

## Many family-owned businesses in Singapore cited functional silos a barrier to innovation

*Over half of respondents also indicated digitalisation as a top concern, but do not have digital strategy or capabilities*

Released today, KPMG's report found that innovation is not pervasive in most family businesses, with 66 percent of respondents citing that only their management team thinks about innovation.

Many family businesses thus have a 'closed ecosystem' where idea generation is centralised amongst key individuals, with the innovation potential in the bulk of their workforce untapped. Tapping into this potential may be valuable, as workers are often 'on the ground' in operations and with customers.

Titled 'Family Businesses in the Digital Economy', the survey of 100 local family-owned businesses found more than half (53 percent) do not have any existing plan to inculcate the culture of innovation, despite national calls to sharpen competitiveness and increase productivity. Only 25 percent actively encourage employees to try out new ideas and challenge the status quo.

Lack of an organisational culture for innovation was thus the biggest obstacle for many family businesses. Resistance to change was more often cited as the most significant barrier for younger family businesses, with close to 57 percent considering this as deterrent. For more mature family businesses, limited resources was the main challenge.

Head of Tax **Mr Chiu Wu Hong**, who also heads the Enterprise practice at KPMG in Singapore said: "Most local enterprises don't always see innovation as a 'must have'. More often than not, it is a 'good to have' – the longstanding challenge of rising business costs and resource constraints are hard enough to manage and innovation could be regarded as less of a priority."

### Playing catch-up in digitalisation

Although many family businesses (75 percent) agree that there is a need for digitalisation, the report found that they do not fully understand the significance, its potential benefits and in some cases its relevance to their business.

- 70 percent think of digitalisation as e-commerce or online business transactions.
- 59 percent regard digitalisation as a platform only for engaging customers.
- 44 percent sees digitalisation as a more holistic process of applying data analytics.

The study also found that the lack in relevant expertise and skills and training to upgrade older workers are the top two challenges for family businesses who see a need to digitalise but have or have not digitalised.

Among those who do not see the need to digitalise (25 percent of sample), more than half say that it is not relevant to their business; 32 percent prioritised daily operations and 24 percent saw existing non-digitalised processes as sufficient for the future.

For those who have not digitalised their business, almost 60 percent would hire a team or engage external consultants to assist if they planned to digitalise.

Mr Chiu said: "Despite the benefits of digitalisation, many local family businesses are falling behind the digital curve. They believe that setting up digital solutions is expensive and difficult given their limited manpower. This misconception has left many business owners turning away potential customers, hurting their growth and overall revenue potential."

Announced at Budget 2017, the Singapore Government is allocating S\$2.4 billion to help equip SMEs and workers with digital mindsets, and building a strong infrastructure that will foster the growth of innovative technologies and solutions.

"Many digital solutions can help businesses become more efficient and effective. Better use of data can also help them make better business decisions. While I am excited about the progressive policies put forward at Budget 2017 to help local businesses, helping them understand its specific relevance to their business will be just as important", Mr Chiu added.

### **Newly established family businesses may not be more innovative**

Our research finds that family businesses operating for more than ten years were more likely to have successfully come up with new or improved offerings into their market. They were also more likely to tap on a wider variety of innovation sources, including government agencies and research institutes.

Mr Chiu said, "With the rapid march of digitisation and global competition, an innovation mindset must be ingrained into a company's culture where every employee is encouraged and empowered to think about their job, about the products and processes they touch – and how they can be improved and done more efficiently or differently."

###End###

### **Note to editors:**

#### **About *Family Businesses in the Digital Economy***

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This report is the second in a series exploring how family businesses in Singapore are coping with issues ranging from business disruption and digitalisation to governance and succession.

Supported by Converging Knowledge, the research was conducted by KPMG Digital Labs with a carefully curated list of 100 family businesses who were invited to participate in the survey. Ranging from SMEs to Catalist-listed companies, priority was accorded to selecting Singapore's enterprises which as a sector represents 70 percent<sup>1</sup> of local employment.

Respondents to this survey were qualified beyond their affirmation as a family business. Family businesses whose ownership or management have since been taken over by non-family interests were excluded from our sample.

The year-long study was administered between May to July 2016, primarily through telephone interviews and email correspondence with the business founders / owners, family members who were involved in the businesses, or key senior management staff.

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<sup>1</sup> Source: SPRING Singapore