

Understanding your growth options

SINGAPORE

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The process involves being clear about your growth objectives and asking the right questions. The answers will then be clear.

Growth is often the mantra of entrepreneurs and owners of small or medium-sized enterprises (SMEs). Depending on available capital and what suits a particular industry, a business may start out as an owner-managed enterprise or run by a few close partners.

As the business grows, an entrepreneur sometimes draws in extended family members and friends. This brings in much needed resources such as talent and funding.

When the business is of sufficient size and has a good potential growth story, it may seek to enhance its visibility by way of a listing on a stock exchange through an initial public offer.

For many SMEs, the final milestone demonstrating they have "arrived" is when their business is listed.

But is the transition from private SME to a publicly listed company the only way to grow a business?

View of the growth journey

KPMG polled several SME businesses, asking: "What are some of the key challenges your company faces in growth and IPO plans (if any) over the next five years?"

The challenges and issues these businesses raised include:

- Access to and control of talent
- Management structure
- Access to alternative sources of funding
- Corporate governance and transparency

There is no single solution to address all of these issues. However, the business growth model (see diagram) can help highlight the considerations faced by many SMEs with reference to where their business lies on a continuum of choices.

Access to and control of talent

If there is one thing many entrepreneurs learn early, it is how to maximise talent resources. They learn quickly what resources should be brought in-house and what should be outsourced.

External consultants are engaged on an ad-hoc basis to provide expertise to solve a particular issue, and are a useful way to obtain expertise without a commitment to hiring and retaining staff when a company's needs are not well defined.

On the other end of the spectrum, a listed company usually prefers to have talent resources on its permanent payroll.

This may be a case of demonstrating strength and status through the extent of resource ownership, or simply to retain know-how within the organisation as a competitive advantage.

So what is the right level of resource commitment?

The answer depends on factors like the talent or resources available, and the need for minimising a business owner's exposure to unnecessary risk.

For example, having the need to lay off staff when bad times arrive. No attempt at minimising bad publicity will completely mitigate the reputational damage caused by perceived bad resource planning.

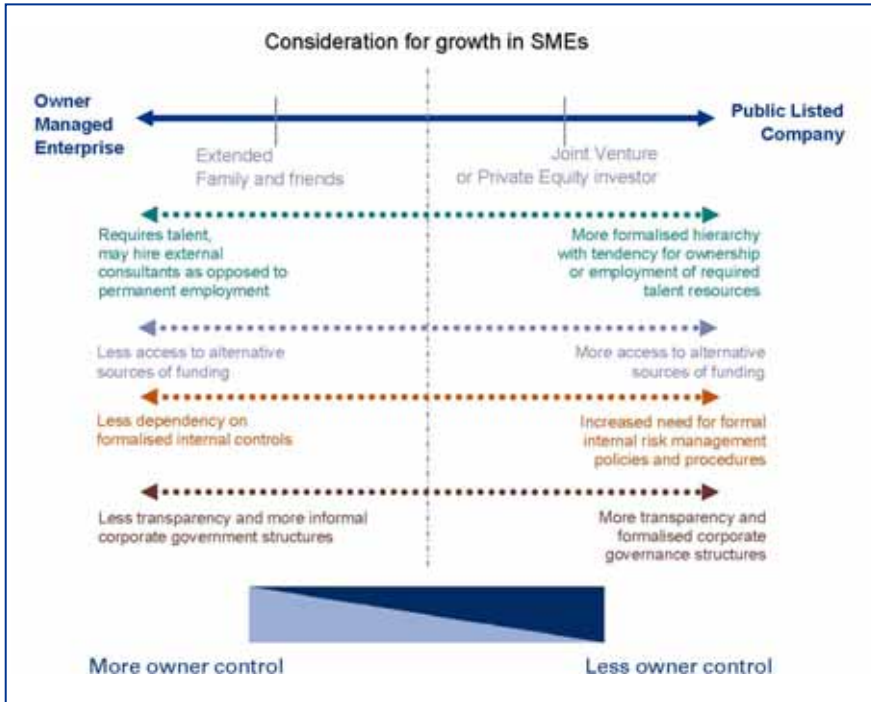
Management Structure

Which management structure is recommended – more owner-managed or a more administrative structure? Consideration should be given to the organisation's need for flexibility, maximised with a flat and informal organisation. This is opposed to the need for clearly defined authority and responsibility required to perform the increasingly complex planning and coordinating in some businesses.

In addition, business owners will need to weigh their desire to maintain direct control over their business against the need to relinquish control with more investors coming on board.

Access to alternative funding sources

Traditionally, besides seeking funds from banks for working capital or growth, the main alternative was to go for an IPO.



As a business owner, a public listing may not necessarily be the only way to achieve growth.

While going public has its advantages, it comes with more responsibility, less control and the need for increased transparency.

On hiring talent, is increased recruitment the only option of having the expertise to drive growth? As discussed earlier, this is not necessarily the case.

Conclusion

The answers to the challenges you face are not independent of other issues, but interrelated.

As you consider the various perspectives offered, ask yourself how the options apply to you and the current or prospective growth in your business.

However, this mindset has changed over the years.

For example, private equity funding or joint-venture investors have taken on an increasingly important role in providing funding to pre-IPO SME businesses in Asia.

They may offer a better compromise between a relinquishment of owner control required in bigger companies. They can also offer access to professional management and know-how, and provide strategic contacts.

The question is really whether one can find the right partner for the SME setup. A critical success factor here is the commitment by both parties to make it work.

Governance and transparency

The need for growth must be balanced with the need for governance and transparency.

Listed companies tend to have more professional management with less control exercised by the original

business owner. This is in part due to greater scrutiny by regulators and the investing public.

Quite frequently, owner-managed enterprises aspiring to go for a public listing find it difficult to change their mindset from being a owner-manager to separating ownership from management of the organisation. This may be the reason they underestimate the importance of instituting a strong corporate governance structure with sound risk management policies and procedures.

Start asking questions

How do you make the right choices for your organisation's growth?

An informed decision to help you make the right choices stems from asking the right questions.

Ask yourself: What do you hope to achieve through growth? What are the pros and cons of being at different ends of the continuum?

Do your preparatory work. Understand your growth objectives, ask the right questions and know your options in advance.

What is best for growing your business may become more visible as you begin seeking the answers to some of these questions today. The only other thing that remains then will be to put the answers arrived at into action.

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