Spotlight
by CeFEO

# What happens when entrepreneurs—and not just investors—set the rules of governance?

*A systematic review of 137 studies reveals how governance works differently in entrepreneurial firms*

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Governance research has been dominated by the large corporation—dispersed shareholders, independent boards, professional managers. But most firms in the world are not large corporations. They are startups, small and medium-sized enterprises, and growth ventures where the founder still sits at the head of the table and the board may consist of three people who meet over coffee. How governance works in these settings is a fundamentally different question, and one that the field has only recently begun to take seriously.

This systematic review by Li, Terjesen, and Umans synthesizes **137 peer-reviewed articles** published across 60 journals, covering research from before 1990 through mid-2018. The scope is broad: boards of directors, ownership structures, CEO characteristics, top management teams, and the interactions among all of these in firms that are young, small, or both.

## WHAT WE STUDIED

The authors mapped the landscape of corporate governance in entrepreneurial firms (CGEFs) using a systematic methodology. They categorized the literature by governance mechanism (board, ownership, CEO, TMT), theoretical lens (agency theory, resource dependence, stewardship, upper echelons), and methodological approach. The result is both a stocktaking exercise and a research agenda—identifying what we know, what we assume, and where the gaps are widest.

The definition of governance used here is deliberately broad. It encompasses all mechanisms—formal and informal—that influence the behavior of a firm's leaders. This matters because in entrepreneurial firms, informal governance (trust, reputation, personal relationships) often carries more weight than formal structures like board committees or shareholder agreements.

## KEY INSIGHTS

### *Boards in entrepreneurial firms are resource providers, not just monitors*

The dominant finding across the reviewed studies is that boards in young and small firms serve advisory and resource-provision functions far more than monitoring functions. Directors are valued for their networks, industry expertise, and credibility with external stakeholders—not primarily for their independence. The resource dependence perspective, rather than agency theory, best explains board behavior in these settings. This has direct implications for how boards should be composed: selecting directors for what they bring to the table matters more than ticking independence boxes.

### *Ownership type shapes governance behavior in systematic ways*

The review identifies clear patterns. Venture capital investors push for professional governance practices and financial discipline. Founder-owners tend to maintain tight strategic control, which can accelerate decision-making but also create insularity. Family ownership introduces long-term orientation and commitment but may reduce board independence. The key insight is that ownership is not neutral background noise—it actively configures how every other governance mechanism operates. Treating ownership as a governance variable, not just a financial one, leads to better design choices.

### *Board effectiveness depends on context, not universal best practices*

One of the strongest conclusions from the review is that board independence, size, and diversity have no consistent main effects on firm outcomes. Their impact depends on contingencies: the firm's stage of development, its competitive environment, the nature of its ownership, and the specific strategic challenges it faces. Early-stage firms benefit most from well-connected, resource-rich directors. Growth-stage firms need more formal oversight as complexity increases. There is no one-size-fits-all governance template.

### *CEO characteristics drive strategy more than structure does*

In entrepreneurial firms, the CEO—often also the founder—exerts outsized influence on strategic direction. The review finds that CEO duality (serving as both CEO and board chair) can reduce the board's service involvement and limit strategic adaptability. Founder-CEOs bring entrepreneurial orientation but may resist external input. Top management team diversity enhances innovation capacity, but only when conflict management mechanisms are in place. Governance in these firms is as much about people as about structures.

### *Governance mechanisms co-evolve as systems*

Perhaps the most important theoretical contribution of the review is its emphasis on configurational thinking. No single governance element—board, ownership, CEO, TMT—determines outcomes in isolation. They interact, substitute for each other, and evolve together over time. Informal governance norms can compensate for weak formal structures in early stages, but as firms grow, formalization becomes necessary. Understanding governance as a dynamic system, rather than a checklist of mechanisms, is the central message.

## TAKEAWAYS

### *Design boards for contribution, not compliance*

In smaller and younger firms, the value of a board lies in what its members actively contribute—networks, expertise, mentoring—not in how many independent seats are filled. Select directors for the specific resources the firm needs at its current stage.

### *Treat ownership as a governance lever*

Whether a firm is founder-led, investor-backed, or family-controlled, ownership structure shapes governance dynamics. Making this influence explicit—and designing governance to work with it rather than against it—prevents the mismatch between formal structures and actual decision-making.

### *Match governance to the firm's development stage*

Governance that works for a five-person startup will not work for a 200-person growth company. Build in mechanisms for periodic governance review and adaptation, particularly during transitions in leadership, ownership, or strategy.

## IMPACT

This review repositions governance as a dynamic, evolving system rather than a static compliance structure. For practitioners—whether in startups, SMEs, or family-controlled firms—the message is that governance deserves the same strategic attention as market positioning or product development. The firms that govern themselves deliberately, adapting their structures to their circumstances rather than importing templates from larger organizations, are the ones most likely to sustain growth and navigate transitions successfully.

## RECOMMENDATIONS

1. **Conduct a governance audit.** Assess how well board roles, ownership structures, and executive behaviors are aligned with the firm's current stage and strategic priorities.
2. **Add directors for specific capabilities.** Recruit board or advisory board members with sector expertise or networks that address the firm's most pressing gaps.
3. **Treat succession as a governance challenge.** Leadership transitions require governance adaptation, not just a change of personnel at the top.
4. **Revisit governance annually.** As the firm evolves, so should its governance. Build periodic review into the board's calendar.

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