

Private Sector Opinion

Governance for SME Sustainability and Growth

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As small and medium enterprises (SMEs) evolve from start-up to maturity, they need to “grow into governance.” This paper introduces the IFC Governance Methodology for SMEs, a governance model designed to support the organic growth of small and mid-size businesses by offering solutions that are fit for purpose through each stage of their evolution.

Foreword

Significant changes in the global economic environment require major improvements in the governance of organizations. Such improvements are essential for SMEs led by an entrepreneur (or *patron*, in Spanish and French). These small businesses have a major impact on the economy as a main source of new jobs and are strong contributors to innovation. However, as a result of poor management and inadequate governance practices, SMEs experience a high rate of failure during their early stages.

Plenty of information is available on how to improve existing governance structures in SMEs. But very few resources focus on the initial stages of growth in a company with only a successful CEO (in this case, “chief *entrepreneur* officer”) responsible for what to do to develop good practices and assure sustainability.

This paper introduces IFC’s “growth-oriented governance model for SMEs,” a very effective tool for entrepreneurs around the world. It will be useful for business owners as well as governments, academics, and governance professionals.

I had the opportunity to advise SMEs in South America and in the United Arab Emirates, sometimes in one-day company seminars or with small groups of chief executive officers from different kinds of businesses. I was especially impressed with the excellent proposals on “what to do during the first year, to start with,” particularly in the groups of peers from different companies. It was noteworthy that all agreed that the recommendations must be good for their business at each stage of the corporate governance journey, which closely resonates with the main point of the IFC Governance Methodology.

For example, with some smaller companies, I found that it was initially helpful for the owner to have an adviser with whom to discuss ideas, as the methodology



About IFC Corporate Governance Group

The Group brings together staff from investment support and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

suggests. Just the process of presenting a project to an outside adviser usually significantly improves the entrepreneur's own knowledge of the subject, and further improvement comes with fielding the adviser's questions. This is one of the most basic methods for management improvement, and it paves the way for later establishment of a good board of directors for guidance and approval of strategies and plans.

The framework also addresses other major concerns that I observed in SMEs. For example, it helps small businesses improve company culture and guides family-owned businesses through the process of formalizing family engagement through bodies such as family councils.

This paper makes an excellent contribution to corporate governance knowledge. For entrepreneurs and professionals it offers practical guidance for improving governance.

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Introduction

Good governance is important for the growth and sustainability of organizations of all types and all sizes—large, medium, and small. While it is widely accepted that “one size does not fit all” (for example, Arcot and Bruno 2006), there is far less research and guidance on good governance for small and medium companies.

Instead, most of the governance guidance currently available for SMEs amounts to scaled-down versions of governance solutions developed for larger, listed companies. This approach fails to account for a variety of unique SME risks, characteristics, and practices² and thus has limited applicability in helping SME leaders fulfill their companies’ purpose and potential. This is especially true in emerging markets where companies often operate with severe resource constraints.

For SMEs to benefit from the introduction of good governance, a fundamental shift in the overall approach is necessary. We need to help SMEs grow into governance organically by offering solutions that are fit for purpose as the company evolves from start-up to mature business.

This paper introduces the IFC Governance Methodology for SMEs, originally developed by a multiregional team of IFC governance specialists³ and based on an innovative approach:

- We started from the distinctive realities of SMEs at different organizational stages of growth.
- Then we identified specific challenges that SMEs need to overcome at each stage.
- Finally, we outlined governance-related tools and practices to help companies overcome these challenges and progress to the next stage of development.

The methodology is explained in detail in the IFC *SME Governance Guidebook*, to be published in 2019. In this short paper, we provide a high-level outline of our approach to SME governance methodology and how it can help companies grow and compete.

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² For a good recent report on SME governance practices, see ACCA 2018.

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Business Case for the New Approach to Governance of SMEs

“Classic” corporate governance—developed initially for large publicly traded companies—is defined as the structures and processes by which companies are directed and controlled. Many guidance documents and industry, national, and sector codes relating to corporate governance have been written, starting with the Cadbury Report (Cadbury 1992). However, there is relatively little material that focuses directly on the specific governance needs of SMEs. We can roughly group the existing SME-related material into three categories:

1. Code-type documents developed for unlisted companies. One of the leading such documents was developed by European Confederation of Director Associations (ecoDa) in 2010. *Corporate Governance Guidance and Principles for Unlisted Companies in Europe* (ecoDa 2010) uses a phased approach, making a distinction between the use of a basic framework that applies to all companies, including the smaller and less complex organizations, and then more sophisticated measures for larger and complex organizations. EcoDa, like the others in this group, advocates a proportionate and tailored approach, but the recommendations are still relatively broad so as to apply to a wide range of companies.
2. Code-type documents with a section that specifies how listed, larger company guidance can be interpreted and applied by SMEs or that explicitly include SMEs in their scope. A good example of this approach is Southern Africa IoD’s *Governance in SMEs—A Guide to the Application of Corporate Governance in Small and Medium Enterprises* (IoDSA Undated).
3. Guidance documents that aim to account for the heterogeneity of SMEs by varying recommendations depending on key company characteristics, most commonly size, organizational complexity, and shareholding structure. A great example of this approach is *Guidelines on Corporate Governance for SMEs in Hong Kong* (HKIoD 2009).

IFC has built on this foundation by adding another element: firm growth. As a development institution, IFC wants SMEs not merely to survive but also to grow and prosper. The governance recommendations should not only help the company succeed at its current stage of development (size, revenue, complexity, and so on) but also help it create conditions for moving to the next stage. It is a growth-oriented governance model.

Governance recommendations should not only help the company succeed at its current stage of development. . .but also help it create conditions for moving to the next stage.

Stages of SME Growth

A lot of literature is available on the topic of company growth and evolution, largely under the broad umbrella of organizational lifecycle models.³ Collectively, there is no academic agreement on the number, sequence, and movement of stages, but we can see that the conditions vary along similar patterns as the SMEs grow, and there are common challenges at various stages of their development.

These challenges stem from the very nature of SMEs, many of which start as family businesses that typically experience organic growth (World Bank 2018). This organic and periodically rapid growth—combined with ambiguity of business roles, an informal approach to business policies and procedures, family involvement at various levels, and an often insulated leadership—leads to episodes of crisis or special challenges that need to be overcome if the organization is to survive and move to the next stage.

³ For short and practical literature reviews on the topic, we recommend Matejun and Mikoláš 2017 and Nördström, Eun Choi, and Llorach 2012.

For purposes of practical orientation and support we have defined four common stages or states that emerge in company evolution; these four stages not only are intuitively plausible, but they also resonate with IFC practical experience in SME-related governance consulting and advisory services:⁴

Stage 1: Start-Up. Product/service development and market testing are the first priorities. The company thrives under the entrepreneurial and often authoritarian leadership of the founder. Resources are stretched, and little priority is given to organizational development. “Small and informal” works well—until scaling operations and sales growth become urgent necessities.

Stage 2: Active Growth. Need for growth through sales, people, and increasing complexity are the defining features of this stage. This growth remains largely organic, unplanned, and unbalanced, which works well until the company becomes so big or so imbalanced and unconnected that organic growth reaches its limit. Systemic organizational development becomes a necessity.

Stage 3: Organizational Development. Once the organization has grown in size and complexity, it becomes a priority to correct the imbalances and develop the organization through specialization, professional policies, structures, and staff. The focus is on the company itself.

Stage 4: Business Expansion. Additional capital is often needed to take the organization to the next level. When this capital comes in the form of equity, an increase in the number of shareholders necessitates more formality in the corporate governance arrangements.⁵ The company’s governance starts taking on the characteristics of “classic corporate governance,” including a board of directors.

Transitions are not necessarily linear, unidirectional, sequenced, and deterministic.

Transitions are not necessarily linear, unidirectional, sequenced, and deterministic. For example, the company can fail at any stage, or it can regress from a higher stage to a lower one.

In Stages 1–3, the catalyst for change is most often the increasing business complexity precipitated by organizational growth. In the later stages (Stages 3–4), the transition is usually stimulated by a significant change in ownership.

We stop at Stage 4, because this is where the company becomes sophisticated enough to start using “standard” corporate governance guidance for unlisted companies, which is already abundant.

Specific Stage Characteristics

To understand how corporate governance could offer practical solutions for companies at different stages of their evolution, we need to better understand specific characteristics of those stages as they relate to governance. All corporate governance practice deals with a common set of principles, namely how to direct, control, and hold the organization to account, and that includes relations with the shareholders as well as the culture and commitment that pervades all these dimensions. We thus have identified five governance topics for analysis (Figure 1, next page).

These five topics draw on the IFC Corporate Governance Framework, which in turn is based on the OECD Corporate Governance Principles. Therefore, SMEs working with the IFC SME Governance Methodology will be able to graduate naturally into “corporate” governance as they become large companies.

⁴ IFC Corporate Governance Advisory Services in the Middle East and North Africa, for example, has provided advice and training services to SMEs for more than 15 years.

⁵ Complexity of the shareholding structure also may increase as the result of the founders passing the business to the next generation or inviting managers to become partners.

Figure 1: SME Governance Topics in Relation to the Organizational Governance Principles



Specifically, these topics aim to analyze the following:

- A. **Culture and commitment to good governance** is expressed in the policies, processes, and organizational structure.
- B. **Decision making and strategic oversight** pertains to who makes decisions that determine the direction of the organization, and how those decisions are made. The category also covers related topics of human resource management and succession planning.
- C. **Risk governance and internal controls** describes people and processes used to identify, assess, and control risks. This involves the oversight of internal controls, internal audit, and external audit.
- D. **Disclosure and transparency** involves providing appropriate information to external stakeholders (such as shareholders, family members, and the providers of capital) as well as communicating with internal stakeholders in appropriate and empowering ways.
- E. **Ownership** covers the role of the family in running the business, rights of shareholders, and shareholder dispute resolution.

Leaders and advisers of an organization can determine what stage best describes that organization's experience—and anticipate the challenges ahead—by matching their organizational characteristics to the descriptors in Table 1:

Table 1: Evolution of Governance Topics for SMEs

Defining Factors/Parameters	Stage 1 START-UP	Stage 2 ACTIVE GROWTH	Stage 3 ORGANIZATIONAL DEVELOPMENT	Stage 4 BUSINESS EXPANSION
Size*	Small (<50 employees)	Small to Medium (50–75 employees)	Medium (76–150 employees)	Medium Growing (151–250 employees)
Enterprise Focus	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
Culture and Commitment to Good Governance (Policies, processes, and organizational structure)	Small multitasking team High degree of informality Few systems, established “on the go”	Team is growing—distinct functions and organizational structure start emerging Simple systems to enable functions to collaborate	Increased professionalization of functions Formalizing organizational structure, policies, and procedures	Continuation of trends started in Stage 3
Decision Making and Strategic Oversight (Decision-making process and bodies, leadership style.)	Highly centralized decision making by the founder(s) Autocratic leadership style	Emergence of delegation to management Consultative leadership style—largely autocratic but with input from key managers and advisers	Professional managers are hired Decentralization of authority through division/functional management Collaborative management style	Separation of strategic and operational decision making Institutional decision-making style, based on defined organizational structure, roles, and procedures
Risk Governance and Internal Controls (Internal checks and balances)	Founders are fully involved in operations—limited need for checks and balances	Introducing internal controls to support delegation of authority	Detailing authorities and accountability Systems are formalized and automated Developing practices to control main operational risks	Focus on proactive and strategic risk management
Disclosure and Transparency (Communication with internal and external stakeholders)	Everyone knows everything	Silos—good within, but challenging between silos Basic external information shared on products offered	Internally: improving cross-divisional/functional information sharing Enhanced external business-related information	Optimizing communication between management, board, and shareholders
Ownership (Founders/-shareholders/family)	Single owner or couple of individuals Founders personally control every aspect of business	New minority shareholders possible (internal or related) Founders remain dominant and fully engaged Increasing number of family members becoming involved in operations	New minority shareholders possible (internal or related) New investors informally influence strategy but are not directly involved in operations (If a major investor enters, company moves to Stage 4)	Common options: a. Founders, private equity, and other investors b. Growing family ownership/generational change c. Go public (IPO) Investors require tools for control and direction of the company

* May vary by industry, so this guidance is intended to be broadly indicative.

SME Challenges and Focus of Stage-Specific Governance

What we have shown thus far is that it is possible to identify patterns in the governance-related characteristics of SMEs in different stages of development, and that these vary according to the evolution of the organization itself (internal dimensions) and its evolution in relation to providers of capital and the family. Once we understand these characteristics, we can see that they present very specific challenges to a company's prosperity and growth.

This has direct implications for how “traditional” corporate governance needs to be changed to help SMEs survive and grow sustainably. Good governance for SMEs needs to focus on the attitudes, behaviors, systems, and organizational values that help it overcome the stage-specific challenges in cost-efficient ways. In our experience, such an approach finds much greater resonance among founders, entrepreneurs, and their advisers than does a single common set of standards and practices that applies to all SMEs equally.

Good governance for SMEs needs to focus on the attitudes, behaviors, systems, and organizational values that help it overcome the stage-specific challenges in cost-efficient ways.

Table 2 broadly summarizes typical challenges that are characteristic of each stage of development, and the overall focus of stage-specific governance recommendations that can benefit companies the most.

Table 2: The Four Stages of SME Evolution

 Stage 1 Start-Up Business	 Stage 2 Active Growth	 Stage 3 Organizational Development	 Stage 4 Business Expansion
<p>The challenge is to allow the founders to fully realize their ideas and apply expertise with flexibility and drive while minimizing risks from lack of discipline and myopic leadership.</p> <p>Recommendations focus on adopting informal mechanisms for incorporating external advice, implementing cost-effective systems for cash flow management, identifying core functions needed for further growth, and starting a gradual shift toward more inclusive management and longer-term strategy.</p>	<p>The challenge is that the company is still in the process of defining its strategy and business model, so the founder's role remains essential and retaining flexibility is paramount; yet focus on sales demands increasing organizational size, professionalization of functions, and delegation and decentralization of decision making.</p> <p>Recommendations focus on developing basic organizational structure and processes. The company should start defining its approach to operational and strategic decision making. The founder/CEO should learn to delegate and to consult with key personnel and external advisers before making important decisions. Internal controls should be introduced to promote accountability and to secure assets.</p>	<p>The challenge is that the company has grown dramatically in size and complexity; it has multiple centers of professional expertise, yet its structure and processes remain largely informal, often unbalanced, with blurred lines of authority and responsibility. The business needs to be professionalized while minimizing disruptions, bureaucracy, and staff tensions.</p> <p>Recommendations focus on governance practices that support the need for good administration, documentation of processes and procedures, structured decision making, and professional management. Overall, the decision making should become more decentralized and collaborative.</p>	<p>The challenge is to manage an expanding shareholder base by instituting a governance system similar to that of large organizations, but without hampering entrepreneurial spirit and creating a slowdown because of ineffective and costly bureaucracy.</p> <p>Recommendations provide support for building “traditional” corporate governance institutions and policies (such as a board of directors) to balance interests of various shareholders, to bring in new expertise and perspectives, and to support development of long-term strategy. External investors and professional boards require strong risk management, good internal controls, and reliable financial and nonfinancial reporting.</p>

Some of the recommendations in Table 2, especially at Stages 1–3, relate more to management than to what is traditionally understood as “governance.” This is intentional. Certain management issues need to be addressed before governance can start to be effectively implemented. These might be called “pre-governance” issues, and they are an essential part of the SME governance agenda.

Let’s illustrate some of the recommendations in the table with a few examples to show how SME governance differs from that of larger companies, and why the recommended solutions evolve as the companies grow.

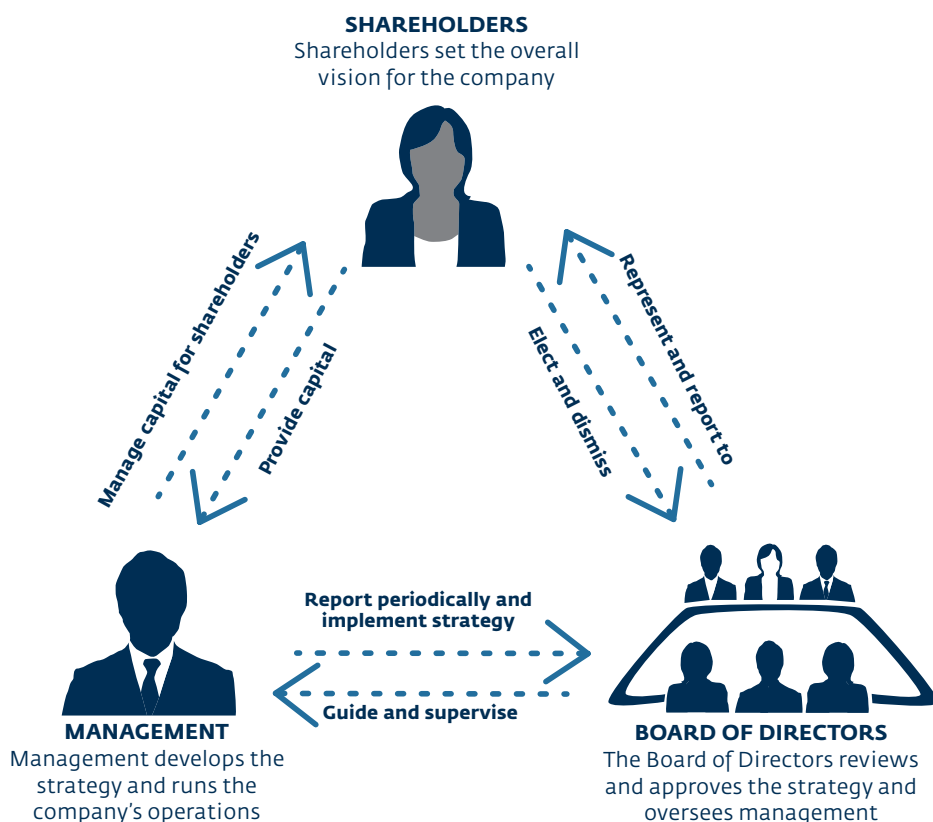
For example, SMEs in the early stages of development (1–2) are typically operated and owned by the same person or a small group of people. Yet much of classic corporate governance theory and practice are related to principal-agent risks, which arise when ownership is separate from control. (See Figure 2.) Therefore, the “classic” corporate governance focus on the interaction among three key decision-making bodies—shareholders, board of directors, and management—does not reflect the needs and realities of an SME. Since the business is relatively small and simple and the shareholders are fully engaged in operations, an SME also finds very limited appeal in the classic governance function of oversight and control.

Pushing classic corporate governance on smaller, simpler early-stage companies can be very counterproductive.

Pushing classic corporate governance on smaller, simpler early-stage companies can be very counterproductive. The SME owners feel a sense of danger from potential loss of control as they are told to give up decision-making power, possibly even to independent non-executive directors. They cannot see how their situations would warrant that, and the cost-benefit analysis of other elaborate governance solutions feels fundamentally wrong.

At the same time, early-stage companies do need to set effective strategic direction; so they do have a business need for the value-adding function of strategic guidance and advice that governance provides. The founder who is just beginning to delegate operational decisions is highly unlikely to

Figure 2: The Main Actors: Shareholders, Board of Directors, and Management



share strategic decision-making power with outsiders (such as an independent board of directors). The more appropriate recommendation is that he or she should engage external advisers and leverage the expertise of the company's management talent in the form of an informal executive committee.

If the company develops viable products and services and experiences initial "proof-of-concept" growth, then increased business complexity will lead to the growing need for the classic governance function of oversight and control (Stages 3–4). More importantly, companies would typically require financing to support further growth. If that financing is to come in the form of equity (Stage 4), more independent corporate governance arrangements start making more business sense.

Investors typically screen companies for minimum acceptable governance practices and are willing to pay higher premiums for well-governed companies (Khanna and Zyla 2015). SMEs rarely have all the "classical," "independent," and "formal" governance arrangements in place, but investors look for companies that are ready to start introducing them in a way that will be effective in supporting company growth and sustainability. The enabling environment for corporate governance needs to be in place (what we referred to earlier as "pre-governance"), such as healthy company culture, competent and engaged management team, succession plans for the key-risk personnel, basic internal controls, and financial discipline.

Once external investors enter the business, they typically insist on further governance improvements.

Once external investors enter the business, they typically insist on further governance improvements in expectation of three main benefits (ACRA, ISCANUS, and NUS 2013): 1) higher operational performance with lower risks; 2) performance sustainability and therefore a longer run of higher returns; and 3) protection of their rights and interests in relation to the SME through fair treatment, an effective say in the company's strategic development, and transparency. The last point remains germane even for the less sophisticated private investors, such as family, friends, or coworkers.

SME Governance Matrix

Our analysis so far has aimed to show that implementing governance in SMEs should be a gradual process, where solutions are coherent with one another as well as with prevailing state-specific business practices, challenges, and objectives. We have also identified an overall focus of governance interventions at each stage. To make this useful and practical for SME owners, we need to go one level deeper and outline specific, practical recommendations.

This is precisely the objective of the IFC SME Governance Methodology, summarized in the Matrix in Table 3 on page 12. It fleshes out our recommendations for each stage of SME development along all five SME governance topics. It is important to keep in mind the following points about the Matrix:

- The recommendations for each topic are cumulative—they build on the actions of the previous stages.
- The contents of the five governance topics for each stage are designed to be interdependent and mutually reinforcing. A company needs to work the Matrix by column—meaning it is important to address all five topics for a given stage before your company can effectively move to the next stage.
- The table is generalized for all markets and types of companies. Its relevance for specific companies may vary. Use your judgment and/or professional advisory services to identify recommendations relevant for your company.

The SME Governance Matrix presents recommendations in a highly abbreviated way, aiming at governance professionals who understand this kind of language. To make our recommendations accessible to companies, IFC has prepared the SME Governance Guidebook, to be published in early 2019, which provides a much more detailed explanation of the IFC Governance Matrix and its recommendations.

The Guidebook does not push entrepreneurs toward common “best practices.” Instead, entrepreneurs learn how to identify the stage of development of their business and to find practical solutions that will benefit their business—where it is right now—and promote further sustainable growth. Most importantly, the Guidebook includes the SME Governance Action Planning Tool that summarizes the guidance and recommendations in a workbook format designed to help companies develop a tailored governance-improvement plan.

The SME Governance Guidebook. . . provides a much more detailed explanation of the IFC Governance Matrix and its recommendations.

Conclusion

It may be true that all corporate governance approaches involve the three fundamental and shared principles of directing, controlling, and accounting. However, to achieve the desired effects, the application of these principles needs to be tailored to each company, its situation, and its challenges. That is also why most corporate governance codes are principle-based rather than rules-based.

In developing our innovative approach, we took three key actions:

1. We identified patterns of development across different stages of SME growth and grouped these into specific topics. This helps company leaders articulate governance challenges facing their companies and move away from the temptation to benchmark their experience against features and experiences of companies that are not appropriate for them.
2. We proposed stage-appropriate good governance practices for four main stages of SME development. This helps organizations develop stage-specific coherence—good practices across the full range of governance topics.
3. We assembled a Guidebook that founders, leaders, and their advisers can use to better understand their experience. It presents good governance practices—with examples, templates, and tools—and an overall process for how to arrive at a practical action plan.

The most important message of this approach is the recommendation for stage-specific governance coherence over the nominally “highest-level practice” for one single dimension.

We do not claim that all the characteristics that we describe in the stages will hold true across all economies, sectors, or types of SMEs. For example, it is quite possible for high-tech or capital-intensive start-ups or SMEs to take on external capital in the initial growth stage, in which case a company might need to adopt some features of Stage 4 to offer assurance to the providers of capital. Specific recommendations found in the five governance topics will also vary substantially depending on the country context and industry.

The most important message of this approach is the recommendation for stage-specific governance coherence over the nominally “highest-level practice” for one single dimension.

The framework we have presented here is intentionally broad. We hope it will encourage capacity-building organizations in various countries to develop their own SME governance guidance, tailored to the unique needs of their business environment.

Table 3: Summary SME Governance Matrix

<p>Key Governance Risks</p>	<p>Stage 1 Start-Up</p>	<p>Stage 2 Active Growth</p>	<p>Stage 3 Organizational Development</p>	<p>Stage 4 Business Expansion</p>
<p>CULTURE AND COMMITMENT TO GOOD GOVERNANCE</p>	<p>Core functions identified Articles of association adopted</p>	<p>Core positions filled Organization chart, key policies, and statement of basic business principles</p>	<p>Governance champion TORs for key positions Core processes documented A calendar of corporate events</p>	<p>Governance action plan Company secretary function Governance provisions incorporated in the articles of association and bylaws</p>
<p>DECISION MAKING AND STRATEGIC OVERSIGHT</p>	<p>Informal external advisers involved* Founder(s) make decisions in consultations with individual executives Authority limits of key personnel have been communicated</p>	<p>External advisers formally engaged Key decisions are made in collaboration with executives as a group Limited delegation of signing authority formalized Staffing priorities identified Business continuity plan for CEO and key persons</p>	<p>Continuous and structured outside advice is engaged Enterprisewide discussions on strategy, financing, staffing Executive/management (or similar) committee formalized HR policies to attract, retain, and motivate staff Succession-planning framework for key persons</p>	<p>A board of directors Board procedures ensure effective meetings and input from all directors Succession-planning policy has been approved by the board</p>
<p>RISK GOVERNANCE AND INTERNAL CONTROLS</p>	<p>Basic bookkeeping, cash flow management, and tax functions Cash sources, bank accounts are separate from those of the founder(s) Basic understanding of regulatory requirements and compliance</p>	<p>Basic principles of business conduct Basic business risks—including key-person risks—identified Processes in place for tax payments, records, and filing Controls on cash management</p>	<p>Detailed code of ethics and business conduct Objectives, strategic planning, budget, key performance indicators, and clear accountabilities A professional CFO A basic internal audit function Policies and procedures to monitor and mitigate strategic and operational risks Business units have clear authority, reporting lines, and guidelines</p>	<p>Effective internal controls systems (e.g., based on COSO) Independent external auditors Timely and secure recording and reporting for sales and accounts</p>

(continued on next page)

Table 3: Summary SME Governance Matrix (continued from previous page)

Key Governance Risks	Stage 1 Start-Up	Stage 2 Active Growth	Stage 3 Organizational Development	Stage 4 Business Expansion
DISCLOSURE AND TRANSPARENCY	<p>Basic financial accounts prepared The same financial information and data are used for all purposes</p>	<p>Monthly bank account reconciliation disclosed to all founders Founder(s), shareholders, and directors periodically receive consistent financial and nonfinancial information The public profile of the enterprise has been developed</p>	<p>Financial statements in accordance with national accounting standards Point person for information sharing identified Key decisions are formally communicated to all staff Basic performance reports are presented to external advisers Key nonfinancial information is disclosed to the public</p>	<p>Financial reporting is in accordance with the IFRS for SMEs or U.S. GAAP (if having/seeking foreign investors) Financial statements are audited by a recognized auditing firm Periodic financial reports and comprehensive performance reports are provided to investors An annual report (or equivalent) is produced. Shareholders are provided with information on request</p>
OWNERSHIP	<p>The role and responsibilities of the founder(s) clearly established Basic understanding of roles of all founding family members Shareholder dispute resolution mechanism</p>	<p>The difference between non-family and family issues is acknowledged Awareness of family succession planning Annual shareholders' meetings</p>	<p>Clear distinction between the roles of the founder(s), family members, and managers Clear career paths for non-family executives Family succession plan Annual shareholders' meetings include discussions of key decisions made, dividends, and plans</p>	<p>Policies and mechanisms to regulate family members' ownership, employment, and other benefits All shareholders are regularly updated on company policy, strategy, and results Mechanism for resolving governance-related disputes</p>

*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.

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