

# IFC Corporate Governance Progression Matrix for Small and Medium Enterprises

(Integrating Environmental, Social, and  
Governance Issues)



© 2019 International Finance Corporation. All rights reserved.  
2121 Pennsylvania Avenue, NW  
Washington, DC 20433 USA  
Internet: [www.ifc.org](http://www.ifc.org)

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability, or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties (including named herein).

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, NW, Washington, DC 20433 USA.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos, and trademarks are the property of IFC, and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

# IFC Corporate Governance Progression Matrix for Small and Medium Enterprises (Integrating Environmental, Social, and Governance Issues)





**STAGE 1: Basic****STAGE 2: Developing/Investor-ready****STAGE 3: Developed****STAGE 4: Advanced****A. Commitment to Environmental, Social, and Governance (Leadership And Culture)**

1. Core functions have been identified.
2. Articles of Association/bylaws adopted.

1. Core staff positions have been filled.
2. Organization chart, key policies, and statement of basic business principles established.
3. Initial strategic plans and budgets documented.

1. Core Governance processes have been documented. Governance champion identified.
2. Clearly defined roles and responsibilities established for key personnel.
3. Clear division of responsibilities and authorities between management and the board of directors has been established.

1. Corporate Governance (CG) action plan in place.
2. Company secretary function established.
3. Governance provisions are incorporated.
4. Clearly written CG policies (Code of Ethics/Code of Conduct; whistleblowing CG code with E&S considerations; Succession plan; HR/Grievance mechanism) adopted.
5. Company adopts and practices responsible business practices.
6. Separate roles of Chairman and Chief Executive Officer (CEO) established (for larger companies).

**B. Decision Making and Strategic Oversight**

1. Informal external advisers engaged as required.
2. Founder(s) make decisions in consultations with individual executives.
3. Authority limits of key personnel have been communicated.

1. External advisers have been formally engaged for strategic input.
2. Key decisions are made in collaboration with executives as a group.
3. Limited delegation of signing authority is formalized.
4. Staffing priorities are identified.
5. Business continuity plan for CEO and key persons mapped out.

1. There is a formal board comprised of main shareholders.
2. Company-wide discussions on strategy, financing, staffing.
3. HR policies in place to attract, retain, and motivate staff.
4. Succession-planning framework for key persons established.
5. Regular meetings are held with agenda/supporting documents accompanying meeting notification.
6. Adequate minutes are prepared by the Company Secretary.
7. The board discusses performance as a team.
8. Board members understand their role and responsibilities.

1. Active board of directors with mix of Nonexecutive Directors (NEDs), possibly independent members.
2. Committees constituted.
3. Board has appropriate mix of skills and Board members receive an induction and regular training including training on relevant industry E&S issues.
4. Procedures of the board ensure effective meetings and input from each of the directors.
5. Boards undergoes performance evaluation process and regularly reviews its composition.
6. Succession-planning policy has been approved by the board.
7. Board approves strategy.

**STAGE 1: Basic****STAGE 2: Developing/Investor-ready****STAGE 3: Developed****STAGE 4: Advanced****C. Control Environment (Internal Control System, Internal Audit Function, Risk Governance, Compliance and External Audit)**

1. Basic bookkeeping, cash flow management, and tax functions established.
2. Cash sources, bank accounts are separate from those of the founder(s) established.
3. Basic tenets of regulatory requirements and compliance have been communicated.
4. Policies are in place governing how the External Auditor (EA) is selected.

1. More advanced planning, and sound bookkeeping established.
2. Principles of business conduct has been communicated.
3. Accounting policies and reports established.
4. Basic business risks—including key-person risks—identified.
5. Processes in place for tax payments, records, and filing.
6. A basic system to record and track sales and accounts established.
7. Established controls on cash management.
8. Outsourced Internal Audit (IA) function.

1. Objectives, strategic planning, budget, Key Performance Indicators (KPIs), and clear accountabilities documented.
2. The SME has established the function of Chief Financial Officer (CFO).
3. Each business unit has clear authority, reporting lines, and guidelines.
4. Policies and procedures are in place to monitor and mitigate strategic and operational risks.
5. Internal audit function established.
6. Internal controls examined by EA in conduct of the audit.

1. Effective internal controls systems, policies and procedures.
2. Independent external auditors that report to the Board.
3. Timely and secure recording and reporting for sales and accounts.
4. Board approves risk appetite.
5. Company provides information to the investors on risk management process.
6. Company has framework in place to address relevant E&S risk.
7. Specialized board-level committee to monitor the overall control environment of the company.
8. Board routinely monitors risk management and compliance with policies and procedures.
9. Written Management Letters provided by EA, and distributed to the Board.
10. EA long association policy established.

**STAGE 1: Basic****STAGE 2: Developing/Investor-ready****STAGE 3: Developed****STAGE 4: Advanced****D. Disclosure and Transparency**

1. Basic financial accounts are well prepared and reconciled.
2. The same financial information and data are used for all purposes.

1. Monthly bank account reconciliation disclosed to all founders.
2. Founder(s), shareholders, and directors periodically receive consistent financial and nonfinancial information. Company has developed a public profile with a website and social media accounts.
3. Company complies with all local (including non-financial) disclosure requirements.

1. Financial statements are prepared and audited in accordance with national accounting standards.
2. Point person for information sharing has been identified.
3. Key decisions are formally communicated to all staff.
4. Basic performance reports are presented to external advisers.
5. Governance-related information is provided on the website.

1. Financial statements been prepared in accordance with International Financial Reporting Standards (IFRS) and audited with International Standards on Auditing (ISA).
2. Financial statements are audited by a recognized auditing firm.
3. An annual report (or equivalent) is produced and includes Environmental, Social and Governance (ESG) information.
4. Shareholders are provided with accurate and timely information.
5. Annual financial statements approved by Annual Shareholder's Meetings.
6. Key nonfinancial information is disclosed to the public including risks/opportunities & ESG practices.
7. Company discloses related party transactions to the board and shareholders.
8. Company discloses its risk appetite.

**STAGE 1: Basic****STAGE 2: Developing/Investor-ready****STAGE 3: Developed****STAGE 4: Advanced****E. Ownership**

1. The role and responsibilities of the founder(s) are clearly established.
2. Basic understanding of roles of all family members.
3. Ultimate beneficial ownership disclosed.
4. Shareholders agreement is in place.

1. The difference between non-family and family issues is acknowledged.
2. Awareness of family succession planning.
3. Annual General Meetings of Shareholders (AGM) held.
4. Family/dividend policies in place.
5. Equitable treatment of all shareholders.
6. Clear lines of communication established with their shareholders.

1. Clear distinction between the roles of the founder(s), family members, and managers.
2. Clear career paths for non-family executives.
3. Family succession plan in place.
4. Annual shareholders' meetings include discussions of key decisions made, dividends, and plans.
5. Shareholders meetings well-organized and function effectively to allow for adequate shareholder participation.
6. Partners' and shareholders' rights and obligations are clearly established.

1. Policies and mechanisms to regulate family members' ownership, employment, and other benefits.
2. All shareholders are regularly updated on company policy, strategy, and results.
3. Mechanism for resolving shareholder-related disputes.
4. Company has a formal dividend policy.
5. Clearly articulated policies on treatment of minority shareholders are enforced.
6. Policy and practice of full and timely disclosure to shareholders of all material issues is well understood.
7. Company convenes AGM with agenda and explanatory material provided sufficiently in advance for adequate consideration by shareholders.
8. Established mechanism to address shareholder issues.

**F. Governance of Stakeholder Engagement**

1. The company has demonstrated awareness of stakeholders as potentially interested parties.

1. Informal response to stakeholder requests and concerns.
2. Key stakeholders identified with communication /engagement mechanism.

1. Periodic financial reports and comprehensive performance reports are provided to key stakeholders.
2. External and publicly accessible communication procedure governing the company's relationship with its stakeholders established.
3. Company mechanism established to address stakeholder grievances.





**NOTES**

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---



## NOTES

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---



**NOTES**

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

---

2121 Pennsylvania Avenue, NW  
Washington, DC 20433 USA

Tel: +1 (202) 458-8097

[www.ifc.org/corporategovernance](http://www.ifc.org/corporategovernance)  
[www.ifc.org/sustainability](http://www.ifc.org/sustainability)

April 2019