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ARTICLE REVIEW

GOVERNANCE THAT TRANSFORMS: GOVERNANCE STRATEGIES FOR MICRO, SMALL, AND MEDIUM ENTERPRISES IN PERNAMBUCO

GOVERNANÇA QUE TRANSFORMA: ESTRATÉGIAS DE GOVERNANÇA PARA AS MICRO, PEQUENAS E MÉDIAS EMPRESAS EM PERNAMBUCO

ABSTRACT

Purpose: This article aims to analyze the governance practices adopted by small businesses that make up the Local Productive Arrangement of Clothing in the Agreste region of Pernambuco.

Methodology/approach: This is a quantitative and descriptive study, conducted in 33 companies from the clothing, laundry, and textile sectors. Data were collected through a structured questionnaire with a Likert scale and analyzed using Microsoft Excel and the SPSS software, version 20.0.

Originality/Relevance: Although the companies adopt governance practices, there are indications that these practices need to be further developed and adopted by a greater number of companies, which happens due to limited resources.

Key findings: The results show that companies adopt practices of transparency and elements of environmental and social responsibility, bringing strategic benefits to the organization. The organizations value corporate governance practices. There is an adoption of transparency with suppliers, banks, partners, and the government, which can bring benefits to the organization, such as facilitating the acquisition of external resources. Finally, despite the existence of governance practices within the institutions, they need to invest more in this area.

Theoretical/methodological contributions: Academically, the results expand the knowledge on governance in MSMEs in the Brazilian context in the Local Productive Arrangement of Clothing in the Agreste region of Pernambuco, highlighting the relevance of governance practices in these companies. Additionally, the findings also contributed to the literature by highlighting the opportunities and challenges of this sector in the regional context.

Keywords: Corporate Governance; Micro, Small, and Medium Enterprises (MSMEs); Local Productive Arrangement (LPA); Strategic Management; Social and Environmental Responsibility.

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RESUMO

Objetivo: Este artigo tem como objetivo analisar as práticas de governança adotadas pelas pequenas empresas que compõem o Arranjo Produtivo Local de Confecções do Agreste de Pernambuco.

Metodologia/abordagem: Trata-se de um estudo quantitativo e descritivo, conduzido em 33 empresas dos setores de confecções, lavanderias e têxtil. Os dados foram coletados por meio de questionário estruturado com escala *Likert* e analisados por meio do *Microsoft Excel* e do *software* SPSS, versão 20.0.

Originalidade/Relevância: Apesar das empresas adotarem práticas de governança, há indícios de que essas práticas precisam ser mais desenvolvidas e adotadas por um número maior de empresas e isso acontece devido aos recursos limitados.

Principais conclusões: Os resultados demonstram que as empresas adotam práticas de transparência e elementos de responsabilidade ambiental e social, trazendo benefícios estratégicos à organização. As organizações valorizam práticas de governança corporativa. Existe a adoção da transparência junto aos fornecedores, bancos, sócios e governo, pode trazer benefícios à organização, como a facilitação em adquirir recursos externos. Por fim, apesar da existência de práticas de governança nas instituições, é preciso que elas invistam mais nessa área.

Contribuições teóricas/metodológicas: Academicamente, os resultados ampliam o conhecimento sobre governança em MPMEs no contexto brasileiro no APL de Confecções do Agreste de Pernambuco o que reforça a relevância de práticas de governança nessas empresas. Além disso, os achados também contribuíram para a literatura ao destacar as oportunidades e desafios desse setor no contexto regional.

Palavras-chave: Governança Corporativa; Micro, Pequenas e Médias Empresas (MPMEs); Arranjo Produtivo Local (APL); Gestão Estratégica; Responsabilidade Social e Ambiental.

1 INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) are considered one of the pillars of the economy, promoting job creation, income distribution, entrepreneurship, and local economic development. Furthermore, they contribute significantly to innovation in various sectors. However, these organizations face specific challenges, such as limited capacity to adapt to market changes and difficulty in implementing governance practices, which may compromise their long-term sustainability.

According to the Ministry of Entrepreneurship, Microenterprise, and Small Business (2024), of the 1,456,958 businesses opened in Brazil during the first quarter of 2024, 97.50% are micro or small businesses, representing more than 90% of the active organizations in the country. Although these figures highlight the importance of these organizations for the national economy, being essential for strengthening production chains, they exhibit a high mortality rate when compared to larger businesses. Data from SEBRAE (2023) indicate that 21.6% closed their operations after completing 5 years of activity. The majority of these businesses are in the commercial sector, with a percentage of 30.20% (SEBRAE, 2023).

Among the factors contributing to these figures is the difficulty of accessing bank financing and the lack of transparency in financial information. Transparency, a core principle of good governance, refers to the availability of information beyond legal requirements and regulations, creating an environment of trust between the company and its stakeholders (IBGC, 2014). The adoption of corporate governance practices can bring benefits to MSMEs, facilitating the raising of external resources and strengthening their performance (Aparicio & Kim, 2023; Nguyen et al., 2023).

Although governance mechanisms have been largely designed for large corporations, and in Brazil, especially those listed on the B3, all companies, regardless of their size, can and should adopt these principles to improve their processes and resources (AMCHAM-BH, 2011). In this regard, specific contexts, such as Local Productive Arrangements (LPAs), offer opportunities to observe and implement these practices.

Among the notable examples, the LPA of Garment Production in the Agreste of Pernambuco illustrates how corporate governance practices can be adapted to the reality of MSMEs. This region, recognized for its productive capacity and promotion of cooperation among small businesses, is considered an environment that fosters participation and cooperation as an alternative for achieving common goals (Antero et al., 2020). It represents a conducive environment for implementing governance practices adapted to the reality of MSMEs.

Thus, studying the governance practices adopted by small businesses in the Agreste of Pernambuco LPA is essential to promote the implementation of good governance models in these organizations, helping managers improve internal processes. This analysis plays an important role in promoting social inclusion and sustainable development in the region, as it provides insights into strategic decisions, strengthening transparency. Therefore, this analysis addressed the research problem: How do small businesses implement and operationalize corporate governance practices?

Given the above, this study aimed to analyze the governance practices adopted by small businesses within the Garment Production LPA of the Agreste of Pernambuco. The study sought to contribute to the literature by exploring a relatively new topic in academia, providing valuable insights into governance in micro and small businesses, as well as expanding knowledge on transparency to promote sustainable development in the region.

2 THEORETICAL FRAMEWORK

The purpose of this chapter is to address the themes that will serve as the foundation for understanding the subject at hand. To do so, it presents fundamental concepts, theoretical perspectives, and relevant approaches that support the analysis.

2.1 Principles and Importance of Corporate Governance

Corporate governance is the set of practices, guidelines, and rules that guide how companies operate, manage, and monitor their activities (Tjahjadi et al., 2021). In line with this perspective, the Brazilian Institute of Corporate Governance (IBGC, 2009), which is the main national reference on the subject, defines corporate governance (CG) as a system that guides, supervises, and stimulates companies and other organizations. According to Hakimaha et al. (2019), this concept encompasses the interactions between shareholders, the board of directors, the executive team, regulatory and oversight bodies, as well as other stakeholders. The author states that when applied effectively, CG contributes to the management of conflicts among the involved parties, focusing on protecting investors, efficiency, transparency, accountability, and mitigating agency conflicts.

Corporate governance is based on principles that should guide the functioning of organizations, providing them with greater credibility and value generation (Carmona et al., 2016; Slomski et al., 2022). Transparency, one of the essential pillars of governance (Ortega-Rodríguez et al., 2020), aims to ensure access to relevant information about the management and performance of organizations. Good CG practices provide greater transparency, communication, and alignment of interests among all involved agents, thus reducing informational asymmetry between the company and its stakeholders. Through disclosure, stakeholders can assess whether companies comply with the established contractual terms (Carmona et al., 2016).

Fonseca et al. (2016) found that transparency, through the quality of financial and accounting statements, reduces informational asymmetry and has a positive impact on stakeholders' perception. In a sample of 252 non-financial publicly traded Brazilian companies between 2000 and 2013, the authors confirmed that corporate governance was a relevant factor in determining the capital structure, having a positive effect not only on the quantity but also on the quality of debt.

Greater transparency can reduce agency problems by improving corporate information flows and appropriate accounting practices (Dunne & McBrayer, 2019; Lima & Filho-Joaquim, 2021; Obeng et al., 2021). According to Dunne & McBrayer (2019), when owners disclose more information about their businesses, creditors perceive that the company values transparency, and therefore, they may offer more favorable and less costly debt conditions. The authors agree that financial information is essential for making sound investment decisions, aiming to have timely and valuable financial reporting so that investors can use it in their investment decision-making process.

2.2 Challenges and Governance Structure in SMEs

Small and medium-sized enterprises (SMEs) face specific challenges regarding governance (OECD, 2019; Westman et al., 2021), as they are not required to comply with public disclosure rules concerning information (OECD, 2019). The lack of robust accounting practices is one of the main factors contributing to the failure of these organizations (Khadra & Delen, 2020), with the lack of financial planning and the absence of an efficient cash flow being recurring reasons for their bankruptcies (Marion, 2015). Information asymmetry is a problem present in these organizations, occurring when debtors hold more information than their financiers, such as banks, suppliers, investors, and shareholders (Pindyck & Rubinfeld, 2013).

Furthermore, according to the IBGC (2009), corporate responsibility is a critical pillar in SME governance. This responsibility dictates exactly how governance agents should act, not only focusing on profit but also on a broader horizon, including social, environmental, human, and other factors. Through this, it is understood that such factors influence the organization, and that a broad perspective on them ensures good management, bringing sustainability and longevity to the organization (IBGC, 2009).

The Ethos Institute (2003), through the report "Corporate Social Responsibility for Micro and Small Enterprises," identified some practices that small businesses can adopt, such as motivating their employees to preserve nature through recycling, reducing the consumption of paper, water, and energy. Additionally, businesses can adopt eco-friendly purchasing policies and efficiently manage resource use.

Other mechanisms can be adopted by SMEs, such as the Board of Directors (IBGC, 2009). However, these companies generally have a peculiar structure, as there is usually no separation between ownership and control, resulting in role overlap and agency problems (Americo, 2022; Fernandes, 2014; Jensen & Meckling, 1976; Lopes, 2012). This centralization can generate challenges, especially when managers lack proper training and make decisions intuitively, without the support of managerial tools (Santos et al., 2016).

On the other hand, the formation of a board of directors or the presence of a qualified leader can benefit SMEs by adding value to the strategic decision-making process (Gils, 2005; Lombardi et al., 2021). Effective boards help facilitate access to critical resources that drive organizational growth (Abor & Adjasi, 2007; Jain & Gumpert, 1980). Studies show that the composition, size, and management skills of boards have a positive influence on the profitability of SMEs (Abor & Adjasi, 2007).

Family-owned SMEs often adopt informal boards and family meetings (Montemerlo et al., 2004; Machado et al., 2013). Umrani, Johl, and Ibrahim (2015) pointed out that decisions in these companies are more centralized in the family leader and occur outside formal meetings. This governance model, characterized by the overlap between ownership and management and the absence of formally constituted boards, is very common in family SMEs (Machado et al., 2013; Ramos, 2022).

Finally, specialized consulting can be an alternative to improve governance in SMEs (Ralio & Donadone, 2015; Ramos, 2022). Sebrae's role in strengthening SMEs, with training services and management techniques. Despite this, hiring advisory services is still limited among small businesses compared to large corporations (Ralio & Donadone, 2015).

3 METHODOLOGY

This study adopts a quantitative, descriptive approach. The choice of this approach is justified by the need to accurately describe the characteristics and practices of the participating companies, providing a comprehensive understanding of the current scenario. The time horizon of this study is cross-sectional, as data collection took place at a single point in time, allowing for an instant analysis of the prevailing governance practices. The population considered included the SMEs of the Agreste Pernambuco Clothing Productive Arrangements (APLs) registered with the Federal Revenue.

For data collection, a structured questionnaire was developed, ensuring consistency in responses and facilitating the tabulation and analysis of the data (GIL, 2017; Creswell & Creswell, 2021). The development of the research instrument was based on studies about corporate governance in SMEs, relying on recognized governance principles.

The construction of the questionnaire was based on information obtained from the theoretical framework. For this, both the authors already mentioned in the framework and others relevant to the research were considered, whose contributions were essential for the formulation of the questions. Thus, the information from these sources underpinned the development of the questionnaire. Figure 1 presents the topics addressed in the questions, as well as the references that supported their formulation.

Corporate Governance	Transparency	IBGC (2014, 2009), Machado *et al* (2013), Fabro, Vargas & Philereno (2013), Almeida & Santos. (2010).
	Accountability	IBGC (2014, 2009), Machado et al (2013), Dube et al. (2011).
	Advisory Board	IBGC (2014, 2009), Machado *et al* (2013).
	Social and Environmental Responsibility	IBGC (2014, 2009)

Frame 1. Detailing of the applied questionnaire
Source: Authors of the article (2024)

The applied questionnaire was divided into two sections: the first addressed the characteristics of SMEs concerning social aspects; while the second investigated the adoption of corporate governance mechanisms. In this way, 26 statements were formulated, answered on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Data collection was conducted in 03 representative cities of the Agreste Pernambuco APL: Caruaru, Toritama, and Santa Cruz do Capibaribe. These three municipalities were chosen because they are the main textile hubs of the Agreste Pernambuco APL, due to their economic relevance and also their productive complementarity. The visited companies included clothing factories, laundries, and textile industries. To obtain more robust information, the data was preferably collected directly from the company owners; however, when this was not possible, managers provided the necessary information. The data collection period lasted one month and 15 days, during which 85 organizations were visited, resulting in 33 valid responses for analysis.

The collected data were tabulated and analyzed with the help of Microsoft Excel and the Statistical Package for the Social Sciences (SPSS) software, version 20.0. Descriptive statistics were used to describe and summarize the data, employing frequencies, means, and standard deviations as needed, providing an overview of the governance practices adopted.

4 RESULTS AND DISCUSSION

In this section, the results of the research were presented and discussed, aiming to analyze the governance practices adopted by small businesses that make up the Textile Production Arrangements (APLs) in the Agreste region of Pernambuco. To maximize the accuracy of the data, efforts were made to collect the data directly from the business owners, who represented 60.6% of the respondents, while 39.4% were managers, as shown in Table 1.

The survey of the demographic profile of the 33 respondents revealed that 48.5% were female, 9.1% identified as male, and 42.4% chose not to specify their gender. Regarding age range, the most represented groups were between 20 to 25 years and 30 to 35 years, each accounting for 24.2% of the respondents.

Regarding education level, it was observed that the majority (57.6%) had higher education, with 42.4% having already completed their degree. This finding suggests that academic education plays a key role in the management of SMEs in the garment sector, demonstrating the importance of a higher education degree for operational efficiency. In addition to education, another relevant characteristic for the proper functioning of an organization is linked to the experience of its managers. It was observed that the average experience was approximately 9 years, with a range varying between 2 and 35 years.

In the analysis of financial management, it was found that 66.7% of the companies were financially managed by their owners, while only 30.3% delegated this function to accountants. This result demonstrates the high concentration of decision-making power in SMEs (Deconto et al., 2023), where the owner accumulates control functions. This behavior corroborates Hart’s (1995) observations about the tendency to avoid delegating critical tasks, such as financial management, to minimize capital dispersion risks and avoid trust issues.

This concentration is further supported when investigating the ownership structure of the companies (Table 1), which found that the vast majority had only one partner (54.5%), with some informally indicating that it was the spouse. 39.4% of them had no partners. In the SME segment, this finding seems to be expected, as these businesses often result from individual entrepreneurs' initiatives. Regarding the majority partner's participation in the company’s capital, it was found that in 72.7% of the cases, they did not solely own the entire capital of the company.

Table 1. – Overview of the respondents' profile and characteristics of SMEs

Respondent's Role		**Age Range**	
Owners	60,6%	Between 20 and 25 years	24,2%
Managers	39,4%	Above 26 up to 30 years	18,2%
Gender		Above 30 up to 35 years	24,2%
Female	48,5%	Above 36 up to 40 years	18,2%
Male	9,1%	Above 41 up to 46 years	12,1%
Other	42,4%	Above 46	3,1%
Level of Education		**Ownership Structure**	

1 Incomplete Elementary School 1 Complete Elementary School 2 Incomplete High School 2 Complete High School 3 Incomplete Higher Education 4 Complete Higher Education 5 Postgraduate Education	3,0% 0,0% 6,1% 33,3% 15,2% 33,3% 9,1%	**Number of Partners** Sole owner One partner Two or more partners **% Majority Partner** 100% of the capital Less than 100%	 39,4% 54,5% 6,1% 27,3% 72,7%
Business Management		**Average Number of Employees and Time**	
Owner Accountant Partner	66,7% 30,3% 3,0%	Average Number of Employees Time in the Market	27,17 12,82
Company Size		**Business Experience**	
Microenterprise Small Enterprise Medium Enterprise	21,2% 69,7% 9,1	Average Standard Deviation	8,94 7,60

Source: Authors of the article (2024)

The characteristics of the analyzed companies revealed a predominance of small companies (69.7%), followed by microenterprises (21.2%) and medium-sized companies (9.1%). The classification criterion for company size was based on revenue, as many of these companies outsource all production. The number of employees they have in their workforce averaged 27.17 per company. Regarding their time in the market, the companies have an average of 13 years of operation, surpassing the period of greatest vulnerability for survival, since according to SEBRAE (2024), 40% of organizations in the country close their activities before completing 5 years. Moreover, small businesses have the lowest survival rate, regardless of the technological intensity of the sectors (Botelho et al., 2022).

4.1 Corporate Governance Practices Adopted by Small Businesses

This section aims to present the results related to the adoption of governance mechanisms in micro, small, and medium-sized enterprises (MSMEs) located in the Productive Local Arrangement (APL) of textiles in the Agreste region of Pernambuco. Considering that corporate governance is rarely explored in this context, the observations regarding the practices adopted by the companies were formulated based on the reality of these organizations. The main aspects addressed include transparency, accountability, boards, and corporate responsibility, with an emphasis on environmental and social dimensions.

At the beginning of the investigation, managers were asked about the implementation of transparency. The most widely adopted practice within the companies was the provision of information to the partners, with 61% of the respondents strongly agreeing and 15% partially agreeing. All partners have equal rights to access information, reflecting a fair and equitable approach. Rocca (2007) highlights that effective governance increases the company's reliability in the market, attracting new investors. Governance, as a system that guides, monitors, and encourages companies, emphasizes the relationship between the partners (IBGC, 2014).

Regarding stakeholders, especially credit providers, it is observed that 40% of the respondents strongly agree and 24% partially agree regarding the provision of information. This indicates that most of the companies surveyed provide such information to their creditors. The information shared with stakeholders includes complete data about the business, the risks associated with it, and details about other company debts.

Although small businesses are not required to make formal disclosures (OECD, 2019), the practice of releasing information tends to be viewed positively by suppliers, which contributes to maintaining a good relationship and facilitates access to credit (IBGC, 2014). Therefore, MSMEs are required to be more transparent, enabling creditors to make a more detailed assessment of the company's financial health, reducing risks in granting loans.

The statements from the second block, still related to transparency, consider information involving the organization as a whole. The managers indicated that, for most of the companies surveyed, the transparency of information is an established practice, as most strongly or partially agreed. This means that information about the company's objectives, current and future goals, significant changes in the business, and truthful data to be shared with credit providers are regularly made available.

When properly implemented, corporate governance (CG) plays a central role in managing conflicts between the parties involved, such as owners and creditors, by promoting efficiency, transparency, and accountability. Its aim is to minimize agency conflicts, protecting the interests of investors (Hakimaha et al., 2019). Furthermore, Almeida & Santos (2010) pointed out that companies that disclose more information to the market find it easier to raise resources through debt.

Moreover, 64% of the owners strongly or partially agree regarding the importance of providing information beyond that required by creditors, as this helps in obtaining financial resources. Providing information beyond the required is a means of mitigating information asymmetry, as debtors generally hold more information about their business than their financiers, such as banks, suppliers, investors, and shareholders (Pindyck & Rubinfeld, 2013). Therefore, when owners disclose more information about their companies, creditors perceive that the company values transparency, which may result in less burdensome debt (Dunne & McBrayer, 2019).

The governance issues address aspects related to accountability through the preparation and availability of accounting, financial, and management reports. In general, most of the managers agreed, even if partially, with the importance of the following reports: Cash Flow Management (70%), Balance Sheet (67%), Crisis Management Planning (64%), Income Statement (58%), and Annual Financial Planning (55%).

Marion (2015) observes that the absence of accounting artifacts in the management of companies is one of the main factors contributing to their failure, with the lack of financial planning or the omission of cash flow being recurring causes of bankruptcies. Although this reality described by the author is common in small businesses, the results of this study demonstrate a different reality. According to this research, most of the organizations surveyed aim to prepare these reports. The goal is to produce timely and valuable financial information that can be used by creditors in the decision-making process regarding investments.

Regarding the crisis management report, the owners informally highlighted its preparation and importance, especially during the pandemic, as in times of crisis, the failure rate of MSMEs tends to increase. The crisis management plan becomes essential due to the need for scenario assessment and a quick response, enabling institutions to remain in the market and meet their commitments.

On the other hand, the report on credit management granted to clients is not a widely adopted practice, with 48% of the respondents indicating that they do not prepare such a document. Although this report is crucial for controlling the timing and inflows of resources, many entrepreneurs limit themselves to tax-related information. Schuster et al. (2017) found that 65% of entrepreneurs use accounting information only for legal requirements and not in a strategic way, even though 55% of them claim to always or frequently use balance sheet and/or financial indicator analyses to assist in business management.

In line with previous findings, Ramos et al. (2017) found that, in a sample of 55 micro and small companies from the APL of textiles in Pernambuco, 49% of these organizations do not prepare accounting and financial reports, limiting themselves to those required by law. This suggests that decisions are often made subjectively, without the support of structured information that facilitates choosing the best option.

Another governance mechanism analyzed in this research concerning small businesses was the presence of a board. The board of directors is widely recognized as one of the main governance mechanisms, as pointed out by several authors (IBGC, 2009). Due to this, it was investigated whether the companies had an advisory board or a qualified person to assume functions typical of a board.

The data showed that, in most organizations, managers agreed, albeit moderately, on the existence of a board or a qualified person within the organization. When asked about the decision-making process regarding the most important decisions, 40% of the managers strongly affirmed that these were made in a board, while 18% partially agreed with this statement. The respondents indicated that the most common board model in the surveyed companies is the family board, often informal, due to the dominant presence of the family and the centrality of the owner's figure.

These results corroborate the existing literature on the topic. Cambridge Family Enterprises Group (2024) identified that in some family-owned businesses, the leadership structure is combined, with the CEO serving as the chairman of the board. Additionally, studies have also demonstrated that family boards and informal meetings among shareholders play a much more important role than the formal board of directors in Italian family SMEs (Montemerlo et al., 2004). Agreeing with this point, Umrani et al. (2015) identified that, in SMEs, decisions tend to be made by the family head, with the participation of family members outside the formal meeting environment. In a study conducted by Machado et al. (2013) in a small family business, it was identified that there are no formally established boards, and administrative decisions are made in informal family board meetings, similar results were found in this research.

Regarding the board and its attributes, the results obtained indicated that the majority of managers agree, to a greater or lesser extent, on having the necessary qualities to form an effective board. The respondents highlighted that the board members or those responsible for management possess academic or technical skills, which aligns with the level of education of the owners, as 57.6% of them completed higher education. This shows that small business owners partially recognize the importance of professional training for business management and sustainability, corroborating what Freire et al. (2011) state. Another relevant aspect identified was market experience, which received the highest agreement rate among participants, considering the options "strongly agree" and "somewhat agree."

Moreover, the respondents also positively reported the regularity of board meetings, with 27% of participants stating that they occur consistently. This data suggests that the board is active, and the companies may benefit from a properly functioning board, adding value to the strategic decision-making process, making it more structured and less intuitive (Gils, 2005). The board is also seen as an important tool that can facilitate access to critical resources, essential for business success. Board members offer expertise and knowledge on available financing options, as well as strategies to overcome credit restrictions and ensure access to funding (Abor & Adjasi, 2007; Jain & Gumpert, 1980).

Regarding the use of external consulting, which can be seen as a form of advisory aimed at improving business management, 51% of the respondents indicated adopting this practice (31% strongly and 21% moderately). Schuster & Friedrich (2017) highlight that 75% of the entrepreneurs interviewed believe that business consulting can promote significant improvements in financial management of SMEs, as consultants help identify the most suitable type of financing for each company's risk profile and development stage. Ralio and Donadone (2015) report Sebrae's role in strengthening SMEs by offering management techniques and training services, at a more affordable price than market consulting firms. However, the authors observe that while 72% of large private companies (with more than 500 employees) hired management advisory, only 33% of SMEs adopted this practice in the two-year period analyzed.

The final set of assertions refers to corporate responsibility, divided between environmental and social aspects. The respondents demonstrated the adoption of some of the practices addressed. According to the Ethos Institute (2003), environmental and social practices can generate profits and competitive advantages by improving the company’s image both internally and externally. Wendry et al. (2023) corroborate this idea, stating that effective corporate governance is essential to creating an attractive environment, contributing to business success, and enabling competitive advantage in well-structured capital markets.

It is observed that the majority of respondents, agreeing strongly or moderately, stated that they have recycling and resource reuse programs, recognizing that these practices contribute to environmental preservation. The only statement related to the environmental issue that did not receive the majority of respondents' support was the preference for purchasing products that harm the environment less. One of the factors influencing this is the price of the products.

Regarding the results related to social responsibility, the Ethos Institute (2003) reports that one of the most important practices refers to post-sales service to customers, aiming to offer the best possible product or service. The surveyed companies also indicated that social responsibility practices are relevant and adopted in their operations, reflecting a commitment to social well-being and fulfilling their business responsibilities.

In summary, the context presented regarding the adoption of corporate governance practices by micro, small, and medium-sized enterprises demonstrates that the respondents recognize their importance and adopt such practices. Good corporate governance practices are seen as factors that facilitate the acquisition of external resources and also preserve and enhance the organization's value, contributing to its longevity.

5 CONCLUSION

Micro, small, and medium-sized enterprises (MSMEs) are essential for the economy and innovation; however, they face adaptation and governance challenges that affect their long-term survival. The Local Productive Arrangement (LPA) of Confecções in the Agreste of Pernambuco is an example of a favorable environment for the study and implementation of governance practices adapted to MSMEs in Brazil, as it has economic dynamism and market relevance. Thus, this article aimed to analyze the governance practices adopted by the small businesses that make up the LPA of Confecções in the Agreste of Pernambuco.

Among the main findings of the study, it was observed that most of the business owners in the LPA have a higher education degree, which reinforces the importance of academic education in MSME management. A large portion of these companies has a single partner who also directly manages the finances, concentrating decision-making power in their hands. It is important to mention that many of these organizations have already surpassed the critical period of market survival.

Another important point observed is that these organizations value corporate governance practices: out of the 26 practices described, the companies agreed with 24 of them. The respondents reported that adopting transparency with suppliers, banks, partners, and the government can bring benefits to the organization, such as facilitating the acquisition of external resources. This reality is confirmed by the preparation of detailed accounting reports, which, although not mandatory for small businesses, were made available as a means to facilitate access to credit and improve management.

Regarding practices related to the board, the respondents, for the most part, indicated that it is important for key decisions to occur in a board, which helps in making efficient and effective decisions. They also emphasized that qualification is important, and many agreed on the significance of academic/technical qualification and experience, demonstrating that it is important for managers to be prepared for their roles. Finally, the respondents stated that environmental and social practices are important because they benefit the companies regarding their image in the market and contribute to cost reduction.

In summary, it was identified that the companies adopt governance practices; however, there are indications that these practices need to be further developed and adopted by a larger number of companies, and this happens due to limited resources. The results identified in this study aimed to guide better management practices and encourage the adoption of governance mechanisms in small businesses. Thus, the study provides important managerial contributions by emphasizing that transparency with stakeholders benefits the company and helps improve its organizational strategy. Environmental and social practices, in turn, contribute to the company's image and more efficient operations.

For social purposes, the contributions demonstrate that companies aim not only for economic returns but also adopt socially responsible practices. Academically, the results expand the knowledge about governance in MSMEs in the Brazilian context, especially in the LPA of Confecções in the Agreste of Pernambuco, reinforcing the relevance of governance practices in these businesses. Furthermore, the findings also contributed to the literature by highlighting the opportunities and challenges of this sector in the regional context.

The main limitation of the study focused on identifying the points that should have been addressed with the managers to understand the governance aspect in these companies. This factor may have directed the research towards a specific set of practices, without covering other perspectives that could enrich the analysis. However, the detailed literature review helped mitigate this impact by guiding the research towards the essential elements of governance. Still, some specific information, such as the creation of advisory boards and the financial impact of transparency, was not addressed.

To overcome this limitation in future studies, it is suggested to conduct preliminary exploratory interviews with experts and adopt mixed methodologies that combine document analysis with in-depth interviews or focus groups with managers. Furthermore, it is suggested that other authors conduct similar studies involving a larger number of companies, as well as further investigating the governance practices adopted by these organizations. A relevant suggestion for the managerial field would be to investigate the financial impact of governance practices, such as transparency, on company performance, through financial reports, internal company documents, and stakeholder feedback.

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