

The ‘missing middle’: Bridging the strategy gap in family firms





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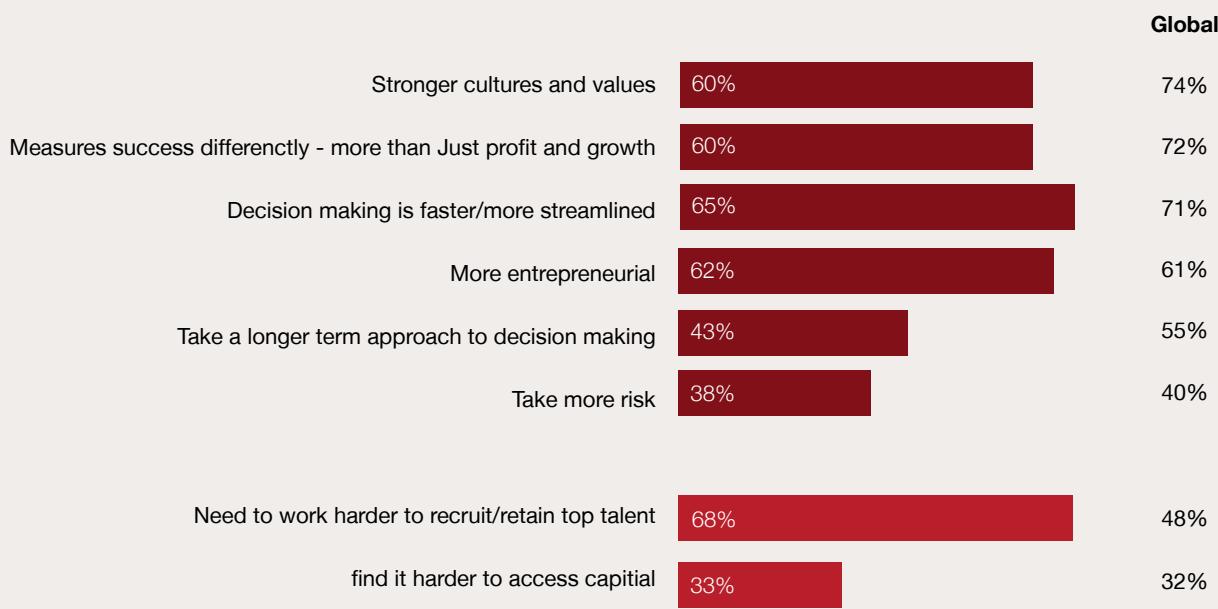
What do this year's results tell us?

Family businesses in Singapore take pride in their streamlined and quick decision making process, being more entrepreneurial, having stronger culture and values, as well as defining success beyond profit and growth (Figure 1). While majority understand the necessity of professionalising their business and the value of innovation, plenty of work remains to be done. This year's survey reveal that local family businesses need to redouble their efforts in mapping out a strategic plan that addresses their mid to long term challenges – what we refer to as the ‘missing middle’ – or risk compromising their business and family goals.

The results also show that family businesses in Singapore tend to lag behind the global average when it comes to business strategy alignment and processes. This is indicative of the learning and maturity curve local family businesses - many of which are younger than the global average¹ – have yet to catch up on.

This 2016 Singapore highlights of our biennial Family Business Survey analyses the views of 60 interviewees from local family businesses. Their responses are compared against 2,802 interviewees across 50 economies worldwide.

Figure 1: Key differentiators of family businesses from non-family run businesses



¹ In Singapore, 84% of family businesses are in their first and second generation of ownership, while 16% are in their third or fourth generation. Globally, 67% of family businesses are in their first and second generation, and 33% are in their third or fourth generation.

Lacklustre growth in the past two years

Singapore's family business sector in 2016

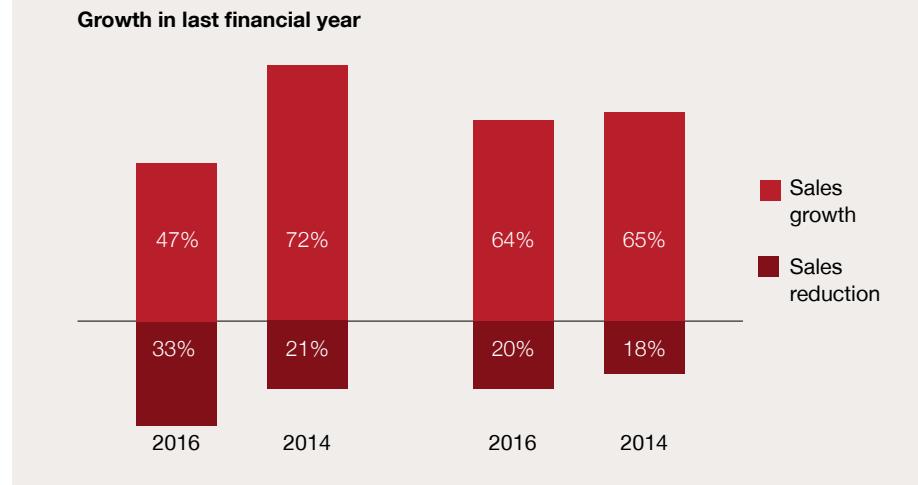
While sales growth achieved by family businesses globally remains largely the same as two years ago, the local sector saw a significant decline from 72% in 2014 to 47% last financial year (Figure 2). Concurrently, they also saw sales reduction increase by nearly half, from 21% in 2014 to 33%.

The slump in growth momentum may have been in part affected by the city state's recent economic slowdown, coupled with new technologies disrupting traditional

business models². Consistent with this trend, 72% of Singapore's family businesses indicated tougher market conditions as the main issue they will be facing over the next 12 months, followed by increased competition (30%), as well as talent and labour shortage (28%, Figure 3)

When asked about their growth aims, the majority of family businesses locally (62%) and globally (70%) plan to achieve steady growth over the next five years (Figure 4). To ensure business survival amidst challenging times, family businesses need to look beyond the short term and the tactical, and strategically address the medium term and the strategic.

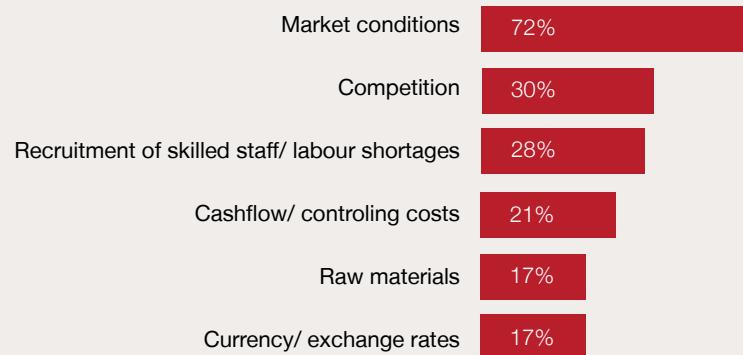
Figure 2: Sales performance over the past two years



² The World Bank, 2016

Figure 3: Top five issues faced by family business in Singapore over the next 12 months

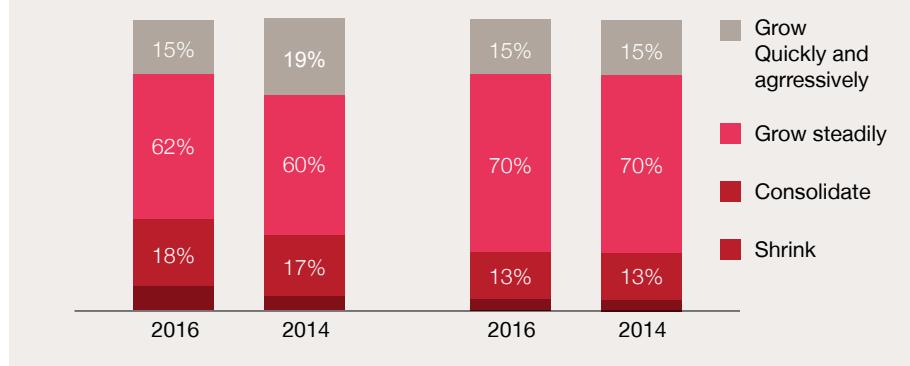
Main issues being faced in Singapore in next 12 months



Top three issues globally:

- Market conditions
- Recruitment of skilled staff
- Government policy, regulation, legislation or public spending

Figure 4: Growth aims over the next five years



Are family businesses in 'digital denial'?

Addressing the 'missing middle'

This year's survey revealed a disparity in Singapore's family businesses' views on and approach to innovation when we compare the 5-year outlook of their goals and challenges. While 65% of family businesses foresee themselves grappling with the pressure to innovate and stay ahead, only 12% said the need to be more innovative is 'very important', while 42% rated it 'not important' (Figure 5 and Figure 6).

On a similar note, fewer than half of the family businesses in Singapore recognise the importance of digital. 47% indicated having a strategy that is fit for the digital age, compared to 53% of the global average, and only 40% understand the tangible benefits of moving to digital, compared to 59% globally (Figure 7).

The results are indicative of possible digital denial among local family businesses. The lack in their digital and innovation drive is a cause for concern as this is where family businesses can deliver on their ability to reinvent themselves and not lose out in the long term competition.

Family businesses in Singapore cannot afford to avoid confronting the challenges impeding them from realising their long term goals. While having a good, tactical business plan for the day-to-day is crucial, it is only part of the battle. A strategic plan that links where the business is now to where it could be in the long term, and that addresses the challenges along the way is essential to resilience and continuity.

Family businesses' top three goals over the next five years:

1. *Ensure long term future of business*
2. *Improve profitability*
3. *Enjoy work and professionalise the business*

Top 3 challenges family businesses foresee over the next five years:

1. *Competition*
2. *Economic situation*
3. *Need to innovate to stay ahead*

Figure 5: Key challenges over the next five years

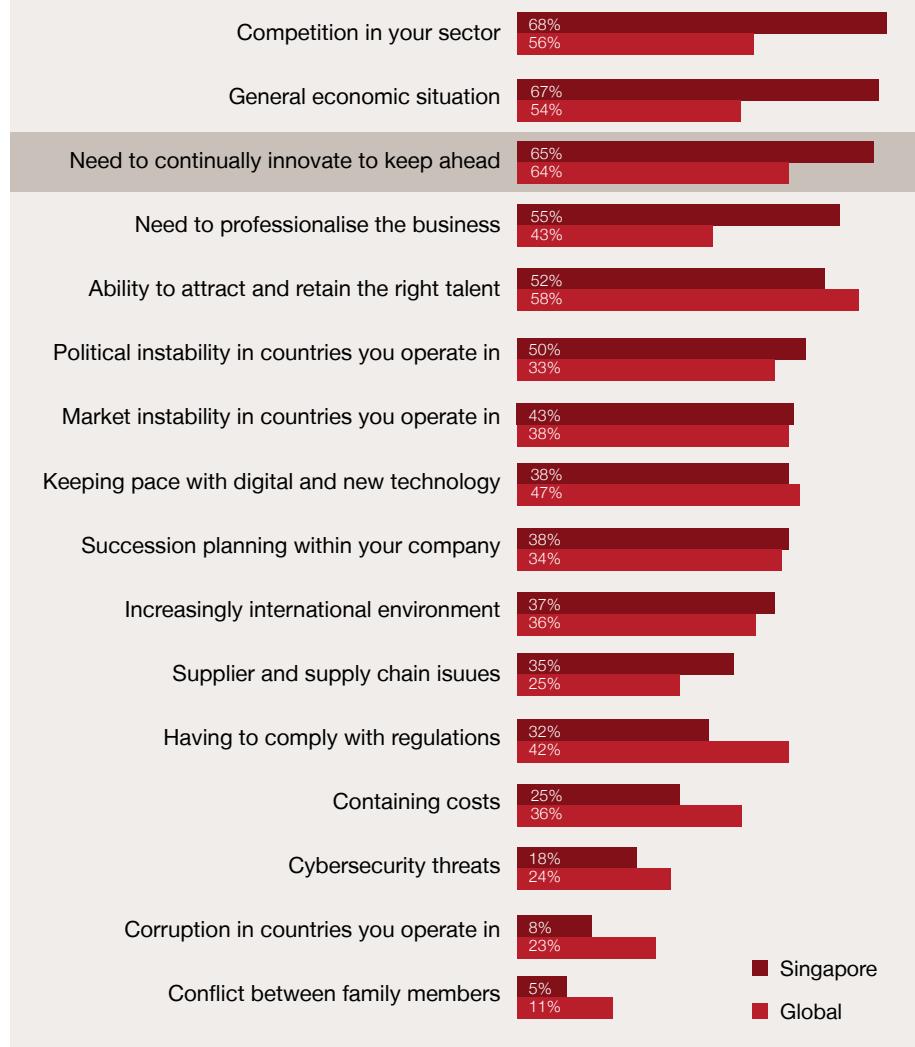
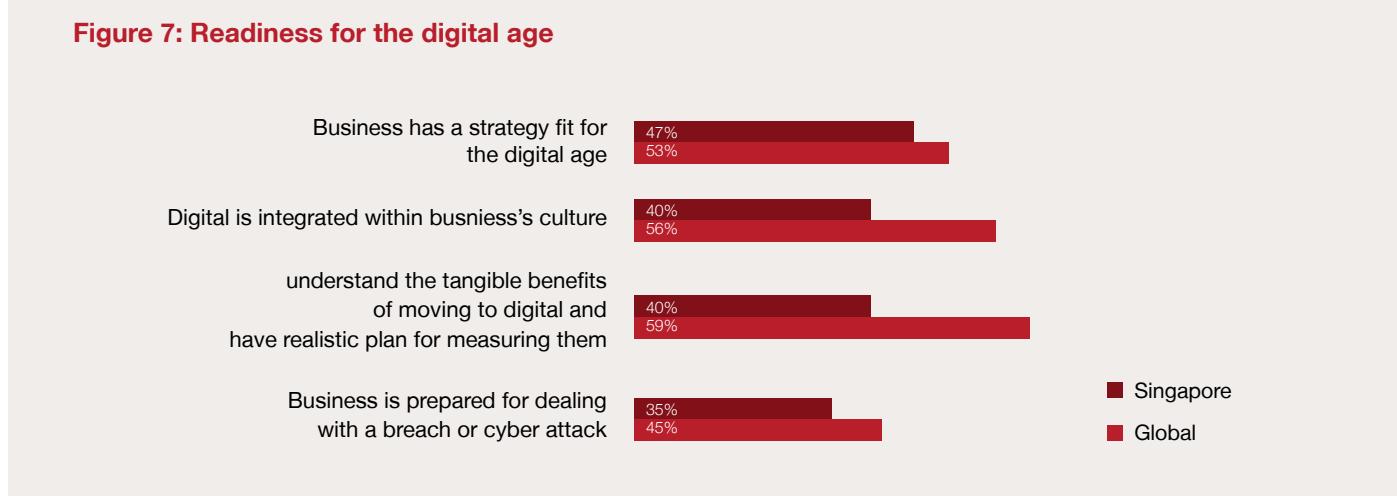


Figure 6: Importance of personal and business goals over the next five years



Figure 7: Readiness for the digital age



Reconciling the personal and the professional

Professionalisation 2.0

Every successful business will eventually reach a point when it has to professionalise the way it operates, by instituting more rigorous processes, establishing clear governance and so on. But a family business has another dimension which other companies do not have to tackle: the family itself.

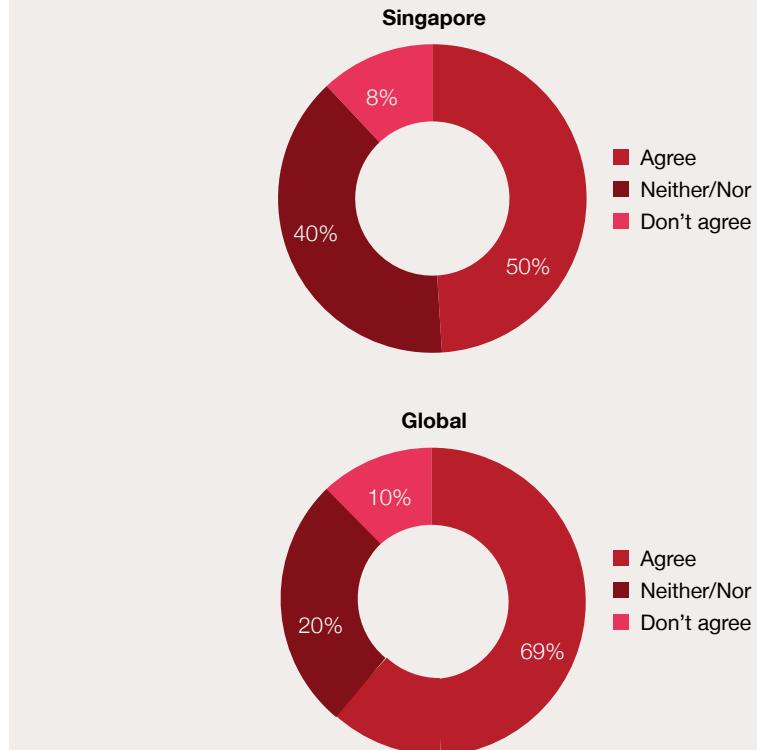
When asked about whether their business strategy and that of their firm's family are aligned, 50% in Singapore agreed that they are - lower than the global average of 69% (Figure 8). Professionalisation thus takes on an added importance in the context of bridging both family and business goals, as well as eliminating barriers that impede the business from achieving more. Corresponding to this need, 55% of local family businesses ranked

professionalising their business among their top challenges over the next five years, higher than the global average of 43% (Figure 5).

This year's survey revealed that among the main issues family business in Singapore struggle with in running their business on a more professional basis are mechanisms to deal with family conflicts, and succession planning.

Figure 8: Alignment of family and the business

"Think the strategy of the family and the strategy of the business are completely aligned"



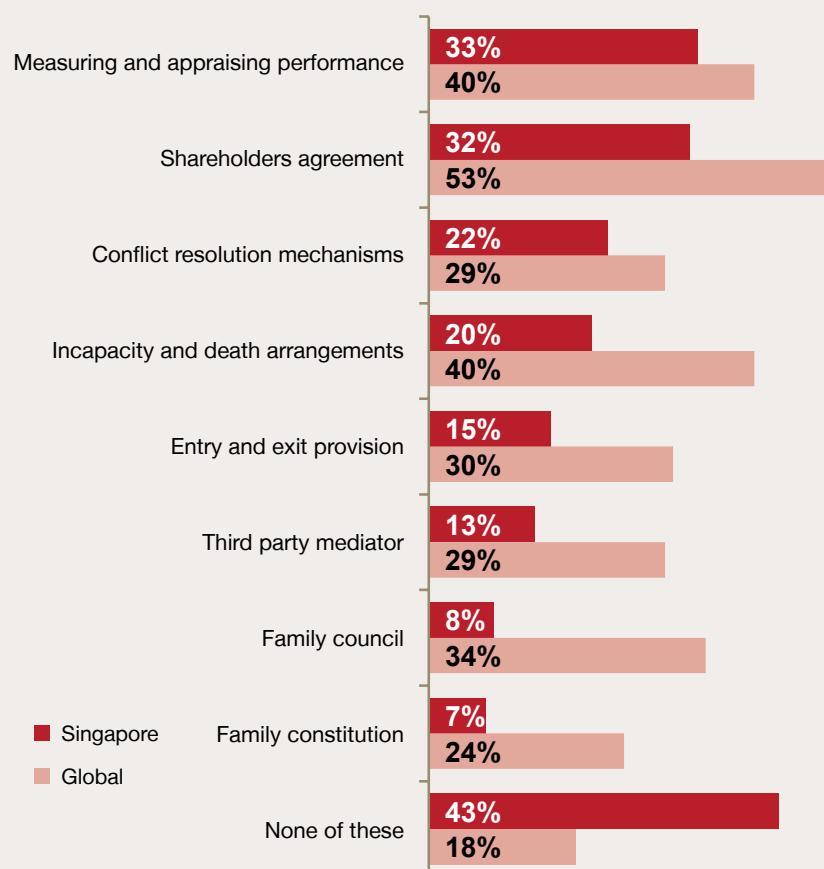


Mechanism to deal with family conflicts

Family conflict management is not only integral to the survival of the business, but also to the survival of the family. In Singapore, 57% of family businesses have at least one mechanism to deal with family conflict, far below the global average of 82%.

While around a third of local family businesses deal with conflicts through measuring and appraising performance (33%) as well as seeking council from their shareholders (32%), 43% indicated that they do not have any procedures or mechanism in place to manage such conflicts (Figure 9).

Figure 9: Procedures/mechanisms in place to deal with family conflict



Succession planning: Failing to plan means planning to fail

There's no point in having detailed plans for business continuity, if the single most significant risk is not addressed. Additionally, succession planning is also a major factor in addressing the 'missing middle' as it is essential to ensuring the aims of the owners and the family, as well as the objectives of the business are properly aligned over the medium to long term. Succession planning is a process, not an event.

A total of 77% of family businesses in Singapore (73% globally) plan to pass on the management or ownership of their business to their next generation (Figure 10). On the other hand, 45% indicated that they do not have a succession plan in place; and even less mention a robust one that is well documented and communicated (10%, Figure 11).

Figure 10: Future ownership plans for the business

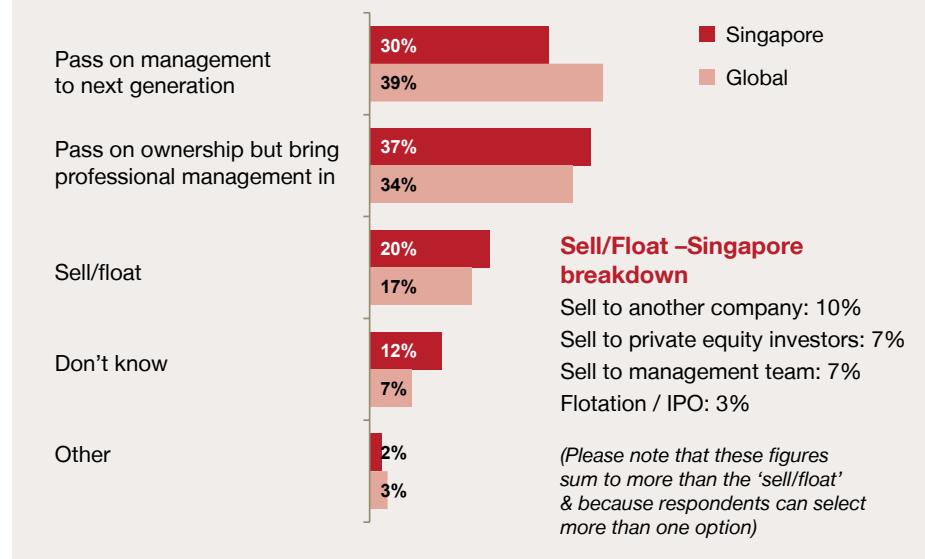
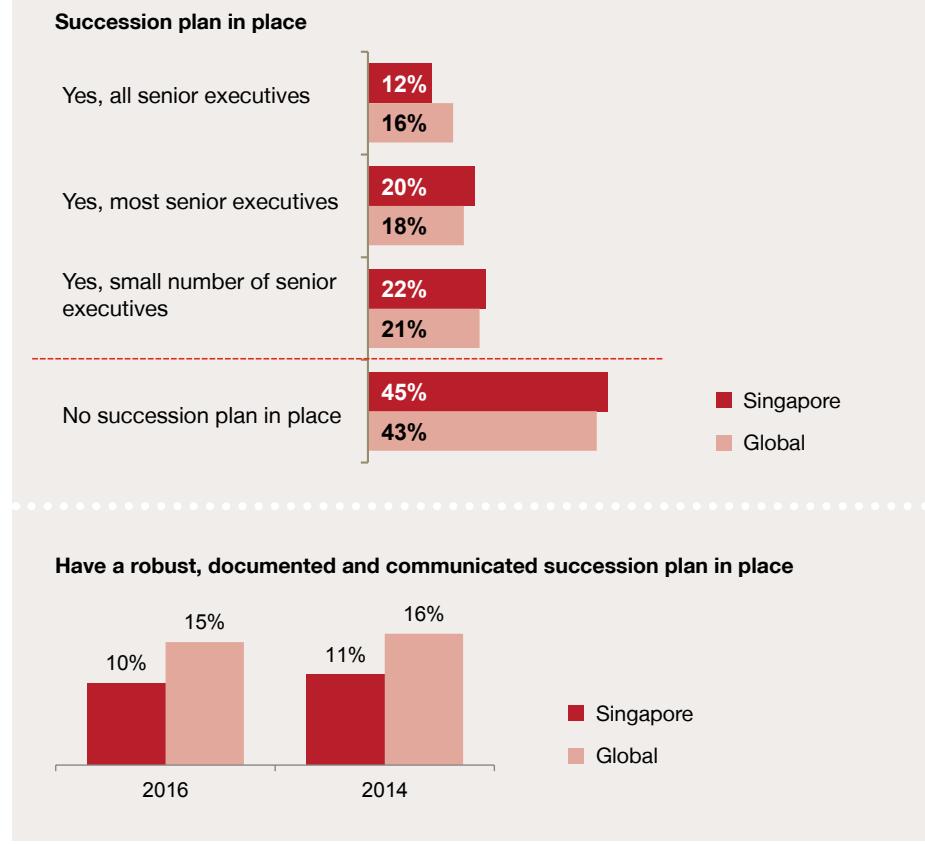


Figure 11: Succession planning of family business



An urgent need for strategic planning

Conclusion

More so than volatile market conditions taking a toll on the performance of family businesses in Singapore, this year's survey findings warn of the future of family businesses could be further hindered by the lack of strategic planning. Without a clear mid to long term strategy in place, it will be difficult to identify the right skills, resources and action points required for long lasting, sustainable success.

Among the main takeaways drawn from this year's findings which require concerted and determined actions are:

Addressing the digital and innovation gap

Local family businesses need to understand that they are just as vulnerable as any business to disruption.

Thinking positively about the opportunities digital and innovation presents is critical. Businesses that fall behind the curve risk facing stark realities about the long term future of some areas of their business. Instead of viewing digital and innovation as a disruptive force, family businesses can consider 'progressive innovation' to drive value creation, which can be adopted through the introduction of new ideas and ways of working.

Ramping up the professionalisation of family business

The professionalisation journey among majority of Singapore's family businesses is far from complete, as reflected their level of preparedness when it comes to conflict management and succession planning.

Conflicts and misunderstandings always exist in families and are family businesses' greatest enemy. As local family businesses expand and mature, formal conflict management mechanisms, which provide a forum where conflicts can be objectively addressed and resolved, will be imperative for business growth and continuity.

The other most obvious potential 'failure factor' is the neglect in succession planning. Every family business has to find a way to reconcile the personal and professional goals and objectives, and the succession process can bring these two dimensions into direct conflict, with both the family and the firm at risk as a result. To do this effectively, family businesses need to develop, implement, and communicate a robust succession plan, and do so as early as possible before the actual handover.



Contacts

Your Entrepreneurial and Private Clients team in Singapore



Ng Siew Quan
Asia Pacific Entrepreneurial and
Private Clients Leader
+65 6236 3818
siew.quan.ng@sg.pwc.com

Risk Assurance



David Toh
Governance, Risk & Controls Leader
+65 6236 3248
david.sh.toh@sg.pwc.com

Tax



Lennon Lee
Partner
+65 6236 3728
lennon.kl.lee@sg.pwc.com

Capital Markets & General Assurance



Tham Tuck Seng
Capital Markets Leader
+65 6236 3048
tuck.seng.tham@sg.pwc.com

Consulting



Lim Hwee Seng
Partner
+65 6236 3118
hween.seng.lim@sg.pwc.com



Lee Chian Yorn
Partner
+65 6236 3278
chian.yorn.lee@sg.pwc.com

Deals, Mergers & Acquisitions



Charles Loh
Partner
+65 6236 3328
charles.ks.loh@sg.pwc.com

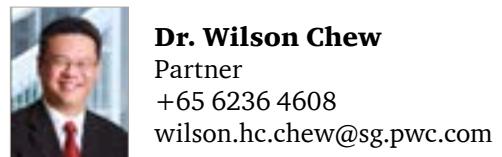


Alex Toh
Partner
+65 6236 7188
alex.wk.toh@sg.pwc.com

Strategy & Brand Consulting



Lie Kok Keong
Partner
+65 6236 7288
kok.keong.lie@sg.pwc.com



Dr. Wilson Chew
Partner
+65 6236 4608
wilson.hc.chew@sg.pwc.com

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