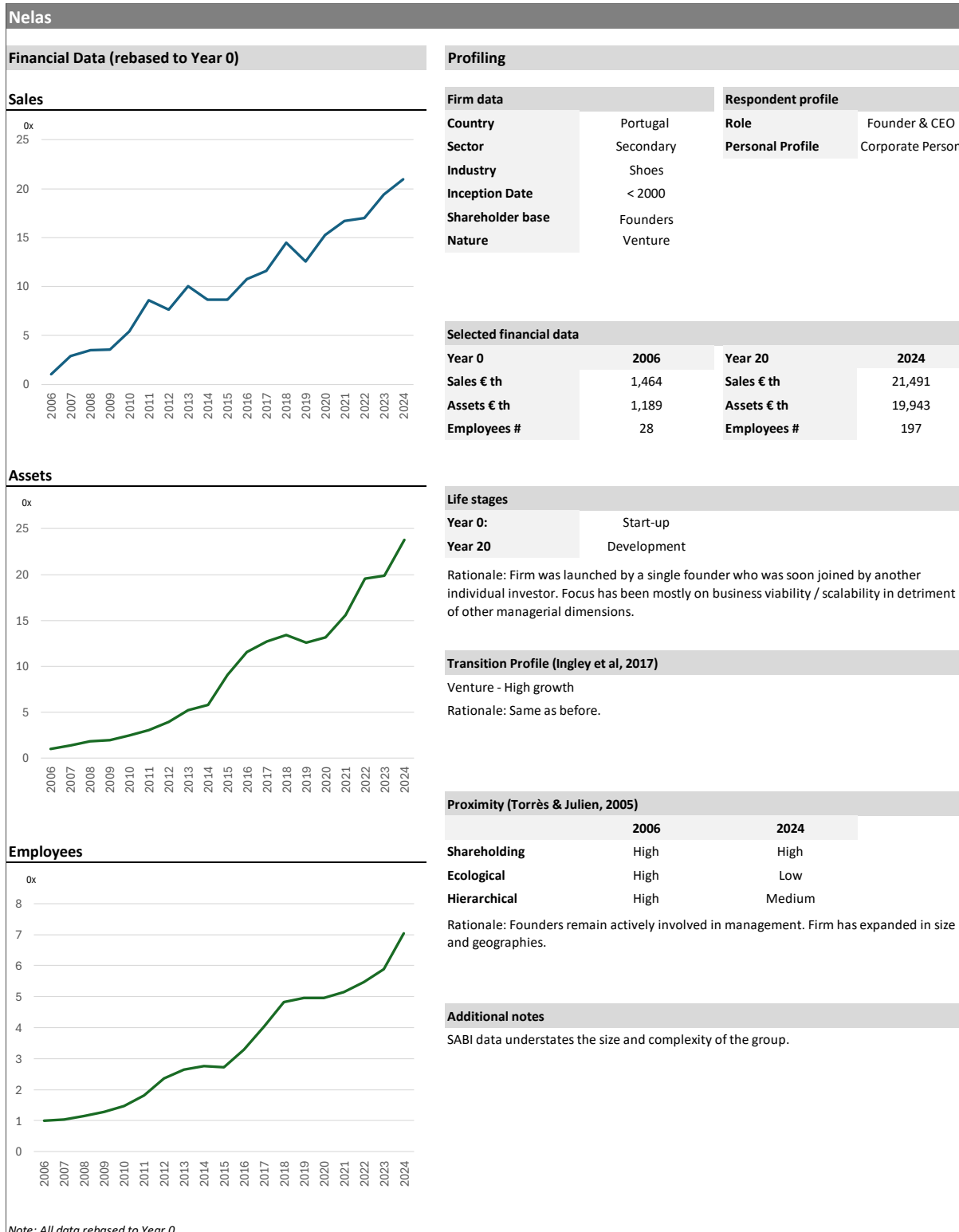




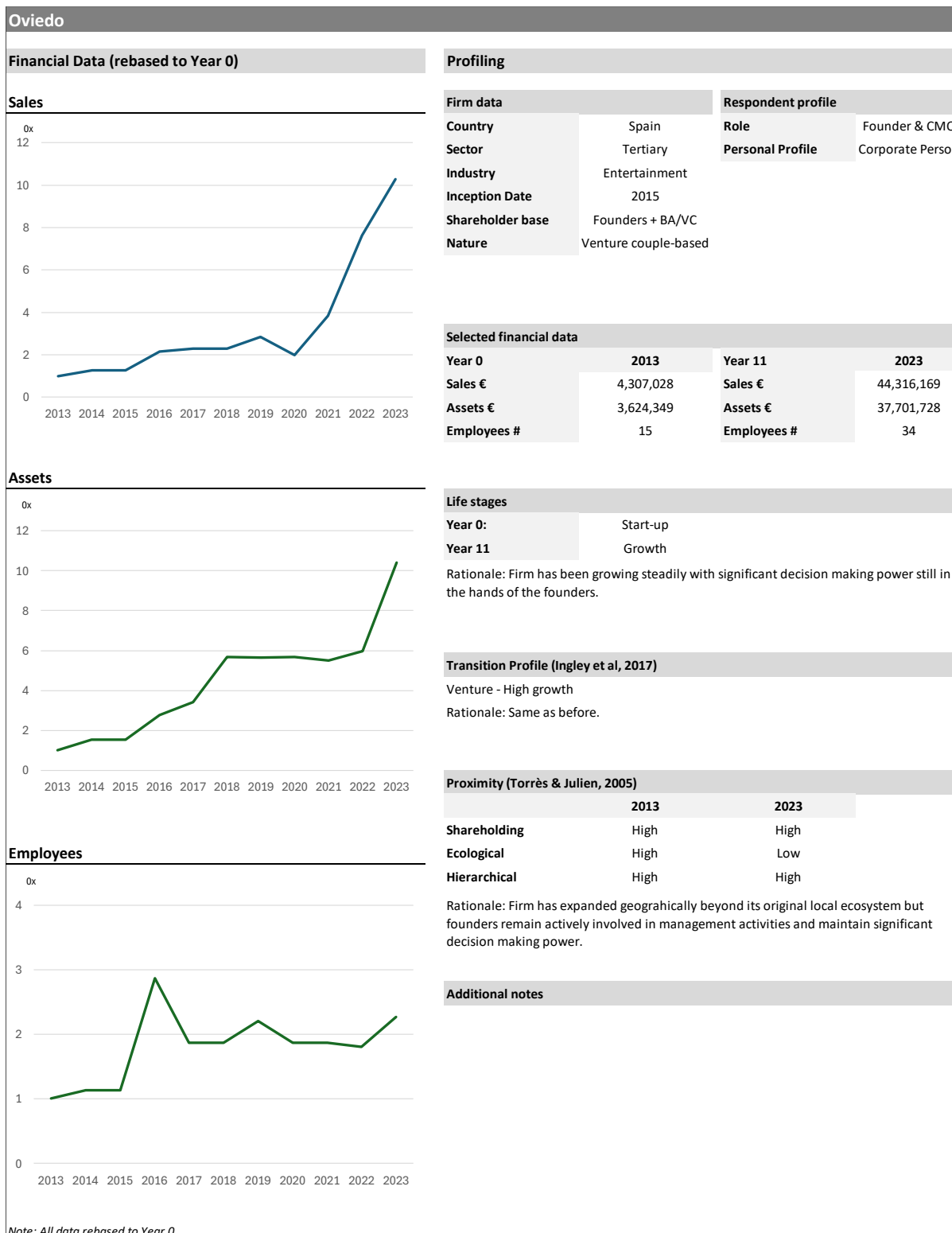
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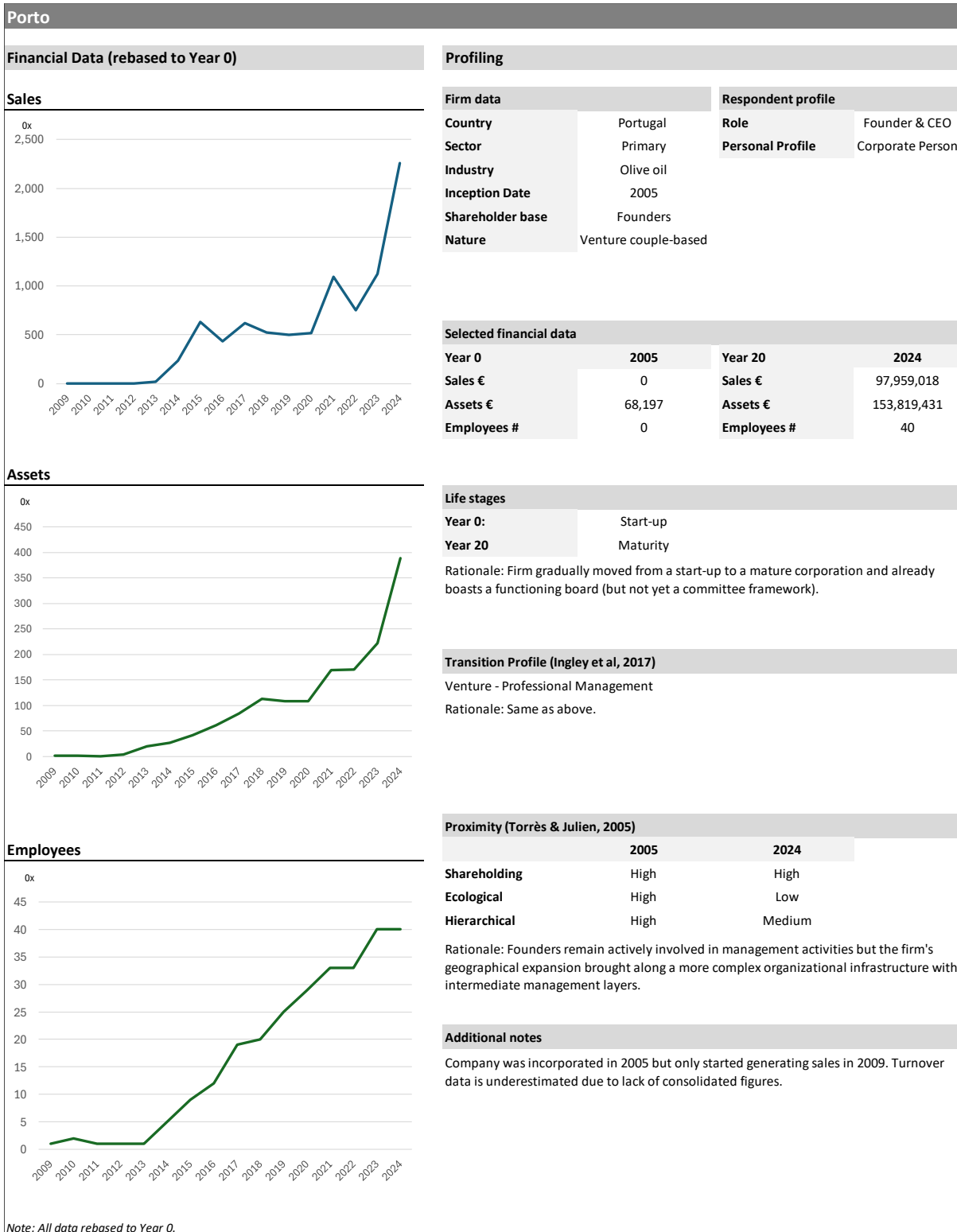
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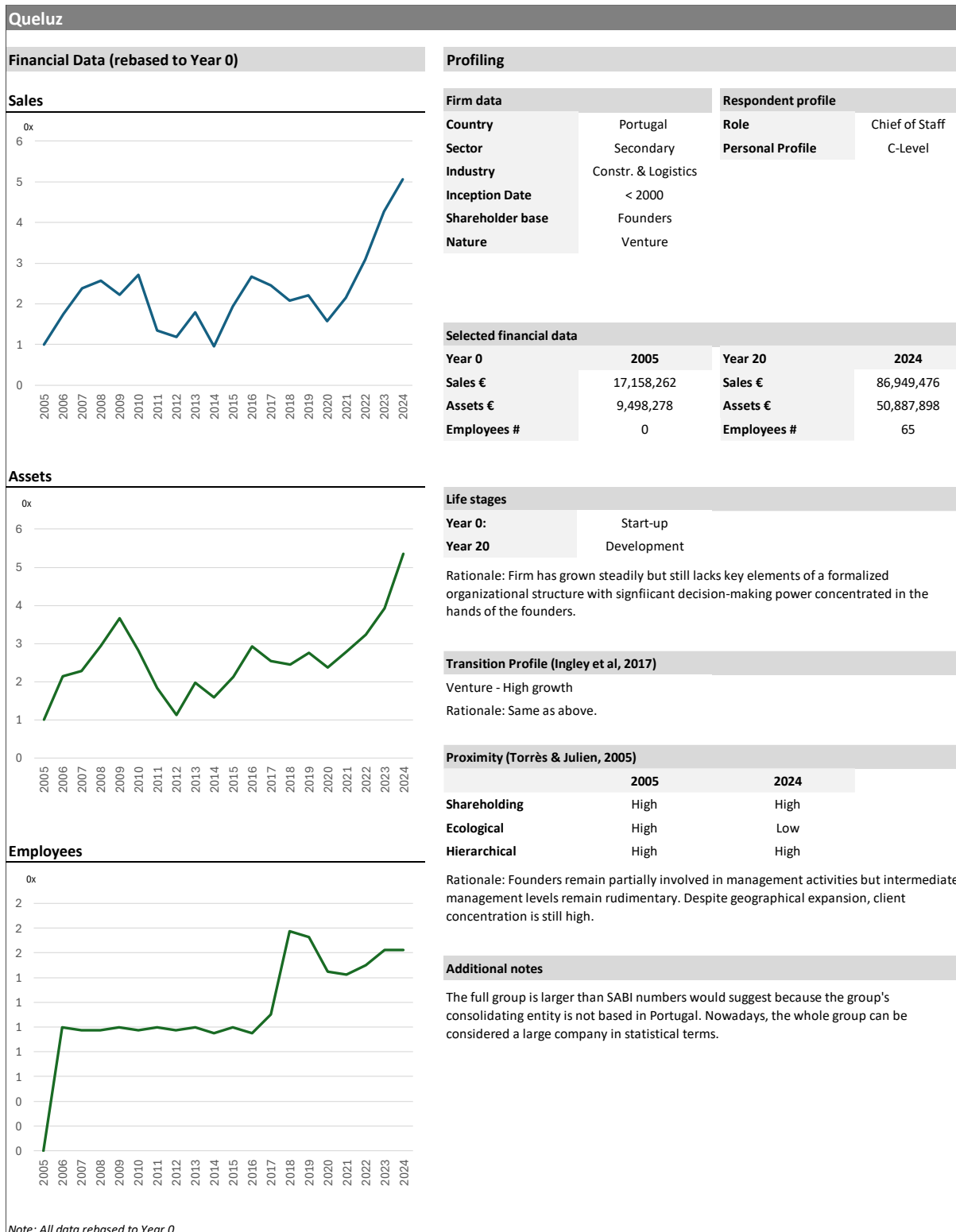
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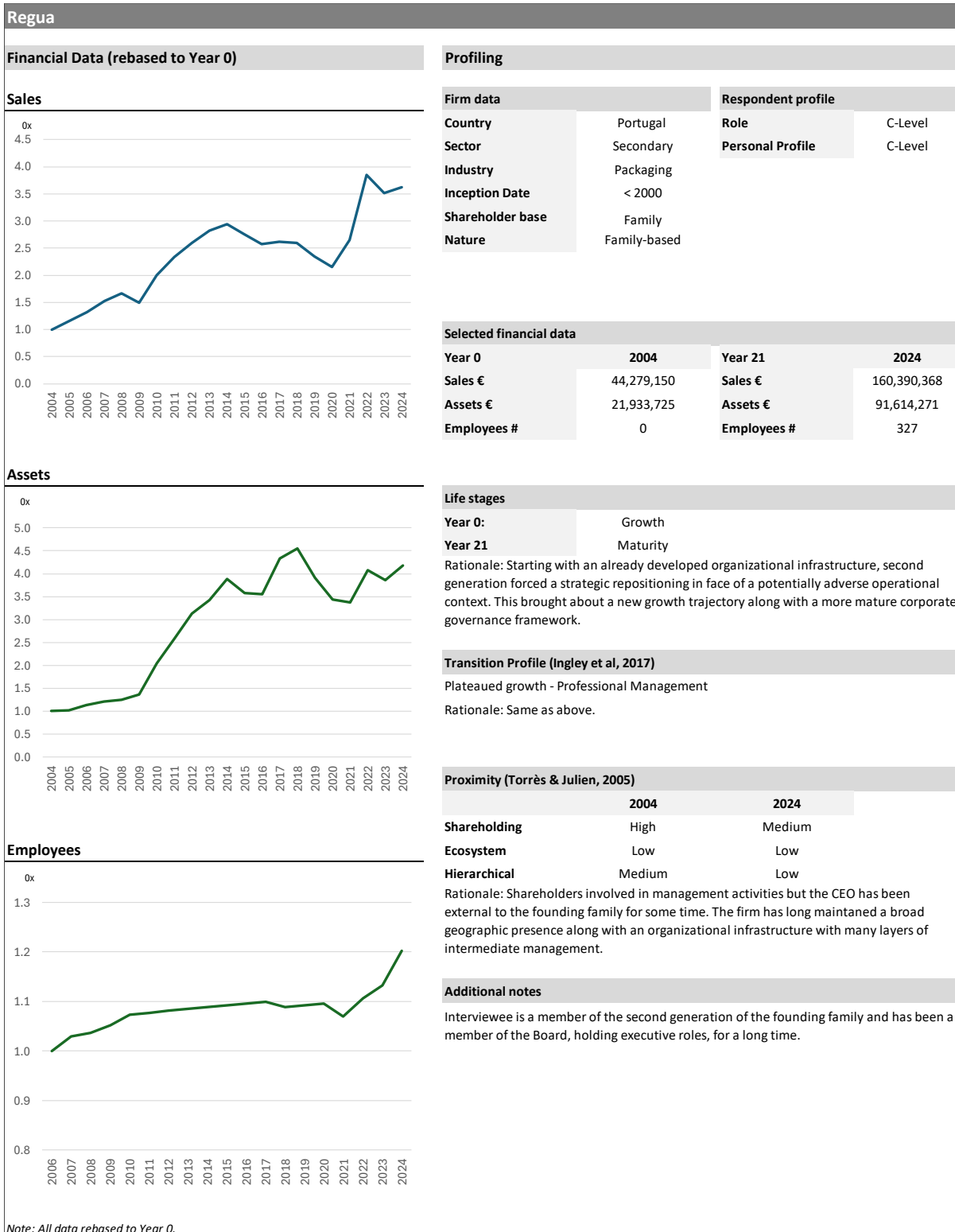
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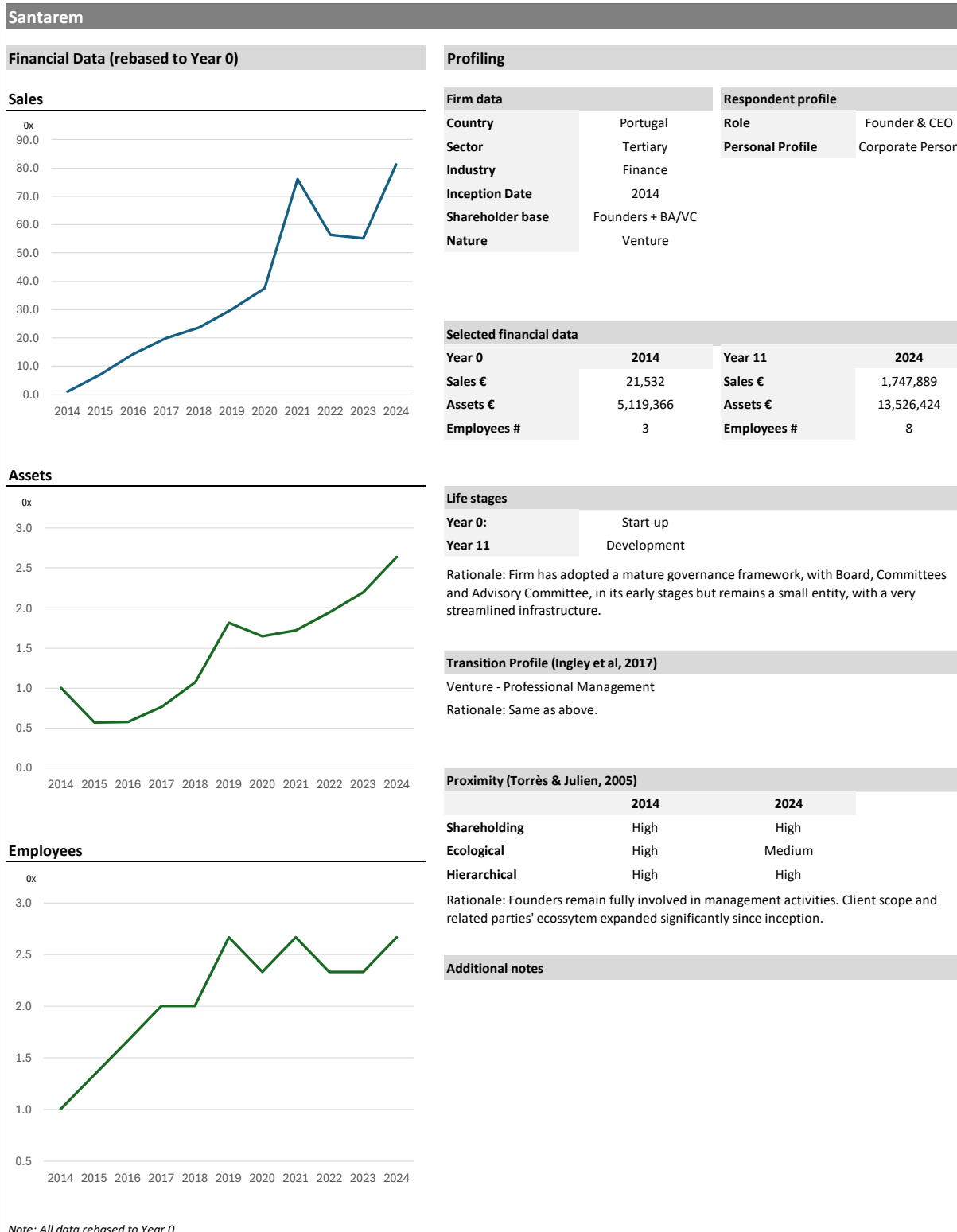
Source: Author's own elaboration. Financial data from SABI.



Source: Author's own elaboration. Financial data from SABI.



Source: Author's own elaboration. Financial data from SABI.



## ANNEX 3: Standard company legal formats in Portugal and Spain

### PORTUGAL

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#### 1. **Empresário em Nome Individual** [*Sole Trader*]

- No separate legal entity; no corporate bodies.

A single person who manages a business on their own account. All of their personal assets are liable for the risks of the business – unlimited liability – although those risks can be transferred to an insurance company. Only suitable for small businesses, given the simplicity of setup and no need for minimum share capital. May include a simplified tax regime.

#### 2. **Sociedade Unipessoal por Quotas (SUQ)** [*Single-Member Private Limited Company*] — CSC Arts. **270-A to 270-G**

- Sole shareholder (individual person or legal entity) assumes General Meeting powers, including the ability to appoint managers (Art. 270- A and E).
- At least one manager (Arts. **252-257** by reference of art. **270.º G**).
- No audit body unless thresholds in Art. **262** are exceeded (by reference of art.270.º G).

#### 3. **Sociedade por Quotas (Lda.)** [*Private Limited Company*] — CSC Arts. **197-270**

- Decisions depend on shareholders' resolution - General Meeting (Arts. 246-251).
- One or more managers appointed in the Articles of Association or elected in a General Meeting; may be remunerated or not (Arts. 252-262 A).
- Supervisory Board (*Conselho Fiscal*) or Sole Auditor if thresholds of Art. 262 are met.

#### 4. **Sociedade Anónima (S.A.)** [*Public Limited Company / Corporation*] — CSC Arts. **271-464**

- Decisions depend on shareholders' resolution - General Meeting (Arts. 373-389).
- Governance models (Art. **278**):

- (i) Board of Directors + Supervisory Board;

*Appointment of a statutory auditor who is not a member of the supervisory board is mandatory.*

- (ii) Board of Directors, including an Audit Committee and Sole Auditor;

- (iii) Executive Board + General and Supervisory Board and Statutory Auditor

*In the cases provided by law, the existence of a committee for financial matters within the General and supervisory board is mandatory.*

#### Additional notes:

- The Board of directors or an Executive Board of directors may be replaced by a sole director and the supervisory board may be replaced by a sole auditor.
- Companies with a sole director cannot follow the model provided in (i).
- Statutory Auditor (*Revisor Oficial de Contas*) is mandatory (Arts. 413 ff.).
- **Executive Committees:** The Board can delegate powers to an executive member or to an executive committee (Art. 407).
- **Strategic Council / Advisory Board (*Conselho Estratégico / Conselho Consultivo*) []**
  - Not statutory under CSC.
  - Must remain non-deliberative, issues recommendations only.
  - Risk of *'de facto director'* liability (CSC Art. 72.º) if advisory members exercise management powers.

#### Typical Evolution Path

- **Early growth:** SUQ — shareholder + manager.
- **SME:** *Lda.* — General Meeting, managers, optional supervisory body. Some companies introduce a **Conselho Estratégico** here as a transitional mechanism to bring in external expertise without altering statutory governance. This is aligned with best practices recommended by the Portuguese Corporate Governance Institute.
- **Expansion:** *Lda.* with reinforced governance, auditor if thresholds are exceeded. Advisory council may coexist with statutory bodies.
- **Mature corporation:** *S.A.* — full governance with General Meeting, Board (with or without Executive Committee), Supervisory/Audit body, statutory auditor. Advisory councils often evolve into or coexist with formal non-executive board members.

## SPAIN

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Standard legal formats for conducting business in Spain are grounded in the Ley de Sociedades de Capital (LSC) and the CNMV Código de Buen Gobierno de las sociedades cotizadas (CBG), and complemented by the Código de Comercio, Código Civil, Ley 27/1999 de Cooperativas, and Ley 14/2013.

- **System overview and legal taxonomy in Spain** Capital companies (sociedades de capital) in Spain are, by statutory definition, (i) *Sociedad de Responsabilidad Limitada (SL)*, (ii) *Sociedad Anónima (SA)*, and (iii) *Sociedad Comanditaria por Acciones (SComA)*, and, save where the law provides otherwise, shareholders are not personally liable for corporate debts.
- Capital companies are commercial (mercantile) in nature regardless of their corporate object.
- The LSC also establishes that, for these entities, the governing regime is: (a) the LSC itself; (b) any applicable special rules; and (c) the articles of association (*estatutos*).
- Separately, Spanish commercial law (*Código de Comercio*) continues to recognize the classic mercantile forms, including *sociedad colectiva* and *sociedad comanditaria* (alongside SA and SRL/SL).

### 1. Empresario Individual / Autónomo [Sole Trader]

- The *empresario individual* is a natural person carrying on business in their own name, without a separate legal person distinct from the entrepreneur. Consequently, the entrepreneur's liability is unlimited (universal): they respond personally with their present and future assets for business debts.
- A widely used 'intermediate' variant is the *Emprendedor de Responsabilidad Limitada (ERL)*, which, by exception to the universal-liability baseline, can achieve that creditor action for business/professional debts does not reach a protected asset, subject to the statute's publication/registration conditions.

### 2. Sociedad Unipersonal (SLU / SAU) [Single-Member Limited Liability Company]

- Spanish law expressly recognizes capital companies that are unipersonal either originally (incorporated with a single shareholder) or subsequently (all shares/participations become concentrated in one owner).
- The unipersonal status must be disclosed and registered, and the company must state its unipersonal condition in its documentation/correspondence; the identity of the sole shareholder must be recorded in the Mercantile Registry entry.

### 3. Sociedad de Responsabilidad Limitada (SL) [Private limited company]

- The SL is a capital company whose shareholders are, in principle, not personally liable for corporate debts According to *ley de sociedades de capital BOE-A-2010*, if consolidated capital remains below €3,000, the company is subject to a statutory regime that includes (i) allocating

at least 20% of annual profit to legal reserve until reserve plus capital reach €3,000 and (ii) a specific liability rule in capital liquidation BOE-A-2010.

In an SL, participations (*participaciones sociales*) are capital fractions but cannot be represented by certificates or book-entries, cannot be called “shares (*acciones*)” and are not securities (*valores*).

### **Governance (corporate bodies)**

1. Reserved matters of the General Meeting include, inter alia, approval of annual accounts and allocation of results, appointment and dismissal of directors, amendment of the articles of association, and appointment of auditors.
  - Statutory modes of administration are limited to: sole director; several directors acting severally; two or more directors acting jointly; or a board of directors.
  - Where a board of directors exists in an SL, it must have at least three members and may not exceed twelve.
  - The board must meet with sufficient frequency to properly discharge its management and supervisory functions; Spanish law does not impose a fixed minimum number of meetings for non-listed companies.
  - Delegation of powers to a managing director or executive committee requires enhanced approval and formalisation, including registration, as prescribed by the LSC.
  - Statutory audit is mandatory only where legal thresholds are exceeded.
  - Auditors are appointed for an initial term of three to nine years, renewable annually thereafter.
  - Shareholders holding at least 5% of the capital may request the appointment of an auditor even when audit is not otherwise mandatory.

### **Sociedad Anónima (SA) [Public Limited Company / Limited Liability Company]**

- Capital company with limited liability for shareholders.
- Capital divided into shares (*acciones*), which are securities.
- Shares may be represented by certificates or book-entries.
- Shares must be fully subscribed and partially paid up at incorporation (as required by law).
- General Meeting retains exclusive powers over core structural matters.

- Management may be entrusted to a sole director, several directors, joint directors, or a board of directors.

#### **Sociedad Anónima Cotizada** [*Listed Public Company*]

- A Sociedad Anónima whose shares are admitted to trading on a Spanish regulated market.
- Shares must be represented exclusively by book-entries.
- Subject to enhanced transparency and reporting obligations under the LSC.
- Must prepare a corporate governance report and maintain a corporate website for shareholder information.
- Mandatory board committees:
  - Audit Committee
  - Nominations and Remuneration Committee
- Governance operates on a dual level:
  - Binding legal rules (LSC);
  - Voluntary recommendations under the CNMV “comply or explain” Corporate Governance Code.

#### **Sociedad Comanditaria por Acciones (SComA)** [*Partnership Limited by Shares*]

- Capital company combining:
  - At least one general partner with unlimited personal liability, and
  - Shareholders whose liability is limited to their shares.
- Capital divided into shares (*acciones*).
- Where the LSC is silent, rules applicable to the SA apply.

#### **Sociedad Colectiva** [**General Partnership**]

- Personalist commercial partnership regulated by the Código de Comercio.
- All partners have personal, joint, and unlimited liability for partnership debts.
- Partners typically participate directly in management.

#### **Sociedad Comanditaria Simple** [**Limited Partnership**]

- Commercial partnership with:
  - General partners (unlimited liability and management powers), and
  - Limited partners (liability limited to their contribution).
- Limited partners may not take part in management.

### **Sociedad Civil (SC) [Civil Partnership]**

- Contractual association to pursue a common activity and share profits.
- May be constituted informally, except where real estate is contributed.
- If not externally disclosed (“secret”), it lacks legal personality vis-à-vis third parties.

### **Sociedad Cooperativa (S. Coop.) [Cooperative]**

- Association of persons with democratic governance and mutual purpose.
- Requires public deed and registration to acquire legal personality.
- Member liability is generally limited to capital contributed.

### **Incorporation and legal personality (capital companies)**

- Capital companies require:
  - Public deed before a notary, and
  - Registration in the Mercantile Registry.
- Legal personality is acquired upon registration.

### **Corporate website**

- Capital companies may create a corporate website.
- Listed companies must maintain a corporate website for legally required disclosures.

### **Advisory bodies and de facto directors**

- Spanish law extends directors’ duties and liability to de facto directors.
- Purely advisory bodies (e.g. *consejo asesor*) must remain non-executive and non-decisional to avoid recharacterization.

### **Typical evolution path**

- **Start-up:** Empresario individual / ERL
- **Single-owner limited liability:** SLU / SAU
- **SME growth:** SL
- **Capital-intensive expansion:** SA
- **Public markets:** Listed SA (*cotizada*)

## ANNEX 4: NVIVO® Codebook

Name	Description	Files	References
CG Culture and Commitment to Good Governance	Awareness about the main elements of an accountable and traceable decision-making framework - related to values and guiding principles	19	215
Executive Remuneration	Executive Remuneration in connection with board roles	3	5
Governance - preliminary characterisation	Possible definitions and intrinsic value of Governance for business sustainability in the long run	8	11
Owner-Manager tension	Awareness about overlapping incentives stemming from his/her double condition as owner and manager - applicable only to Participants who are simultaneously owner and manager	10	26
Owner's Education & Training	Participant's education, training and previous professional experience	12	24
Regulated Industry Background	Previous experience in regulated industries, which may work as a catalyst for improved awareness about the importance of robust decision-making processes	4	4
Owner's values	Rhetoric statements about relevant attributes related to decision-making which the Owner perceives as crucial:	18	149
OV - Credibility	The importance of Credibility as a driver for business growth / sustainability	3	5
OV - Decision Discipline	The importance of having clear and transparent criteria supporting decisions	12	50
OV - Entrepreneurship drive	Willingness to innovate and create new businesses	7	13
OV - Financial Resilience	The importance of financial robustness as a key principle for directing and managing the business	8	15
OV - Foundational Principles	Set of abiding ethical and business principles that help shed light on structural and strategic decisions	8	16

Name	Description	Files	References
OV - Growth drive	Willingness and commitment to scale up the business	15	37
OV - Humility & Willingness to learn	Willingness to learn from others in order to better direct/manage the business	5	13
Decision Making & Strategic Oversight	Examples of decision-making mechanisms, practices and procedures as well as decision-making styles	19	274
'Board-like' roles	Boards and/or roles normally provided by Boards, according to literature	16	75
Enterprising role	Support to decision making regarding strategic matters and business development	10	22
'Functioning' Board	Boards which are the apex of the firm's decision-making, regardless of composition (owners, directors and managers)	10	25
'Legal fiction' Board	Board created due to legal requirements but with no effective influence over the firm's activities and decision-making processes (regardless of composition)	7	9
Mediation role	Examples where mediators were required to help untangle conflicts between shareholders	1	2
Monitoring role	Examples of situations where a monitoring (validation) role was exercised in the context of decision-making processes	5	11
Networking role	Support to help expand the firm's external stakeholder ecosystem, notably funding sources and/or new business opportunities	3	4
No board (yet)	Applies to firms which do not have a formal board yet	1	2
Corporate Bodies	Decision-making bodies within the firm	10	45
Advisory Board	A group of people who may provide enterprising and networking support to the Firm but who have no fiduciary responsibilities over the Firm's management	5	13

Name	Description	Files	References
Committees	The relevance of committees for the purpose of supporting decision-making processes	3	11
Executive Committee	The composition, functioning and role played by the Executive Committee	5	10
Independent Board Members	The role of independent board members	5	11
Decision-making style	Attributes and styles of decision-making (difference to 'values' lies on the statement containing practical examples)	19	118
Accountability	Importance of developing processes that may be traced and validated by external entities	6	11
Agility	The importance of agile decision-making processes	3	3
Checks & balances	Safeguard mechanisms ensuring decisions are properly analysed and discussed from various perspectives in order to improve the decision's robustness	12	16
Collegiality	Importance given to shared responsibility when it comes to decision making	8	12
Delegation	Examples of delegation and why it is important for a sustainable business development	13	37
Founder-centered	Situations where decision-making remains concentrated in the Founder/Owner	12	24
Informality	Informal decision-making channels	8	15
External support	Situations where active advice from unrelated parties has been sought to help in certain decisions	11	28
Advisory firms' support	Relevance of external subject matter expertise to improve the way the business is directed/managed	6	8
External mentors	References to external, non-related, people who may have supported the Founder/Owner(s) in decision-making processes	8	20
Professional Management	Introducing professional managers, unrelated to the shareholder structure of the firm	5	8

Name	Description	Files	References
Disclaimer	Refers to all the cases in which an initial disclaimer clarifying that the interview is about decision-making and not Boards - useful to contextualize finding but may need to be reassessed	11	12
Disclosure and transparency	Management information and willingness to disclose it to external stakeholders	15	65
Disclosure to external stakeholders	Importance given to transparency in relation to external stakeholders like banks and other certification entities	12	19
External Audit	Having external entities validating company processes and financials (includes financial and technical auditors as well as external certifications).	6	8
MIS & Financial Reporting	MIS for internal, decision-making processes as well as reporting to professional investors and external entities such as banks	14	38
Lessons Learned	Lessons to be learned from past experiences, including mistakes and errors (may overlap with Tipping Points but the focus here is on the participant's perspective)	11	60
Compliance	Lessons learned about the importance of abiding by general rules and laws	4	5
Decision-framework (LL)	Lessons learned on importance of developed, transparent and traceable decision-making frameworks	5	18
External advisory	Lessons learned about importance of external advisory to support decision-making processes	3	4
Finance	Lessons learned on the importance of an adequate finance infrastructure to support decision-making	6	15
Mentorship	Lessons learned on the importance of mentorship to support decision-making processes	1	2
Risk	Lessons learned about the importance of adequately assessing risks to the business	4	6
Shareholder structure & conflicts	Lessons learned from the role played by tensions and conflicts between shareholders as triggers to change the way the business is directed/managed	2	2

Name	Description	Files	References
Strategy & Purpose	Lessons learned about the importance of robust strategic planning for business development	3	4
Talent	Lessons learned about the importance of having the right people in the team	1	4
Life state & Transitions	Elements which help describe certain states in the evolution of the firm	16	51
Development	Elements that describe a firm in the Development state, as described in IFC's SME Guidebook	9	12
Growth	Elements that describe a firm in the Growth state, as described in IFC's SME Guidebook	13	19
Maturity	Elements that describe a firm in the Maturity state, as described in IFC's SME Guidebook	3	7
Plateaued growth		1	1
Start-up	Elements that describe a firm in the Start-up state, as described in IFC's SME Guidebook	8	12
Ownership	Elements related to the Firm's shareholder structure and related instruments	16	87
Family protocol	Family protocols	2	3
Ownership structure	Nature of the firm's shareholder structure	15	42
Family-based	Applicable to family businesses in second or subsequent generations	5	6
Founders	Applicable to firms with founders who continue to direct/manage the business	8	13
Founders + Professional Investors	Applicable to firms where Founders have been supported by professional investors or business angels with no involvement in the management of the firm	8	23
Shareholder agreements	Agreements between shareholders defining management rules and power attributions	9	26
Shareholder conflicts	Situations of conflict between shareholders	4	11

Name	Description	Files	References
Shareholder remuneration	The way shareholders are remunerated.	3	5
Relevant Opinions	Strong statements about a certain reality (the statement may or not have been categorized in other codes)	9	18
Risk Management & Internal Controls	References to practices and procedures related to risk management and internal control, as elements that support decision-making	19	125
Organizational infrastructure	Elements and processes related to the implementation of more complex organizational frameworks with impact on decision-making processes	14	35
Regulated businesses	Specific reference to previous experience in regulated industries	1	1
Professional CFO	The importance of having a Finance professional (head of Finance/CFO) to help support decision-making processes	6	12
Risk management	General references to risk management practices	11	19
Internal controls	References to internal controls	2	4
Succession Planning	Importance of having succession plans as a mean of firm preservation	11	18
Talent	Importance of the talent pool as a driver of business development and better decision-making processes	15	41
Key persons	Specific references to new joiners who contributed to improving the organizational infrastructure and general decision-making processes of the firm	7	11
Trust	Specific references to the importance of trust when talking about Talent	1	2
Tipping Points	Moments which worked as triggers for substantial changes in the mechanisms supporting decision-making processes (difference to 'Lessons learned' is that the focus is on the nature of the moment)	16	119
Business Expansion	Initiatives aimed at expanding the business portfolio, possibly including new business segments	8	14

Name	Description	Files	References
	and /or new geographies, which bring along increased complexity		
Decision-framework (TP)	Moments in which the prevailing decision-making arrangements either changed or led to changes in the way the business was being directed/managed	3	4
Financial Stress	Moments in which the firm faced financial imbalances with potential impact on its survival	3	7
Mentorship	Moments when external mentors made a difference in the way the business was being directed/managed	1	2
New Investors	Moments when either new equity investors joined the firm or debt investors started funding the firm	9	18
Next Generation	Applicable to Family businesses - moments when generation(s) subsequent to the Founder took the helm	3	6
Organizational framework	Moments in which the organizational infrastructure (different departments with segregation of tasks, terms of reference and decision-making channels) saw a material change	3	5
Prospective Sale	Moments in which the prospect of selling the business led to material changes in the Firm's organizational infrastructure and decision-making processes	3	10
Shareholder Conflicts (TP)	Moments when divergent perspectives between shareholders led to material events in the Firm's evolution with impact on decision-making processes	3	9
Strategic Direction	Moments in which the Firm recognized it was facing complex strategic decisions and or in which it undertook a strategic review and decided to change course	7	24
Succession Planning	Moments in which the awareness about the need to have a successor / avoid concentrated decision making led the Founder/Owner to evolve to different decision-making arrangements	5	9

Name	Description	Files	References
Talent & Key persons	Moments in which individual contributions of people unrelated to Founders made a difference	6	11