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ORIGINAL PAPER

From global standards to local realities. How SMEs and microenterprises benefit from corporate frameworks

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Abstract:
Corporate governance codes, originally conceived for large corporations, are being modified to fit the needs of small and medium-sized enterprises (SMEs) and microenterprises. This paper discusses how governance codes, which were first created to promote transparency, accountability, and sustainability in multinational corporations, can be adapted for use by smaller firms. Though SMEs and microenterprises operate with fewer resources and simpler structures, adopting fundamental principles of governance such as ethical leadership, finance management, and stakeholder engagement can enhance their resilience, competitiveness, and long-term performance.
It discusses the real-life implications of governance codes on small companies, observing both the benefits and implementation challenges. Using a comparative analysis, it explores the degree to which small and micro-businesses can use governance mechanisms for enhancing investor confidence, strengthening risk management, and promoting business sustainability. The paper also considers the contributions of regulatory bodies, trade associations, and governments in supporting adjustments to governance standards to suit the special requirements of smaller companies.
The results indicate that although corporate governance codes provide many benefits, a one-size-fits-all approach is not suitable. Rather, responsive and proportionate systems of governance scaled to the size and complexity of SMEs and microenterprises provide more desirable outcomes. The study concludes by observing that there is a requirement for governance codes that provide a balance between structure and flexibility, and hence allow smaller firms to prosper in a progressively intricate economic environment.
This study adds to the existing literature on governance inclusiveness and how it counts in the development of economic sustainability at every level of business through the balancing of international standards with the realities that face the domestic business environment.

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1. Introduction

Corporate governance has long been regarded as a critical component in ensuring transparency, accountability, and sustainability in the business environment. Initially, governance frameworks and codes were developed with large multinational corporations in mind, designed to address the complexities of their operations, ownership structures, and financial reporting obligations. However, in recent years, there has been an increasing recognition of the need to extend governance principles to small and medium-sized enterprises (SMEs) and microenterprises. These businesses, despite their smaller scale, form the backbone of most economies and contribute significantly to employment, innovation, and economic stability. Given their importance, ensuring that they adopt sound governance practices is essential not only for their survival and growth but also for fostering economic resilience at a national and global level.

The challenge, however, lies in the fundamental differences between large corporations and smaller businesses. While multinational firms operate within intricate legal and regulatory frameworks, SMEs and microenterprises tend to have simpler structures, fewer resources, and more centralized decision-making processes. As a result, governance codes that were originally developed for large enterprises may not be directly applicable to smaller firms without significant adaptation. Applying rigid, standardized governance frameworks to SMEs and microenterprises risks imposing unnecessary burdens, increasing compliance costs, and creating inefficiencies that could hinder rather than support their growth. Therefore, there is a growing need to tailor governance mechanisms in a way that maintains core principles of accountability and transparency while allowing flexibility in implementation.

This study explores how corporate governance codes can be adapted to the realities of smaller businesses. It investigates both the benefits and challenges of implementing governance structures within SMEs and microenterprises, examining how governance mechanisms can contribute to improved financial management, enhanced investor confidence, and long-term business sustainability. Furthermore, the study analyzes the role of regulatory bodies, trade associations, and governments in facilitating this adaptation, ensuring that governance frameworks support rather than stifle small business development.

By drawing on a comparative analysis of governance adoption in different business contexts, this research seeks to provide a nuanced understanding of what works best for SMEs and microenterprises. It argues that rather than a one-size-fits-all approach, a proportionate and responsive governance system is more effective. The study ultimately aims to contribute to the ongoing discourse on governance inclusiveness by emphasizing the need for a balance between international best practices and the unique realities faced by smaller businesses in domestic markets. In doing so, it highlights how governance can serve as a tool for strengthening economic sustainability across all levels of enterprise, ensuring that SMEs and microenterprises are not left behind in an increasingly complex global business environment.

2. Literature review

Corporate governance has evolved as a response to the need for greater transparency, accountability, and investor protection in business operations. Initially designed for large, publicly traded corporations, governance frameworks sought to address conflicts between managers and shareholders, ensuring that corporate decisions aligned with the long-term interests of investors and other stakeholders. Over time, the scope of corporate governance has expanded to include businesses of all sizes, including small and medium-sized enterprises (SMEs) and microenterprises, which collectively contribute to economic growth, employment, and innovation (Claessens & Yurtoglu, 2013). However, the direct application of governance codes developed for multinational corporations (MNCs) to smaller businesses has been widely debated, leading to calls for proportional governance systems that accommodate the realities of SMEs.

The origins of corporate governance can be traced to landmark regulatory developments, including the Cadbury Report (1992) in the UK, the OECD Principles of Corporate Governance (1999, revised in 2004 and 2015), and the Sarbanes-Oxley Act (2002) in the United States. These frameworks emphasized board independence, financial disclosure, internal controls, and shareholder rights to mitigate agency problems a concept derived from agency theory (Jensen & Meckling, 2019). Large corporations, with their dispersed ownership structures, required strong governance mechanisms to ensure managerial accountability. However, SMEs, which often feature concentrated ownership such as family-owned businesses or single-owner enterprises do not always exhibit the same agency conflicts (Chrisman et al., 2005). This fundamental difference has raised concerns over whether the corporate governance models developed for publicly traded firms are relevant to smaller businesses.

Despite these differences, research suggests that SMEs can derive significant benefits from adopting corporate governance principles. Studies indicate that governance mechanisms tailored to SMEs such as clear financial reporting, ethical leadership, and structured decision-making can enhance business performance, improve access to finance, and strengthen risk management (Agyemang & Castellini, 2015). Governance adoption is particularly crucial when SMEs seek external funding, as investors and financial institutions require assurances regarding financial transparency and ethical business practices (Saffi et al., 2012). Furthermore, in economies where SMEs constitute the majority of businesses, good governance practices contribute to economic stability and resilience (La Porta et al., 1999).

However, imposing rigid, standardized corporate governance codes on SMEs without considering their specific operational realities can have unintended consequences. Studies suggest that excessive regulatory compliance requirements can place a financial and administrative burden on small businesses, diverting resources from core business activities (Bennedsen et al., 2008). This highlights the need for proportionality in governance frameworks meaning that governance mechanisms should be scaled to the size, complexity, and industry characteristics of SMEs (OECD, 2021).

Recent policy discussions have increasingly focused on tailoring governance frameworks to SMEs, recognizing that governance is not a one-size-fits-all concept. In response, several countries have introduced simplified governance guidelines for smaller firms, encouraging voluntary compliance rather than strict regulatory mandates. The Wates Corporate Governance Principles for Large Private Companies (2018) in the UK and the European Union’s SME governance initiatives represent efforts to develop flexible governance codes that accommodate the needs of smaller enterprises while maintaining the integrity of corporate governance principles (Ali et al., 2021).

One of the primary barriers to governance adoption in SMEs is resource scarcity. Unlike large corporations that can allocate substantial budgets to corporate governance functions, SMEs operate with limited financial, human, and administrative resources (Bennedsen et al., 2008). Implementing governance structures such as forming independent boards, conducting financial audits, and adhering to regulatory requirements often requires expertise and funding that many small businesses simply do not possess (Chrisman et al., 2005).

Empirical studies have shown that compliance costs associated with governance regulations disproportionately affect SMEs. For example, a study by Djankov et al. (2002) found that the administrative burden of corporate governance compliance can be up to 10 times higher per employee for small firms than for large corporations. This cost disparity discourages SMEs from voluntarily adopting governance frameworks, as business owners often prioritize short-term operational survival over long-term governance improvements.

Moreover, SMEs frequently lack access to professional governance expertise. While large firms can hire corporate secretaries, compliance officers, and legal advisors, many SMEs rely on informal governance structures, often led by the owner-manager or a small group of trusted employees (Klapper & Love, 2004). The absence of formal governance training further hinders the ability of SMEs to understand and implement best practices effectively.

In many jurisdictions, corporate governance frameworks have been designed with large publicly traded companies in mind. As a result, one-size-fits-all regulations often impose excessive administrative and reporting requirements on SMEs, creating compliance burdens that outweigh the perceived benefits of governance adoption (Zahra & Pearce, 1989). Research by La Porta et al. (1999) suggests that high regulatory complexity discourages SMEs from formalizing governance structures, particularly in developing economies where institutional support may be weak.

A significant challenge is the disproportionate impact of regulatory changes on SMEs. For instance, post-financial crisis reforms such as the Sarbanes-Oxley Act (2002) in the United States introduced stricter financial reporting and internal control requirements, which while beneficial for investor protection imposed significant compliance costs on smaller businesses (Coates & Srinivasan, 2014). Similarly, in the European Union, governance reforms aimed at improving transparency in corporate reporting have been criticized for failing to account for the operational realities of SMEs (OECD, 2021).

To mitigate these challenges, some countries have introduced proportional governance frameworks, allowing SMEs to comply with simplified governance codes rather than full-scale regulatory frameworks designed for large corporations. The Wates Corporate Governance Principles for Large Private Companies (2018) in the UK and the EU's SME governance initiatives have sought to reduce compliance burdens while maintaining governance integrity (Ali et al., 2021). However, voluntary governance adoption remains low, as many SMEs still perceive governance as an unnecessary bureaucratic obligation rather than a strategic advantage.

Beyond resource and regulatory barriers, governance adoption in SMEs is also hindered by cultural and behavioral factors. Unlike large corporations, where governance structures are often mandated by law, SMEs especially family-owned businesses and sole proprietorships tend to operate based on informal decision-making processes, personal trust, and close-knit management teams (Uhlaner et al., 2004). This informality often results in resistance to external governance mechanisms, as business owners may view governance reforms as bureaucratic interference rather than value-adding strategies (Bruton et al., 2010).

A key challenge is the dominance of the owner-manager in decision-making. Studies have shown that in many SMEs, governance structures are highly centralized, with a single individual (typically the owner) exerting full control over business decisions (Gedajlovic et al., 2004). This structure can lead to governance risks, including limited accountability, conflicts of interest, and succession planning challenges. When governance reforms propose the establishment of independent boards or formalized management structures, owner-managers often perceive these changes as a threat to their autonomy (Zahra et al., 2000).

Moreover, SMEs often exhibit a short-term orientation, prioritizing immediate business survival over long-term governance improvements (Stafii et al., 2012). Research by Carney et al. (2011) indicates that SMEs with high levels of informal governance tend to focus on operational efficiency rather than transparency, leading to low adoption rates of formal governance codes. This mindset is particularly prevalent in developing economies, where informal business practices and regulatory avoidance strategies are more common (Bruton et al., 2010).

Governance adoption in SMEs is further complicated by the lack of institutional support and incentives. While large corporations often benefit from regulatory guidance, financial incentives, and advisory services, SMEs frequently struggle to navigate governance implementation due to a lack of accessible training programs, governance advisory services, and industry best practices (Bennedsen et al., 2008).

Studies highlight that governments and trade associations play a critical role in facilitating SME governance adoption by offering incentives such as tax benefits, compliance simplifications, and financial support for governance training (OECD, 2021). However, in many regions, support systems remain underdeveloped, leaving SMEs to adopt governance reforms without adequate resources or guidance (Chrisman et al., 2005).

3. Methodology

This study employs a comparative qualitative analysis to examine how corporate governance frameworks, originally designed for large corporations, can be adapted to SMEs and microenterprises. Given the inherent differences in firm size, resource availability, and regulatory exposure, a one-size-fits-all governance model is ineffective. Therefore, the methodology is structured around a multi-source data collection approach, integrating secondary research, case study analysis, and institutional policy review. This approach enables a comprehensive evaluation of governance adaptation, assessing both the benefits and challenges SMEs encounter when implementing governance principles.

The research is based on an extensive review of corporate governance literature, drawing on peer-reviewed journal articles, institutional reports (OECD, World Bank, European Commission), and regulatory guidelines relevant to SME governance. To ensure rigor, only studies published in recognized academic journals and policy documents issued by established institutions have been included. Additionally, comparative case studies have been analyzed to identify patterns in governance adoption among SMEs operating in different economic and regulatory environments. These case studies provide empirical insights into how governance models have been successfully (or unsuccessfully) adapted to SMEs, highlighting both structural challenges and best practices.

To further validate the findings, the study employs document analysis of governance codes tailored for SMEs, including the Wates Corporate Governance Principles (UK), the German Corporate Governance Code for SMEs, and the OECD's SME Policy Index. These frameworks are critically assessed to determine their applicability, level of flexibility, and effectiveness in addressing governance concerns specific to small firms. In addition, reports from financial institutions and investor groups are included to understand the governance expectations imposed on SMEs seeking external funding.

A key component of this methodology is the comparative analysis of governance adoption in SMEs versus large corporations. Table 1 below presents a structured comparison of corporate governance dimensions across firm sizes, based on governance principles outlined in the OECD (2021) and Ali & Arslan (2021).

Table 1: Corporate Governance Comparison – SMEs vs. Large Corporations

Governance aspect	**Large corporations**	**SMEs & Microenterprises**
Ownership structure	Dispersed shareholders, complex hierarchy	Family-owned, centralized decision-making
Board composition	Independent directors, multiple committees	Owner-led, informal advisory roles
Regulatory compliance	Strict compliance with governance codes	Proportional compliance, often voluntary
Financial transparency	Formalized reporting (IFRS, SOX)	Simplified financial disclosure
Risk management	Dedicated risk committees	Owner-driven, informal risk assessment
Stakeholder engagement	Shareholder-centric	Close relationships with customers, employees

Source: OECD, Principles of Corporate Governance 2021;

Corporate governance structures vary significantly depending on firm size, ownership structure, financial complexity, and regulatory exposure. While large corporations operate under strict compliance requirements and formalized governance codes, SMEs and microenterprises tend to rely on informal governance mechanisms that align with their limited resources and centralized decision-making processes. Understanding these differences is essential to developing proportional governance models that support SME growth without imposing excessive regulatory burdens.

Large corporations typically have dispersed ownership, meaning that shares are widely held by institutional investors, individual shareholders, or other corporations. This creates a separation between ownership and management, requiring strong governance mechanisms such as independent boards and shareholder voting rights to prevent conflicts of interest (La Porta et al., 1999). In contrast, SMEs and microenterprises are often family-owned or closely held, where the owner-manager has direct control over business decisions. This reduces agency problems but raises concerns over succession planning, risk-taking, and strategic decision-making, as governance structures are often personalized rather than institutionalized (Chrisman et al., 2005).

Since SMEs are usually led by a small group of decision-makers, governance interventions should focus on leadership development and succession planning rather than complex board structures. For example, advisory boards or mentor networks could provide external oversight without disrupting the firm's agility and informal decision-making process (Bennedsen et al., 2008).

Large corporations typically have formalized boards of directors, often composed of independent directors with diverse expertise. These boards are responsible for monitoring executive management, ensuring compliance, and safeguarding shareholder interests (OECD, 2021). Additionally, large firms establish specialized committees for audit, risk management, and executive compensation, ensuring transparency and reducing conflicts of interest.

SMEs, on the other hand, often have no formal board structure, and governance roles are concentrated in the hands of the owner or a small leadership team (Uhlaner et al., 2004). This centralized approach allows for faster decision-making but can lead to governance risks, such as bias in strategic choices, limited oversight, and resistance to external input (Carney et al., 2011). Research suggests that SMEs benefit from small, flexible advisory boards rather than fully structured corporate boards, allowing them to receive strategic guidance without excessive bureaucracy (Saffi et al, 2012).

Large corporations are subject to strict regulatory compliance and governance codes, such as the Sarbanes-Oxley Act (2002) in the US, the UK Corporate Governance Code, and the European Union's corporate governance directives (Coates & Srinivasan, 2014). These frameworks require detailed financial disclosures, annual reporting, and risk management protocols, ensuring transparency for investors and regulatory bodies.

For SMEs, rigid regulatory frameworks often pose a compliance burden, as they lack the financial and administrative resources to maintain extensive reporting structures (Djankov et al., 2002). Many SMEs operate under simplified or voluntary governance frameworks, focusing on basic financial reporting, informal audits, and industry-specific self-regulation (OECD, 2021). The key challenge is ensuring transparency and accountability without imposing excessive bureaucratic hurdles. Some regulatory bodies have introduced scaled compliance models, allowing SMEs to adopt proportional governance measures instead of full-scale regulatory requirements (Ali et al., 2021).

For example, the Wates Corporate Governance Principles for Large Private Companies (2018) in the UK offer voluntary governance guidelines tailored to private firms, recognizing that rigid compliance may not be suitable for smaller businesses. Similarly, some jurisdictions exempt SMEs from full external audits unless they exceed a certain revenue or employee threshold (World Bank, 2020).

One of the most significant differences between large corporations and SMEs is the level of financial transparency and risk management structures in place. Large firms follow formalized financial disclosure frameworks, such as International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP), ensuring that financial statements are externally audited and available to investors (Claessens & Yurtoglu, 2013). Risk management is also institutionalized, with dedicated committees overseeing market risks, operational risks, and regulatory compliance.

SMEs, by contrast, operate with simplified financial reporting systems, often relying on basic accounting records rather than extensive financial audits (Bennedsen et al., 2008). Many small businesses adopt cash-based accounting methods and may lack formalized internal controls, increasing their vulnerability to financial mismanagement and fraud risks (Bruton et al., 2010). Additionally, SMEs often face challenges in accessing external financing, as banks and investors require governance assurances before providing credit or investment (Klapper & Love, 2004).

To address these challenges, governance interventions should focus on financial literacy training, advisory support, and simplified reporting frameworks. Research suggests that SMEs benefit from gradual governance integration, starting with basic financial controls (e.g., independent audits, financial planning) and progressing toward more structured governance mechanisms as the business scales (Chrisman et al., 2005).

Large corporations often prioritize shareholder interests, aligning governance practices with profit maximization, dividend policies, and stock market performance. They engage in formal stakeholder management strategies, including corporate social responsibility (CSR) initiatives, employee representation, and investor relations programs (Freeman, 2010).

SMEs, however, operate within close-knit business ecosystems, where personal relationships with employees, customers, and suppliers play a greater role in governance decisions (Spence, 1999). Family-owned SMEs, in particular, face challenges in succession planning, as ownership is often passed down informally without structured transition plans (Gedajlovic et al., 2004). Research indicates that poor succession planning is a major cause of SME failure, emphasizing the need for structured yet flexible governance models that incorporate long-term leadership transition strategies (Zahra et al., 2000).

Governance interventions for SMEs should therefore emphasize stakeholder engagement through mentorship programs, family business governance training, and external advisory networks. Unlike large corporations that focus on investor relations, SMEs benefit more from relationship-based governance structures that align with their business culture and operational realities (Uhlaner et al., 2004).

6. Analysis and discussion

The implementation of corporate governance in small and medium-sized enterprises (SMEs) and microenterprises provides numerous advantages, ranging from improved financial management to enhanced investor confidence and long-term business sustainability. While corporate governance has traditionally been associated with large corporations, applying its principles to smaller firms albeit in a scaled and flexible manner can significantly contribute to their growth, stability, and credibility in the market.

One of the primary benefits of corporate governance in SMEs is increased financial discipline and transparency. Many small businesses operate with informal financial structures, often mixing personal and business finances or relying on ad-hoc financial planning. Implementing basic governance principles, such as clear accounting practices, regular financial reporting, and external audits, helps SMEs establish greater financial clarity and control. This, in turn, reduces financial mismanagement and fraud, making businesses more resilient during economic downturns and improving their ability to make informed strategic decisions.

Beyond internal financial discipline, good governance also enhances access to funding. Banks, venture capitalists, and investors are more likely to finance businesses that demonstrate governance structures ensuring accountability and risk management. An SME that implements governance mechanisms such as structured financial reporting, independent advisory boards, or ethical leadership policies is more attractive to lenders because it signals lower financial and operational risks. This access to financing is particularly critical for business expansion, innovation, and international market entry, where SMEs often struggle due to capital constraints.

Another key benefit of governance in SMEs is improved risk management. Many small businesses operate in volatile industries where sudden market changes, regulatory shifts, or economic downturns can threaten their survival. A well-governed SME, however, is better equipped to identify, assess, and mitigate risks. This does not necessarily require a formal risk management department, as in large corporations, but even simple governance practices such as scenario planning, compliance monitoring, and internal audits can significantly improve an SME's ability to anticipate and respond to challenges.

Good governance also fosters trust and credibility among key stakeholders, including customers, suppliers, employees, and regulatory authorities. SMEs that adhere to governance principles, such as ethical leadership and transparent decision-making, develop stronger relationships with business partners, ensuring long-term contracts, supplier loyalty, and customer retention. Ethical business practices and corporate social responsibility (CSR) initiatives often overlooked by small firms can enhance a company's reputation, giving it a competitive edge in the market.

From an internal perspective, corporate governance contributes to organizational stability and efficiency. Many SMEs, particularly family-owned businesses, face succession challenges, as leadership is often passed down informally without structured transition plans. Governance mechanisms, such as a succession strategy, formal leadership roles, and performance evaluation metrics, help SMEs manage ownership transitions smoothly, reducing conflicts and ensuring business continuity. Moreover, governance encourages better delegation and operational structure, preventing the common issue of over-reliance on a single decision-maker, typically the owner or founder.

Lastly, governance plays a crucial role in business sustainability and long-term growth. SMEs that incorporate governance principles such as clear strategic planning, transparent communication, and ethical operations are better positioned for longevity. Rather than operating on short-term survival strategies, governance-driven SMEs build resilient business models that can withstand economic fluctuations, regulatory changes, and market competition.

While corporate governance offers numerous benefits to SMEs and microenterprises, its implementation is not without obstacles. Unlike large corporations, smaller firms face structural, financial, and operational challenges that make governance adoption a complex and, at times, burdensome process. Governance frameworks, originally designed for large-scale enterprises, can become restrictive when applied to businesses that operate with limited resources, centralized leadership, and informal management styles. Understanding these risks is essential to developing governance models that do not hinder SME growth or impose unnecessary administrative burdens.

One of the most immediate drawbacks of governance implementation in SMEs is the cost and administrative effort required to comply with governance regulations. Large corporations have entire departments dedicated to governance, compliance, and reporting, while SMEs often operate with small teams or even a single owner handling multiplefunctions. Implementing governance measures such as independent audits, structured financial reporting, and formalized board oversight can demand resources that SMEs simply do not have.

For small businesses that operate on tight budgets, these compliance requirements can divert financial and human resources away from core business operations, potentially reducing efficiency and profitability. In some cases, SMEs are forced to hire external consultants, auditors, or legal advisors to navigate governance complexities, further increasing costs. Instead of improving business operations, governance may become a bureaucratic obstacle, especially when firms are subjected to rigid, one-size-fits-all governance mandates.

One of the primary advantages SMEs have over large corporations is their agility in decision-making. The absence of hierarchical structures allows them to quickly adapt to market changes, implement new ideas, and take risks that large companies might avoid due to excessive oversight and procedural delays. However, when governance structures introduce layers of formal decision-making such as requiring board approvals, detailed financial disclosures, and compliance checks SMEs risk losing their flexibility.

In many SMEs, business owners or small management teams make decisions based on personal experience, intuition, and direct relationships with stakeholders. When external governance mechanisms force companies to adopt formalized and bureaucratic decision-making processes, they risk becoming slow and unresponsive, losing the competitive advantage that comes from being lean and adaptable.

Governance reforms often face cultural resistance, particularly in family-owned SMEs or businesses where the owner has complete control over operations. Many SME owners see governance frameworks as an external imposition rather than a tool for business improvement. Some may resist delegating authority to independent boards or external auditors, fearing a loss of autonomy over business decisions.

Moreover, governance principles such as transparency, structured risk management, and stakeholder engagement may conflict with traditional business cultures where trust, personal relationships, and informal agreements carry more weight than written policies. In many cases, SME owners operate with a strong sense of personal identity attached to the business, making them reluctant to adopt governance mechanisms that challenge their decision-making power or introduce external scrutiny.

Regulatory frameworks for corporate governance are often designed for large enterprises, leading to over-regulation when applied to smaller firms. Many governance regulations require detailed financial reporting, formalized risk assessments, and compliance audits processes that are costly, time-consuming, and often unnecessary for SMEs.

In cases where SMEs operate in highly regulated industries, governance compliance can become a legal and financial burden, creating a cycle where businesses struggle to meet regulatory requirements, secure funding, or expand operations due to excessive governance-related costs. If the regulatory environment does not offer scaled or proportional governance requirements, SMEs may either avoid governance adoption altogether or operate in regulatory gray areas, increasing risks rather than mitigating them.

While large corporations have access to a wide network of experienced board members, SMEs and microenterprises struggle to attract independent directors or governance advisors due to their limited financial resources. Many SMEs lack the ability to offer competitive compensation packages, making it difficult to recruit qualified individuals who can genuinely add value to governance structures.

Additionally, governance principles emphasize board independence and external oversight, but SMEs especially family-owned businesses often operate in environments where decision-making is highly personal. Owners may prefer trusted family members, close associates, or long-term employees in governance roles, rather than bringing in independent directors with no personal stake in the company. This creates potential conflicts of interest, where governance structures exist only in form, but not in practice.

4. Conclusions

As corporate governance continues to shape the business landscape, one fundamental question arises: Can governance frameworks originally designed for large corporations truly serve the needs of SMEs and microenterprises without stifling their agility and entrepreneurial spirit? This study has explored both the benefits and challenges of governance adoption in smaller firms, revealing that while governance principles provide clear advantages, their rigid and uniform application can often do more harm than good.

On one hand, adopting governance structures enhances financial discipline, investor confidence, and risk management, providing SMEs with a foundation for long-term sustainability. Transparency, structured decision-making, and ethical leadership contribute to stronger stakeholder relationships and create pathways for small businesses to access external funding and expand their operations. In a world where economic volatility is a constant concern, can SMEs afford to ignore the stability that good governance offers?

On the other hand, forcing SMEs to comply with governance models designed for multinational corporations creates a costly administrative burden, slows down decision-making, and introduces layers of bureaucracy that contradict the very nature of small business flexibility. Many SME owners particularly those in family-run enterprises or sole proprietorships resist governance reforms, not because they lack an interest in accountability, but because they fear losing control over their own businesses. If governance is perceived as an external imposition rather than a business enabler, can it ever be truly effective in the SME sector?

The answer lies in a balanced, adaptive approach. Rather than enforcing one-size-fits-all governance regulations, policymakers and industry leaders must focus on tailored, proportionate governance models that support SMEs without restricting their growth and innovation. This means developing simplified reporting systems, voluntary compliance guidelines, and mentorship-driven governance solutions that encourage best practices without imposing unnecessary complexity. Governance should not be a bureaucratic burden it should be a strategic asset that strengthens SMEs while respecting their unique structures and constraints.

Ultimately, the future of corporate governance in SMEs depends on flexibility, education, and support, rather than rigid enforcement. Governance, when applied thoughtfully and proportionally, has the potential to empower small businesses, enhance their resilience, and enable them to thrive in an increasingly complex economic environment. But the key question remains: Will governance be a tool for SME growth, or will it continue to be an obligation that many small businesses struggle to embrace? The answer depends on how governance frameworks evolve to accommodate the realities of the SME sector ensuring that small firms are not left behind in the pursuit of global business standards.

Authors' Contributions:
The authors contributed equally to this work.

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