

WHAT future do you see for your business? For the entrepreneurs and small-business owners of the last several decades, this is a question well worth considering. As this generation draws near to retirement, they need to decide what to do with the business that they have built over the years. Some may be contented with letting the business close down. Others, however, may wish to see it continue in the hands of their children, or they may even wish to sell it off.

For a majority of small and medium-sized enterprises (SMEs), success comes from being flexible and agile to respond to opportunities in the market. A key challenge is continuing to grow the business in a sustainable way without imposing additional layers of bureaucracy and processes.

There are various ways to achieve this. One way is to strengthen existing governance processes within the existing family members running the business. This includes ensuring that a plan is established for business succession, both leadership and ownership. Another way is to identify additional supplementary skills required and recruit non-family members to join the team.

Both options are equally viable when supported by efficient governance mechanisms or professionalisation. This can be as simple as formalising business rules – adding quantifiable key performance indicators (KPIs), for example, to measure and monitor performance or putting processes and systems in place to make day-to-day operations more consistent, especially for local businesses that venture into overseas markets.

PROFESSIONALISATION AS A SOLUTION

Professionalisation, which is an aspect of corporate governance, is important because it makes a business sustainable. It creates a structure that is not dependent on individuals, meaning that even if the business owner or family members leave or cease to actively manage it, the business can still continue to operate. Where necessary, it can allow a distinction between the owner of the business and the people who run the daily operations.

A professionalised structure can also increase the business' credibility with its business partners. It can typically ensure equitable treatment for both family members and outsiders. This makes it more attractive to new managers and employees, regardless of whether these new hires come from within the owner's family, or are brought in from outside the family.

Finally, if the business is planning to be listed in the future, professionalisation and establishing a basic level of corporate governance will give it a foundation for that leap forward.

Professionalisation can be done in small steps that do not disrupt the business. Here are some changes business owners can make:

- **Have quantifiable KPIs:** Quantifiable KPIs for daily operations may be as simple as setting target sales for every quarter, or putting limits on certain types of expenditure. What is important is to formally document these KPIs and ensure that they are regularly reviewed. Having definite targets can give employees initiative to perform, especially if these targets also form the basis for remuneration.
- **Peg remuneration to performance:** Remuneration can be a highly sensitive area, especially in family businesses that also hire non-family members. A formal KPI system makes remuneration more transparent and helps ensure that reward programmes are more equitable or meritocratic for all employees. This will make employees, whether family or non-family, more motivated to stay in the business and perform well. For example, it was reported that Genting Singapore awarded its CEO – who was hired from outside the family – approximately 36 times more than the amount of performance shares awarded to its executive



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A FAMILY BUSINESS FOR TOMORROW

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BY JONATHAN HO

chairman, who is the son of the Genting Group's founder. The shares were a reward for driving the company's overseas expansion, and to keep him from being poached by competitors.

- **Ensure that people are suited for their roles:** Roles and responsibilities, like remuneration, can be sensitive in a family business. Business owners should try to ensure that roles are assigned by suitability, particularly for family members. For example, the founders of one family-owned business require their children to gain at least three years of working experience outside the business before bringing them into the fold. Upon joining the family business, the children are required to start in an entry-level position rather than a management position. In addition, the children were rotated between different departments in the company for exposure and to determine their forte before assigning them to permanent roles. This has helped to reduce overlapping roles and minimised potential conflicts and unhappiness among other employees.
- **Have formal management meetings:** For a business to run smoothly, key people must know what is happening and how various projects or goals are progressing. They also need the opportunity to raise and/or discuss matters related to various departments or the overall business. Hence, business owners should try to set aside the time for regular and formal management meetings. Such meetings should have an agenda that addresses relevant issues, and the minutes should be documented for future reference. For example, one business converted its informal meetings into formal monthly management meetings. These meetings involve relevant employees, who were invited to contribute for a more balanced discussion. As a result, there was greater transparency and better communication between the different departments, which helped improve the efficiency of business operations.
- **Have rules about handling information:** Today, the typical cause of many information leaks – whether it is business secrets or customer data – come from within. Such leaks may not even be deliberate but the result of employees inadvertently granting information technology (IT) access to unauthorised users. If a business has processes in place to govern the way that information is handled, this can reduce the risk of insider threats and help improve IT security. Similarly, if a business has established

rules about social media engagement, employees will be more able to identify and handle situations that might otherwise affect its reputation.

BENCHMARKING PROFESSIONALISM AND GOVERNANCE

Some small-business owners may wish to benchmark the quality of their business processes against listed companies. They can refer to external sources such as the recently released Governance Evaluation for Mid and Small Caps (GEMS), which was jointly developed by the Securities Investors Association Singapore (SIAS) and the Singapore Association of the Institute of Chartered Secretaries and Administrators (SAICSA).

GEMS emphasises practical aspects that are important to SMEs, such as leadership, stability of ownership, remuneration and succession planning. It applies to SGX-listed companies with a market capitalisation of S\$500 million or less, and the highest ranking GEMS companies from 2014 include well-known names such as the BreadTalk Group, Banyan Tree Holdings, Hiap Seng Engineering and Qian Hu Corporation.

Business owners may also consider seeking new perspectives from platforms such as the Enterprise 50 Awards jointly run by KPMG and *The Business Times*. The E50 Awards recognise outstanding performances by private enterprises, and also provide a platform for those enterprises to self-assess and compare themselves with their peers.

Participants are evaluated on quantitative and qualitative criteria to assess business growth and performance as well as their standard of corporate governance and risk management practices. Each year, E50 winners are closely watched by the business community as they exemplify successful companies with good governance mechanisms.

Corporate governance for small businesses need not be onerous. Unlike large companies, which tend to focus more on disclosing information, governance for small and unlisted businesses should focus on the practical and relevant aspects of day-to-day operations. Ultimately, corporate governance can be a valuable tool to enhance a business' credibility, improve its sustainability and help its long-term growth. ■

The writer is partner, risk consulting, at KPMG in Singapore. The views expressed are his own