

## **FOR IMMEDIATE RELEASE**

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### **Family businesses choose profitability over preserving legacy**

A new report by KPMG and CPA Australia on family businesses in Singapore has found that 93 percent of business founders surveyed said continued profitability is more important than preserving their legacy.

Among those participating in interviews, 8 out of 10 businesses interviewed believe that family legacy, though important, should not be allowed to get in the way of business growth and profitability.

Titled *Two sides of a coin: Differing perspectives in Singapore's family businesses*, it also found that 98 percent of business owners struggle with succession as it is a complex and sensitive issue, requiring more time to develop long-term workable solutions.

In fact, most family businesses in Singapore falter at first transition, with only 13 percent surviving to the third generation. Mr **Chiu Wu Hong**, Head of Enterprise at KPMG in Singapore said: "Informal governance structures that may have worked well for the founders of the business may not meet the needs and interests of a new generation. With limited external influence, there could be questions about whether family businesses are allowing for rigour in their governance and if they are overlooking the added value of non-family members."

Among survey respondents, 46 percent cited professionalising the business as a pressing issue, compared to 41 percent who indicated that retaining family control was of utmost importance.

Almost all founders interviewed recognise that succession planning needs to be addressed with a professional or interpersonal approach. Among successors, many believe that a formal learning process would have given them a holistic understanding of the business faster, which in turn would have enabled them to make a difference to the company's performance much sooner. They are also more open than founders letting outsiders (or non-family members) run the business, prioritising business sustainability over family control.

Over half of respondents (56 percent) cited the challenge of attracting and retaining talent as the most important issue. Mr **Melvin Yong**, Singapore Country Head, CPA Australia added: "It is critical for founders of the business to develop leaders who will run the business, not just inherit it. Instead of just identifying, family business owners could empower successors to make independent decisions, provide challenging assignments and increasing responsibilities while incrementally letting go of control to focus more on mentoring."

#### **Of control and conflict**

Defining ownership and managing conflict are also among the top of mind issues for family businesses. Regulated ownership issues were one example of what many second or third generation family businesses struggle with, such as the trading of shares both inside and outside the family and how best to implement shareholder agreements.

Often, the owner-founders of large family businesses preferred to pay low dividends and reinvest profits for expansion, rather than dilute ownership by issuing new stock or assuming debt.

Despite safeguards to avoid controversy while maintaining business profitability and family control, family members can and will face conflict. 60 percent of founders interviewed said they prefer to make difficult decisions themselves. Only 37 percent let their successors manage the conflict but remained available for mediation at all times.

Among survey respondents, 72 percent resolved conflict through the intervention of the CEO or chairman.

In the digital arena, all founders interviewed were committed to keeping up with technological advancements, noting that this is an imperative. Yet, almost all survey respondents were keen to err on the side of caution when it came to investing in technology. 75 percent see the disruptive power of technology but 9 out of 10 business owners interviewed did not outline a specific technology strategy.

Mr Yong said: "Good stewardship of any business is vital. But to steer family businesses, there are added challenges due to their unique make-up and forms of ownership. We hope this report can provide family businesses with useful takeaways to establish the values and vision to guide their own circumstances."

"Our research suggests that it is time more family businesses consider creating family charters and councils to improve governance and align the values and culture in the company. Whether a family business thrives over time, isn't about family succession but about leadership. The best successor, is the best leader whether a family member or a professional," concluded Mr Chiu.

###End###

## **About *Two sides of a coin: Differing perspectives in Singapore's family businesses* report**

Over the past year, KPMG in Singapore and CPA Australia conducted research on the successes and challenges of local family-run businesses. KPMG drew on 75 years of experience in serving Singapore enterprises and the participation of more than 100 successful Singapore family businesses in a survey.

KPMG in Singapore and CPA Australia also collaborated to conduct 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 endeavour.

### **About KPMG in Singapore**

KPMG in Singapore is part of a global network of professional services firms providing Audit, Tax and Advisory services. The KPMG network operates in 152 countries and has 189,000 people working in member firms around the world. In the ASEAN region, member firms operate across all 10 countries of this regional grouping providing professional services supporting the growth, compliance and performance objectives of our clients.

The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

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Founded in 1886, CPA Australia is one of the world's largest professional accounting bodies representing more than 160,000 members working in 118 countries around the world. CPA Australia advances its members' interests through education and knowledge exchange, the development of professional networks, advocacy in relation to policy, standards and regulation and the promotion of value of CPA Australia members to employers, government, regulators and the public. The world-renowned CPA designation is synonymous with professional credibility and international portability. CPA Australia has been operating in Singapore for 63 years, having arrived in this market in 1954 under the auspices of the Colombo Plan.

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