Two sides of a coin

Differing perspectives in Singapore’s family businesses
Over the past year, KPMG in Singapore and CPA Australia conducted research on the successes and challenges of local family-run businesses. We drew on our decades of experience in serving Singapore’s enterprises. We also conducted detailed interviews with 20 local business leaders, both founders and successors, on issues that matter most to them. Our aim was to examine perspectives from both generations of family-owned businesses when presenting the findings of our year-long endeavor. This was complemented by the participation of 100 successful Singaporean family businesses, in a survey conducted by KPMG.

We are also privileged to present the ideas of two respected family business leaders from Singapore as they discuss their success strategies and plans for the future. We hope you find the new and actionable ideas presented in this publication useful.

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The unique strengths and challenges of Singapore family businesses

With ASEAN’s growth as a region and the Singapore government’s push for local SMEs to expand internationally, we can expect more and more family businesses to feature prominently in Singapore’s future economy. But do family businesses have an advantage over other companies? There are three attributes that provide family businesses an unique edge:

- **Value-driven organizational culture**: Family businesses have a value-driven organizational culture where employees feel a stronger sense of ownership and belonging than in other businesses.

- **Faster decision making**: Faster decision making than larger, more complex companies that have a longer chain of command.

- **Significant home-ground advantage**: A significant home-ground advantage afforded by a better understanding of Singapore and its neighboring countries, knowledge of the various constituents across their value chain, and a grasp on Singapore’s regulatory and political environment.
With the current slowdown in Singapore’s economy, these strengths will need bolstering because family businesses in Singapore also face significant challenges.

The biggest challenge is succession planning. Many businesses falter at the first transition, with only 13% surviving to the third generation. Family-owned businesses founded in 1950s-70s Singapore are now facing a second or third generation transition – so improving these odds is critical.

The other is growth. As the businesses grow and internationalize, the business models that have worked so well in the past may no longer be suitable.

And finally, it’s the war for talent, that will determine which businesses stand and which will fall. According to our research, not being able to attract the right people with the right skills is the biggest limitation faced by family businesses in Singapore, affecting their ability to grow or even survive.

Apart from these three main issues, family businesses in Singapore are also increasingly mindful of challenges in conflict management, retaining family control, and understanding and implementing new technology. The issue of legacy and what it means in the context of family-owned businesses was also brought up by most founders in our conversations with family business owners.

1 KPMG Research
The succession imperative

The founders of family businesses built successful companies from scratch, going from opportunity to opportunity instead of following a premeditated business plan. In most cases, their businesses grew organically in size and complexity while diversifying into new fields and geographies.

In our research, we found that the resounding sentiment among founders is that they want their next generation in the business. Yet, 98% of all business owners interviewed regard the issue of succession planning more complex and sensitive than any other.

We found that family businesses, in general, have implemented some initiatives to tackle succession but many believe that they need more time to develop long-term workable solutions. More than 50% of business owners we interviewed have taken parts of their business public to make use of additional capital, keeping the majority of the voting shares. So it was not surprising that the top worry we encountered in our conversations with founders was that of passing on the business to motivated and responsible members of the next generation.

Almost all founders interviewed recognize that succession planning needs to be addressed via a professional as well as an interpersonal approach. In planning succession from within the family, founders often take into account three primary considerations:

**Relation**
- Successors must be from within the family (55% founders identify this as a critical factor)

**Interest**
- Successors must demonstrate self-motivation in learning business processes and show full commitment to the business

**Ability & Charisma**
- Successors must possess leadership qualities and a high emotional quotient to balance family sentiments and employee needs
- the ability to gain the trust, confidence and respect of employees
- be ready to take over and make decisions independently to further business growth

| Will sell the business if the next generation does not wish to join | 13% |
| Will coerce/pressure their children to take over the family business | 38% |
| Willing to hire from outside but only until a family member is ready to take over | 50% |

Source: KPMG analysis
A sense of ownership:
Actively promoting emotional ownership from a very early stage by keeping the younger generation informed begins with a concerted communications strategy about what’s happening in the company – for example, arranging regular meetings and promoting family routines. In one of our interviews, we discovered that the founder of the business held large Sunday brunches, where all family members were mandated to assemble. Younger family members were continually exposed to business discussions, resulting in higher emotional ownership.

An engagement strategy:
Engagement has to go beyond family newsletters and assemblies. The best advances come when the next generation takes charge of its own personal development. In another family business we interviewed, now run by the second generation, the founding member created governance mechanisms to ensure that the next generation makes business decisions collaboratively, with unanimous agreement on every issue – thus generating higher levels of engagement with business processes and better communication between the two generations.

Well-articulated rules and established career paths:
In our research, we found that not all members of the next generation are in leadership roles. They could hold other roles outside of full-time positions, such as board members, advisors, and active shareholders. It is critical to develop these available paths to ensure the full participation of the next generation. In most cases, the founding generation practiced an open-door policy for family members but with clear rules and guidelines for those who want to join the business. These rules are often based on meritocracy, explicit entry and exit requirements, and conditions (such as feedback from managers and coaching) for development.

“A generation’s biggest strength is our extensive experience in products and processes. When we look at a subject, we can foresee the possible risks and the best way to solve the problem.”

- Patrick Lee, Chairman, Sing Lun Holdings Ltd.

Business transitions are never easy, particularly across generations. For instance, compare the MBA-educated or MNC-experienced younger generations with the more home-grown experience of their predecessors. Most participants from the founding generation agreed that attracting younger family members becomes more difficult if they have competing job opportunities or their interests differ. Apart from providing sustained handholding, our study noted a few other elements that could be critical in attracting the next generation and preparing them for succession:
Inviting strangers into the house

“Instead of hiring an outsider straightaway, I would prefer to see if there is a suitable employee within the company and then train him or her – it does not matter if the person is a family member or not.”

- Chua Soo Chiew, Director (CEO)
Chua Soo Chiew & Associates PAC

In cases where the future generation may not be ready to take over, the majority of survey respondents said they would prioritize business sustainability over family control. Almost all the businesses interviewed have put in sustained effort to stay united as a family. But there is one key factor that has been the strongest adhesive of all – the performance of the business. Most of these businesses have grown at a torrid pace, alongside Singapore’s burgeoning economy, and are continuing to expand by adding more categories and markets. But business owners from both generations agree that if the business starts to perform badly, the family’s unity might be tested.
Largely, successors are more open in comparison to founders when it comes to letting outsiders (non-family members) run the business. Only 10% of successors surveyed said that they wouldn’t hesitate to sell if no one within the family was ready to take over. These findings underline the fact that 46% of all survey respondents cited professionalizing the business as a pressing issue compared to only 41% who indicated that retaining family control was of more importance.

Founders understand the importance of outside talent in taking the business to the next level. Professional talents bring expertise and experience in areas that family members simply do not. However, the decision between family and outsiders in key positions remains almost equally split for both generations. The common responses include:

- **Family First**
  - Easier to trust and manage and may be more loyal than external people
  - 37%

- **Doesn’t matter**
  - Family should learn to work and synergize with outsiders
  - 38%

- **Depends on the position**
  - The confidential and financial matters must be within the family
  - 25%

Source: KPMG analysis

"Having a stronger professional team allows us to have stronger corporate governance. Of course, it means revamping some processes and creating a more corporatized environment."

- Jimmy Chua, CEO, Huatong Holding Group of Companies

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**KPMG: Peter, can you tell us how it all began?**

**Peter Poh:** There are three generations of the family in our business. It was started by our "old man". Our generation built this business and now we will pass it over to the next generation. Once I hand it over to them, it is their life and their future, and they have the right to decide what they want to do with it.

**KPMG: So when we speak to you, we are speaking to a successor because you inherited the business from your father.**

**Peter Poh:** It was much smaller when my brothers and I inherited it. After our father’s passing, we grew the business to a much bigger size. Three years ago, we decided to bring in professionals to establish a more MNC-type culture for the benefit of the business as well as the next generation.

**KPMG: What are your observations so far?**

**Peter Poh:** This corporatization is important for us to take the business to the next level. There was some concern in bringing in outsiders. My advice was to learn to accept opinions from outsiders, to take the best from everyone.

**KPMG: There are multiple family stakeholders in your business. How do you usually deal with conflict?**

**Peter Poh:** We always believe that the company’s interests come first. Sometimes in family businesses, people put family first. You have to make a clear distinction between company’s versus family’s interest. With this common interest, conflicts are dealt with accordingly and everyone works together to make the company grow.

**KPMG: What point in time in the journey/history of the company was there an inflection point for your company. Do you recall?**

**Peter Poh:** This would be the time when we first implemented digital technology, despite not having much knowledge of it. Very few family businesses in Singapore were doing this at that time. We had to upgrade our skills to operate and adopt technology. We also had to change the mindsets of our people. Once we went fully digital, everything worked much faster and more efficiently.

You must have foresight. The ability to pre-empt the future can make or break you.
The War for Talent

Despite being clear on the need to hire professional talent, almost all of the family businesses interviewed said they have difficulty in recruiting and retaining people. Challenges in attracting and retaining talent were cited by 56% of all survey respondents as the most important issue of talent and manpower. Yet, 52% of business owners surveyed said they are not willing to outsource any of their core functions. Our findings suggest that large family businesses in their growth stages (i.e. less than 10 years old) are more likely to hire for/outsource some of their non-core functions as the business grows in size and complexity. A majority of all businesses surveyed (89%) said they are using performance-based methods and KPIs to determine compensation and seniority of employees. Even so, performance management remains one of the most pressing issues in manpower for about 56% of respondents.

"Yes, we are hiring professional talent. For example, we need more regional sales people but it's very difficult for a family business to find a person who is willing to join us. Often, we go through all the interviews and are then informed that the best talent chose not to work for a family business."

- Chris Chua, Regional Sales Manager, Han Fong Trading Enterprise Pte Ltd

Even in cases where the family holds all of the equity in a business, it seeks to include outsiders for balance in their board. Most family businesses we interviewed are also willing to significantly invest in their brand and image as employers to attract fresh talent.

In our work with Singapore businesses over the years, we have found that certain measures are particularly effective in building an attractive brand image and retaining talent.

1. **Defining employment policies**
   Key players within a family business are usually also the owners. This could be an advantage because being the owners can mean a stronger sense of commitment. But it could also become problematic if unsuitable family members, or ones who are not particularly interested in the business, are promoted above their competence. The best suggested approach is a well-defined employment policy for the succeeding generation based on criteria such as, education or prior work experience outside the family business. Thereafter, non-family members and family members should be evaluated, promoted, and compensated based on set policies defined by the same criteria – performance and merit.

2. **Encouraging meritocracy**
   Encouraging meritocracy also helps to address the issue of retaining talent. A comprehensive talent-based evaluation system could be viewed as more...
professional than the informal techniques that many family businesses use for career progression. But it does not answer the question on how to attract the best talent. Few family businesses have built truly meritocratic cultures that are able to attract, develop, and retain the best talent. Complete meritocracy may be difficult for family businesses, but to make it an integral part of the company culture can translate to a brand image that values and cares for its employees.

3. Understanding millennials
A KPMG survey conducted among 400 new graduates shows that when millennials are offered autonomy and guidance, they tend to thrive and stay. It is imperative to clearly communicate career trajectory, provide a big picture scenario and manage the expectations of the new generation of professionals. To expect young professionals to make sound career choices when they know that any kind of executive decision-making will be done by a ‘predetermined’ few requires a culture of trust – both in management and the management style of the business. Successful family businesses make a long-term commitment to developing the careers of outside hires instead of just needing them to fulfil tasks in the short term. These businesses have also successfully convinced their staff on how the company will help them develop new skills and advance their careers. The idea is to build partnerships that will encourage the best talent to dedicate their professional lives to the family business.

Lessons from the young:
An interview with Mark Lee of Sing Lun Global

KPMG: Mark, would you like to share your experiences in succeeding your father to run this business? What was it like?
Mark Lee: Throughout my life I have taken a number of lessons from my father.

As I progress in my career and age, I have come to appreciate these lessons much more. It was his idea to give me the control while staying available for any emergencies – which I think was wise. Many people complain that the founder has trouble letting go, but for me, the founder let go too fast. He gave me the keys and moved to the other office in a different location so that our staff would not approach him with issues instead of me. It was very daunting at first. I had to learn pretty quickly and take full responsibility for my actions. I could not wait indefinitely to be ready.

Just two weeks ago, I saw a family business making a rather dramatic move. Their succession planning was to hire an external CEO in order to bridge the gap until the founder’s children are truly ready.

KPMG: When can you say a successor is truly ready?
Mark Lee: It’s difficult to predict. My answer to that question is my team’s and my motto: we dare to “cheong”, dare to move forward. There aren’t a lot of systems and processes to hide behind like in big companies. You make a mistake, you assume responsibility.

KPMG: So your team of external hires has made a difference, you’d say?
Mark Lee: I would say our winning formula has been complete professionalization. Today, there are no C-suite executives who are family members, they are all professionals. This was one of the most difficult decisions, especially because we are known in the industry to pay very well.

KPMG: As it turns out, you did the right thing. Were there any challenges that you would like to share? If so, how did you overcome them, now that you are so successful?
Mark Lee: We are not that successful yet. We want to go much further. For most Singapore businesses the challenge is that of a mind-set gap, rather than a skill gap. I need thinking soldiers rather than worker bees. After you grow to a certain size, top management should not have to make all the decisions. Skill gaps can be overcome through training and development – it’s easy. But to empower your staff to become better managers who assume responsibility, take decisions and stand by them – now, that’s hard! A lot of SMEs
may not want to empower decision making among managers, because they may be afraid to lose money. I think even if that happens (to a certain limit, of course), I would still encourage independent decision making.

KPMG: What seems to be the deterrent there?

Mark Lee: Talent. In Hong Kong, China, India, even in Taiwan and Korea, they hire fresh graduates at lower salaries. It’s harder to find the same talent at similar prices here. The logical choice is to offshore as much of the non-core operations as possible.

But we also want to be a social contributor. We want to create jobs for Singapore. It’s so easy to cut 70 people here and move the function to say, Vietnam. But that is the easy way out. We want to create jobs, we want to upskill our people while maintaining our bottomline – because we owe that to the shareholders. It is not an easy balance.

Next, you must be willing to make a little less money for a little bit of time. Even if you hire someone expensive and ask him/her to make a decision, not all decisions will be good. Personally, if you make a wrong decision and we lose money, I am still OK if you can justify it. What would concern me more is if you cannot make any decisions at all.

Another big challenge is that the stock exchange is not paying us what we want. It’s difficult to get enough valuation. The gripe we have with e-commerce companies is that they are raising the valuation so much. A fundamentally sound company should raise more money than a loss making company. But then, they do it the other way round – they buy the profitable company and it becomes disruption. It’s upside down. Today it is cheaper to order through Foodpanda than eat the same food in the same restaurant. This is what disruption is – the new normal.

So yes, I believe technology will be a game changer. But valuation is a separate issue.

KPMG: Do you invest in technology first or do you hire the people to run the technology first. How do you do it?

Mark Lee: When it comes to technology, there are three different types.

One, there is innovation through process. That one, our team is quite good, especially on the manufacturing shopfloor. We constantly have engineers there to think on how to use less people. So we manage this entire company by time. I always tell the team, you are not a manufacturer. You are a consultant. If you give us something, we will tell you how many man hours must go into making it. We sell you the entire cost structure divided by minute cost. We sell you time and process innovation helps to cut time.

The next one is quality innovation. We invest in new equipment, which is the easy part. It is capex-driven, process driven.

The third part is where we do true innovation. A couple of years ago, we started seeing a new wearable trend – integrating electronics into fashion. So, we went into this product type. We started by investing in the right technology, knowhow and skills.

Now, for my industry today, most of my peers are not in this sector. The Harvard graduates are in the financial sector. The people in this sector are so caught up in daily fire fighting, they are not thinking long-term. There is an arbitrage situation now so it is a good time to go into it and think long-term, use common sense and really make something.
Of control and conflict

Defining ownership and managing conflict are also among the top of mind issues for family businesses. Our survey found that most family business owners are yet to start outlining their technology strategy. There is also a surprising and stark difference in what family businesses in Singapore feel about the importance of legacy when compared with their global counterparts.

In Asia, the family structure tends to play an important role in continued ownership. One of the most commonly cited sources of conflict highlighted in our conversations, among both founders and successors, was from balancing the act of raising new capital for the business while ensuring that the members’ cash needs are satisfied.

Most second or third generation family businesses we spoke to have regulated ownership issues, such as trading of shares both inside and outside the family via well-implemented shareholder agreements. Many of them are privately-held holding companies, thus avoiding any conflicts of interest with institutional investors looking for higher short-term returns. Often, the owner-founders of large family businesses insisted on low paying dividends. This helped the business reinvest the profits to expand without diluting ownership by issuing new stock or assuming big debts.

In fact, some family businesses we spoke to have kept out external investors entirely while others have brought in private equity as a way to introduce new capital sources. Yet others have taken the IPO route to float a portion of shares to allocate liquidity at a fair market price for family members who no longer wish to remain as shareholders. In such cases, several family business owners we spoke to have restricted the trading of shares in order to retain family control. In essence, they have ensured that shareholders who want to sell must offer family members the right of first refusal, or created the conditions where the holding can buy back shares from exiting family members. In these situations, payout was mandated to be long term to avoid de-capitalizing the company. Despite these safeguards to avoid controversy while maintaining business profitability and family control, family members can and will face conflict.

In some cases, the succeeding generations can become larger and more diverse as a group than the generations before them. Establishing and implementing an organizational structure is arduous in such a situation. One reason for this is loyalty – successors are more often than not loyal to their parents rather than to generational peers. One such example was the case of a large, listed second-generation business where two highly educated siblings found establishing governance structures so difficult that they left the family business.

“Family values play a part in basic things like respect, the consultative manner in the way we carry out our business.”

- Lisa Liew, Managing Partner, Philip Liew & Co
Not having clear guidelines on ownership and what it means for succeeding generations can also play out as sibling conflict — when family businesses, by definition, require them to work as a team. This explains the many cases of fierce family rivalries, not just in Singapore but across the world. As in the decade-long legal battle between the two brothers of Reliance Industries resulting in the company’s demerger. Or, the famous Dassler brothers feud which gave birth to the successful but fiercely competitive sportswear brands - Adidas and Puma. Their rivalry continued for more than 60 years, over which the founding families of both companies eventually lost control.

In our research we found that successful family businesses often preempted these issues and took certain steps to address them.

• First, even where the future roles of members of the succeeding generation is undecided, systematically preparing them for responsible ownership by educating them to understand matters such as governance, shareholders’ agreements, liquidity, and voting rights is critical.

• Equally important is preparing for interpersonal issues, such as working together with other family members, being decisive without being abrasive, developing trust and mutual appreciation of key employees and executing team-building efforts.

• One of most effective ways of dealing with or avoiding conflict is creating a family council. Typically consisting of 4-5 junior and senior members, the council acts as a communication bridge between the business and individual family members. It creates and enforces policies on employment, use of the family name, and conflict of interest, thus encouraging cohesion.

When it comes to handling matters of conflict, 60% of founders interviewed said they prefer to make the difficult decisions themselves. Only 37% let their successors manage the conflict but remained available for mediation at all times. The succeeding generation has several ways to handle conflict. Due to the stage of most businesses interviewed, several interviewees of the succeeding generation said they have never experienced a serious conflict but believed that fairness and harmony should be ensured at all cost. 72% of all respondents surveyed said that they resolve most conflicts with the intervention of the CEO/Chairman.
Advancements in technology have enabled family-run businesses to compete with their larger counterparts. The founders of the family businesses that we interviewed not only built successful companies, but contributed in no small measure to building Singapore as we know today. They are a generation of people who understood the importance of moving from analogue to digital, from manual to machine manufacturing, making the right moves at the right time in history to better manage long-term costs, increase profits and ultimately, ensure their continued survival.

In our conversations with family-run businesses, both founders and successors agreed that one of the key focuses of family businesses is to manage operating costs. Advancements in computing technology now enable cost cuts such as via accounting softwares, register systems that process multiple payments at once, and automated processes that keep the need for labor low while maintaining high output – all examples of how family businesses are using technology to compete and succeed. All founders we interviewed said that they are committed to keeping up with technological advancements, understanding full well that it is no longer a matter of choice. At some point, the market will force everyone to upgrade and stay competitive or fall behind and fail. Predictably, the successors also hold the same view.

Our study noted that almost all respondents were keen to err on the side of caution when it came to investing in technology. Most are conservative about new technology, such as in manufacturing, robotics, and industrial Internet of things, though they are familiar with these trends (only 10% were not familiar at the time of the interviews). Some of the leading factors that are holding them back include:

- Cost (of technology upgrade and upskilling) to benefit
- Relevance in the long term
- Benefits in the short term
- Financial strength of business

75% of all respondents see the disruptive power of technology but 9 out of ten business owners we interviewed did not outline a specific technology strategy.

"I believe technology will be a game changer. The normal will only become the past unless we deploy technology effectively to create our own future to be the norm.”

- Mark Lee
CEO, Sing Lun Holdings

“Technology is the only way. We are already on it and we want to take it to the next level before others.”

- Vick Aggarwala
President/CEO,
Supreme Components Int’l Pte Ltd
We believe that the ability to design and implement an excellent technology strategy can determine sustained competitive advantage. Some of the key factors that currently affect strategic decisions in family businesses are:

- Family governance
- Ownership structure
- Risk aversion
- Diversification plans and return aspirations

Once the above issues are addressed, the following things can be considered in order to determine a technology strategy:

- Identify the different steps necessary to achieve technological innovation. For example, investing in R&D, skilled resources, and employee competencies.
- Determine the measures of success of implementing the technology strategy. For example, revenues from new products and/or services.
- Finally, a straightforward measure of the output of a well-designed technology strategy will be the overall performance of the business, such as profitability and growth.

Why does having a technology strategy matter?

A technology strategy outlines long-term decisions on:

| Should new technology be developed internally or acquired from outside (e.g., through an in-licensing agreement)? |
| When should a new technology be developed, deployed or commercialized? |
| Should new technology/processes be implemented radically or incrementally? |
| What kind of resources should be pre-allocated to deliver new technology? |
Legacy: standing the test of time

93% of all founders interviewed said profitability is much more important to them than carrying on the family name via a business. 8 out of 10 interviewees hold the pragmatic view that family tradition is important and should be retained to the extent possible, but if it gets in the way of growth and bottom lines, it should be bypassed.

Among the successors, an overwhelming majority said profitability outweighs lasting legacy or tradition because revenue determines survival. A floundering business, even if it is a household name, will eventually be remembered as the one that sank. If it ever comes to it, both founders and successors said they were comfortable with letting go instead of holding on to a sinking ship.

This unique mindset underlines our next set of findings on how both founders and successors find it impossible to separate ownership and management. From their answers, we found that the respondents understood that there were more business decisions (internal and external) that an owner must make whereas a manager only makes operational decisions. But they unanimously agreed that while the two functions should be different, they are unable to separate the two at the moment. Some even indicated that fulfilling both roles is ultimately precluded in their responsibilities as owners due to the difference in compensation – resulting in most business owners actively micro-managing their businesses.
Three things to consider

In the end, it boils down to three critical things that family businesses need to be aware of in order to achieve that elusive goal – an enduring family legacy coupled with a profitable business.

A family charter
Lay out a set of rules (family charter) to cope with governance issues, which includes what to do when the interests of family members diverge or succession needs to be decided unexpectedly. This charter should include:

• the decision criteria,
• the governance process to arrive at these decisions,
• the time frame from start to finish, and
• a predetermined communication process

Aligning diverging values
As a founder/owner, align the vision and values of the business among family members, while planning forward for growth over the next 10 years.

Not just successors but leaders
Without any autonomy, successors can fail despite being capable. On the other hand, there can be cases where the next generation may not have the required capability. In both situations, it is important to understand that it is critical for a family business owner to develop leaders who will run the business, not just inherit it. Long running family business founders don’t just identify, but empower successors to make independent decisions, by providing challenging assignments, coaching, and increasing responsibilities while incrementally letting go of control to focus more on mentoring.
Conclusion

Unlike in larger economies, Singapore’s family-owned sector is relatively young – many are only in their second generation. This means most Singapore family businesses still do not have the complete know-how of running a business with multiple family owners across multiple generations.

It is true that all businesses need stewardship in order to stand the test of time, but family businesses need to master challenges that are unique to this form of ownership. There is need for vision and harmony and the work is not only extensive but also never-ending. But the success of a family business is not just that of a family, but of Singapore’s economy, through growth and innovation, and society at large, through job creation and social advancement.