

From survival mode to action mode

Why family businesses need
to act now to ensure a better
tomorrow for them and PNG





Foreword

In 2020 we faced an event that was unprecedented for many generations. Many governments around the region opted to enforce strict lockdowns to protect their health systems at the expense of economic growth. While PNG has a fragile health system the PNG government made the decision to not follow other neighbour countries and therefore keep its economy operating as much as normal. This decision has led to its 'Niupela Pasin' strategy or the 'new normal'.

Under 'Niupela Pasin', it has been the business community that has been tasked with not just keeping their businesses operational, but also keeping their workforces and communities safe. Fortunately for PNG our family business community have strong fundamentals - commitment to values, long-term thinking and sensible leverage - all of which are what recoveries are based on. Therefore PNG family businesses were well placed to lead.

Against this backdrop it is encouraging to see our PNG family business owners and leaders set strong examples to be followed. They did this by being more accountable to their stakeholders, communities and governments. As such they have been able to demonstrate how to manage through this crisis and show strong ethical leadership by doing what is right.

What 2020 has shown us is that while PNG family businesses are leaders, and are well equipped to demonstrate resilience and responsiveness, the pace of change we are experiencing now is rapid. Now is not the time to rest, and to ensure future success family businesses need to equip themselves with a change of mindset; a rethinking of their priorities and behaviours, including increased investment in the digital capabilities needed for economic resilience; and a new definition of what legacy means to them and their families.

PwC's 10th Global Family Business Survey released in February 2021 surveyed 2,801 family businesses in 87 territories. In PNG, our second year of participation, we surveyed 34 family businesses across various business sectors and provinces and then conducted discussions with survey participants to obtain personal feedback on our conclusions.

Fundamentally PNG family businesses are no different to other family businesses. At the moment it is clear that the PNG economy and the performance of PNG family businesses is not at the same level as those at an Asia Pacific or global level. However, our second PNG family business survey does show that PNG family businesses are improving and would like to continue to improve. Provided this improvement can translate from a survey into action then it bodes well for the medium and long-term future of PNG family businesses as they recover during 2021 and beyond.

Message from Global Leadership

In today's business environment, in which the pace of change is accelerating, profit will need to be aligned with purpose. And as more pressure is put on companies to demonstrate their environmental, social and corporate governance (ESG) credentials, our survey indicates that family businesses are not assuming the leadership role they could. They are not prioritising key areas such as sustainability, which is no longer a 'nice to have' for those who can afford to show concern; rather, it's a business imperative. If family businesses fail to demonstrate their commitment to sustainability with concrete actions, they may risk losing the trust and goodwill that give them licence to operate.

We surveyed 2,801 family businesses in 87 territories and then conducted three panel discussions with family business leaders to test our findings. Based on the results, we argue that family businesses, though resilient, should recognise their blind spots and take a leadership role that demonstrates their commitment to sustainability.

As our [surveys](#) in the past have shown, family businesses are on a learning curve to marry their personal values with their business purpose, and vice versa.¹ ESG was already rising up the list of business resolutions long before the arrival and spread of COVID-19. Today, it's not a question of whether it's a good idea to prioritise ESG practices, but only of how long it will take for consumers, investors, lenders and governments to punish those that don't.

The OECD has warned [against a return to business as usual](#), arguing that COVID-19 highlighted the vulnerabilities in our societies and economic system.² Public sentiment, too, has shifted; even before the pandemic, [43% of consumers](#) expected businesses to be accountable for their environmental impact.³ Companies with the highest ESG ratings are outperforming others and [recovered more quickly](#) from the first wave of the pandemic.⁴

The time to act is now if family businesses want to keep their legacy for future generations.



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1 PwC, *Global Family Business Survey 2018: The values effect*, 2018, <https://www.pwc.com/gx/en/services/family-business/family-business-survey-2018.html>.

2 OECD, *Building back better: A sustainable, resilient recovery after COVID-19*, 5 June 2020, <http://www.oecd.org/coronavirus/policy-responses/building-back-better-a-sustainable-resilient-recovery-after-covid-19-52b869f5/>.

3 PwC, *The consumer transformed: Global Consumer Insights Survey 2020*, 2020, <https://www.pwc.com/gx/en/industries/consumer-markets/consumer-insights-survey.html>.

4 Alex Rolandi, "ESG rating 'linked to outperformance' amidst coronavirus pandemic," *Funds Europe*, 16 Apr. 2020, <https://www.funds-europe.com/news/esg-rating-linked-to-outperformance-amidst-coronavirus-pandemic>.

A message from the chairman of the Family Business Network International

Family Business Network International (FBN) is pleased to have collaborated with PwC for the tenth edition of its global Family Business Survey, which builds on PwC's long-time involvement in supporting business-owning families and collaborating with many FBN chapters around the world.

The unprecedented COVID-19 pandemic has tested business families' capacity to adapt to change and be resilient across generations. Family businesses contribute meaningfully to both economic growth and employment, and with their inherent focus on long-term success and responsible ownership, many create a more purpose-driven model of business. These contributions have also been amply demonstrated during the pandemic.

As the survey results indicate, there are two things we family businesses can do better: digitalisation and sustainability. Considering this report's recommendations, we invite business families to move from aspiration to action in both these areas that are increasingly essential for our future.

If we apply the same spirit of innovation, entrepreneurship and generational resilience for which family businesses are known to these two areas, we can enhance the long-term success of our businesses and help build a better, more sustainable world.

Please join us in this journey.

Farhad Forbes
Chairman, Family Business Network International

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Introduction and key findings

For PNG participants our survey was undertaken at a time where there were numerous challenges being faced by the local economy, business community, and the general public. As we stepped into 2020 the PNG economy was already bracing itself for an expected contraction in economic growth as global trade became more protectionist, with gross domestic product (GDP) forecast to reduce from 5% in 2019 to only 2% in 2020. There was also uncertainty over whether PNG's major resource projects would proceed (being Papua LNG, P'nyang, Wafi-Golpu and Pasca A) as a result of the change in PNG government that occurred in 2019 and the new "Take back PNG" approach to benefit sharing. So when COVID-19 was declared a global pandemic, and PNG declared its own state of emergency in March 2020, the PNG economy and the Government coffers were already at a relatively low ebb. Therefore the Government was not in a position to provide much stimulus to the economy. This situation was then further exacerbated by the closure of the Porgera gold mine in April 2020 and the renewed political instability that lasted through to early December 2020.

The 2020 survey was conducted during the period from 5 October 2020 to 11 December 2020 against this uncertain outlook, both globally and for PNG. Against this background, PNG family businesses were naturally cautious about growth prospects in 2021 but were much more optimistic for growth in 2022, although for both years PNG respondents were less optimistic about growth prospects than peers globally or in Asia Pacific. Since then, we have started to see the rollout of vaccines globally, but also a second wave of infections in PNG and a policy of "isolation" that has further dampened business prospects. However, on the positive side there have been recent announcements from the Marape government in relation to the Papua LNG and Wafi-Golpu projects and the arrival of the first vaccines into PNG.

The first section of this report looks at the resilience of PNG family businesses and whether they are prepared and willing to help lead the post-2020 recovery in PNG. This also allows us to compare the resilience in PNG family businesses compared to the resilience in family businesses globally and Asia Pacific.

The second section highlights the need for PNG family businesses to take action in relation to their environmental, social, and governance (ESG) agenda and rethink how PNG family businesses contribute to sustainable business practices, reducing climate change and the development of PNG. Family businesses traditionally take a long term view, prioritising the sustainability of the family business over short term wealth. This is important as PNG family businesses tell us that they have a high sense of community, but the survey indicates that there is less of a focus on sustainable business practices when compared to their counterparts globally and in the Asia Pacific region.

The third section evaluates the status of digital transformation in PNG family businesses. We continue to see an increased use of digital technologies by PNG family businesses and this has been enabled through the Coral Sea Cable System and the improved internal networks. A third (32%) of PNG family businesses say their digital journey is advanced - though they continue to believe digitalisation is a top priority (59%).

This is interesting as only one in five family businesses globally (19%) and Asia Pacific (18%) say that their digital journey is advanced, but 80% globally and 77% in Asia Pacific say it remains a top priority. We will therefore examine whether PNG is really ahead of the rest on the digital curve or whether PNG family businesses are being complacent.

The final section focuses on governance, where we pose the question - is now the right time to act for PNG businesses? The very relationships that make a family business strong can also hold it back. We have spoken at length about the need for PNG family businesses to professionalise their businesses as well as their families. Even so, it was very surprising that 41% of respondents told us that they had a formalised, documented and communicated succession plan. This is well ahead of counterparts globally at 30%, and in Asia Pacific at 24%, as well as where PNG family businesses were from 2018 at 13%.

As part of preparing this report we have tested our findings by holding discussions on the key themes with family business owners in PNG representing a mix of businesses and industries. Their views are captured at the end of each section of this report as well as the recommendations from our Global family business survey with adaptations applicable for PNG. It is clear that we are now facing a new normal and the luxury family businesses in PNG have had to wait and watch may no longer be available. At some point disruption requires a reaction and that time for action has arrived for PNG family businesses.





34

respondents



12th

largest participant from the Asia Pacific region and the second largest from the Pacific



38%

of surveyed businesses grew in the 12 months before COVID-19



76%

of surveyed businesses are expecting to grow in 2022

Key findings

The responses of the PNG family business owners and executives who participated in the survey reveal important insights into how family businesses operated in 2020, their outlook for 2021 and beyond, and the issues high on their agendas. Our participants from PNG made PNG the 12th largest participant from the Asia Pacific region and the second largest participant from the Pacific region.



Economic resilience is high

76%

say that they needed no additional capital in 2020 and only 32% cut their dividends during 2020. This compares to counterparts globally at 79% and 34% and Asia Pacific at 76% and 30%. This is encouraging as 76% of PNG family businesses experienced a decrease in profits in 2020 (51% globally and 55% in Asia Pacific). Unfortunately for PNG family businesses the recovery from 2020 is expected to take longer than family businesses globally and in Asia Pacific. Only 53% of PNG respondents expect their businesses to grow in 2021, compared to 64% globally and 65% in Asia Pacific, which reflects the additional domestic uncertainties.



There's a desire to lead on sustainability, but action has been slow

53%

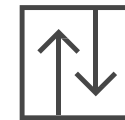
say there is an opportunity for them to lead the way on sustainable business practices and 38% say they are unlikely to lead but will play their part when required. These results are almost the same as other family businesses globally and in Asia Pacific. Unfortunately, only 32% have a sustainability strategy in place (which is slightly behind the 37% globally and 38% in Asia Pacific).



Progress on digital transformation is slow

38%

say their digital capabilities are strong. This is the same as the global average, but ahead of those family businesses in Asia Pacific (33%). In the 2018 Family Business Survey 52% were worried about innovation and technology, and 48% said they would invest in it.



The barriers of resistance to change appear to have been removed and the journey has started to professionalise the family businesses in PNG

44%

now have a documented vision and written purpose statement (behind the 51% globally and 45% in Asia Pacific); 41% have succession plans (well ahead of the 30% globally and 24% in Asia Pacific); and only 9% say there is resistance to change (well ahead of the 29% globally and 33% in Asia Pacific). As a result PNG family businesses appear to be ahead of their counterparts in this regard, but now is not the time to be complacent.

Growth and resilience

Resilience is alive and well in PNG family businesses

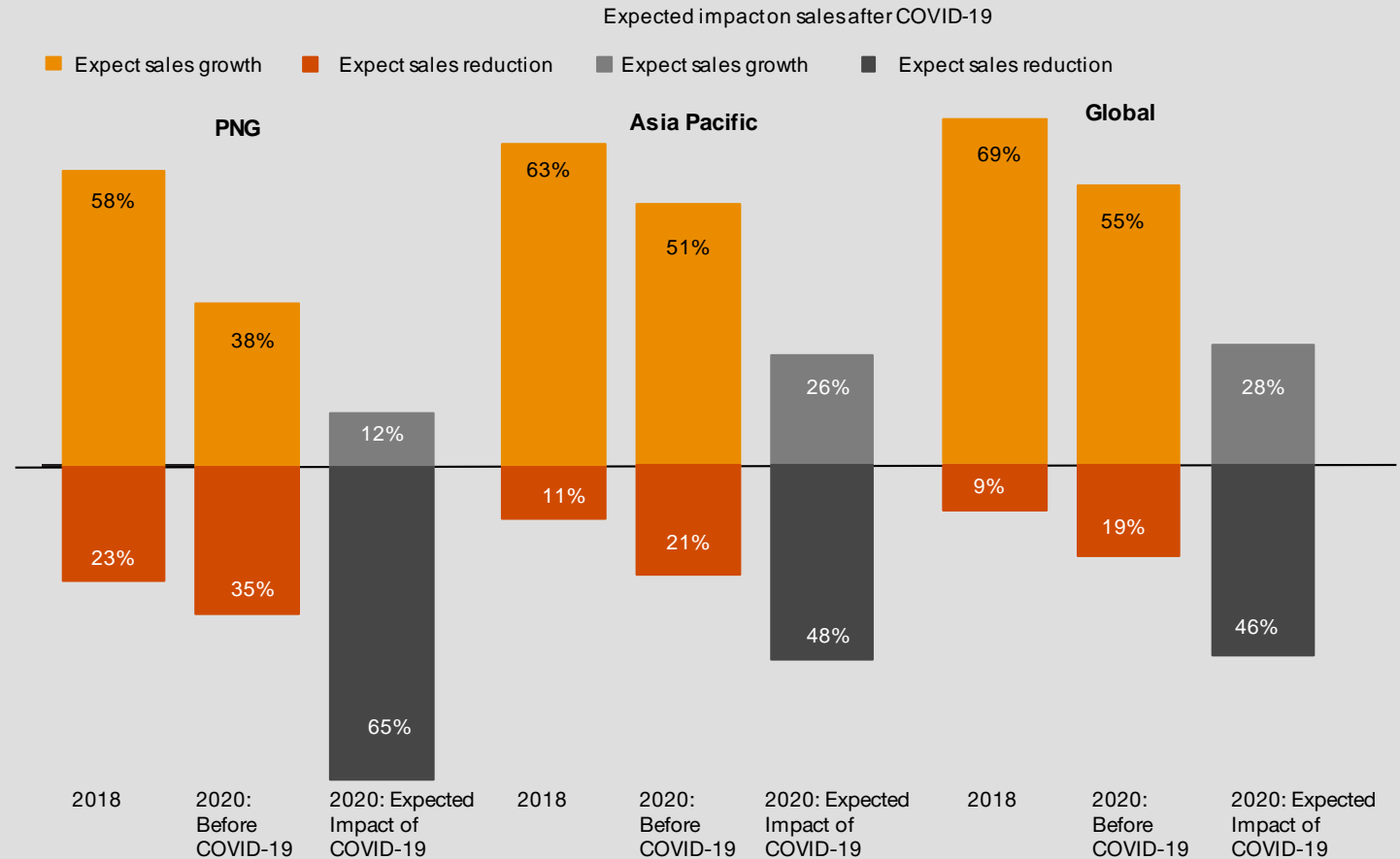


2020 has been an extraordinary test of resilience for almost all businesses in PNG. Family businesses in PNG understood the importance placed on them to meet the challenges thrown at them at a time when the PNG economy was already facing financial uncertainty. Even before the COVID-19 pandemic, only 38% of respondents were predicting growth for 2020 with 35% of respondents predicting a decline in growth for 2020. This was a lot lower than counterparts globally and Asia Pacific where 55% and 51% respectively were expecting growth in 2020. But by the last quarter of 2020, only 12% of PNG family businesses had actually achieved any growth whilst 65% reported a decline in sales due to the impact of COVID-19. This was far worse than global and Asia Pacific results, where 28% and 26% respectively achieved some growth in 2020, with 46% and 48% respectively reporting a reduction in sales. Given that the health and welfare impacts of COVID-19 were relatively less in PNG than many other economies, this finding highlights the importance of other factors, such as our high export revenue dependency, the Porgera mine closure, absence of any direct government financial support measures to business and the political instability.

This position does not really change that much in the 2021 outlook. Whilst 53% of PNG family businesses expect sales to grow in 2021, this is well below the global and AsiaPac level of 65% and one in five (21%) of PNG family businesses are still expecting to contract or downsize further to survive in 2021 (7% globally and 9% in Asia Pacific). There is some improvement in the 2022 outlook, with 76% of PNG respondents looking forward to increasing sales, but this is still below the global and AsiaPac responses of 86%. Hopefully this short term outlook will be improved now that vaccines have started to be rolled-out and we have had more positive news on some major resource projects from the PNG Government since the survey was conducted.

Figure 1: Growth expectations before and after COVID

2021 survey Q: Looking back over the last financial year, before the COVID-19 pandemic, would you say your sales have been... And what do you think the impact of the COVID-19 pandemic will be on your sales?
 2007–2018 survey Q: Looking back over the last financial year would you say your sales have been...



Note: Sums don't total 100, because results show only the percentage of responses indicating sales growth or decline. The range of possible answers to the multiple-choice questions includes "stable" and "don't know."
 Base is all global respondents (2021: n=2,801; 2018: n=2,817-2,950), Asia Pacific respondents (2021: n=817; 2018: n=700) and PNG respondents (2021: n=34; 2018: n=31)
 Source: PwC Family Business Survey 2021

Resilience

Despite the negative impacts on PNG family businesses, they have proven to be very resilient during the crisis. As we have come to expect, they continue to take a relationship-based rather than market-based approach, prioritising the wellbeing of their people and their local communities and taking the long term view of crisis management rather than knee jerk reactions. They have focused on keeping their people and stakeholders safe while keeping their doors open and, where necessary, reducing hours and pay rates rather than cutting total staff numbers.

Traditionally family businesses have conservative capital structures with lower levels of borrowings than public companies. This leaves them better able to ride out short term volatility. Family businesses also tend to have flatter management structures and the close involvement of family members in the management of the business enables more agile decision making.

Only one-third (32%) of surveyed businesses have had to cut dividends (almost the same as counterparts globally and in Asia Pacific), and 26% of family members have taken salary cuts (globally this is 31% and Asia Pacific is 34%), in 2020. Overall, only one in four businesses (24%) needed to access extra capital (21% globally and 24% in Asia Pacific); 21% of the owners are putting in more of their own cash, and 24% say they are prepared to do so in the future (compared to 15% and 33% globally and 18% and 32% in Asia Pacific).

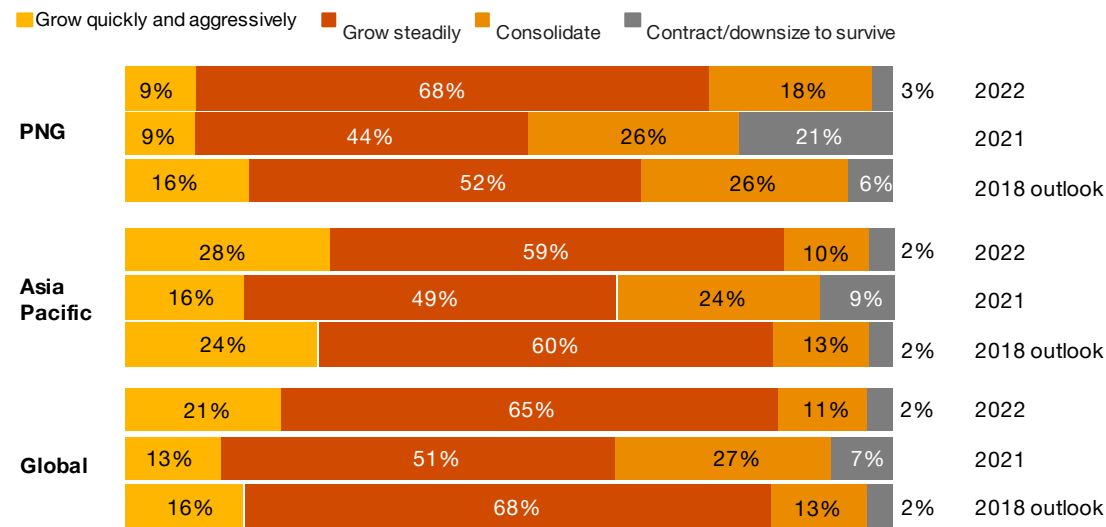
While working from home arrangements were not as feasible in PNG as elsewhere (only 29% of PNG respondents facilitated

remote working, compared to 80% globally and 72% in Asia Pacific) the measures they did put in place for staff welfare were heartening. 74% of PNG family businesses retained as many staff as possible and 44% provided financial support or loans to staff. This was higher than both global counterparts at 71% and 22% and Asia Pacific at 69% and 24%. Unfortunately there were still 21% of PNG family businesses who did not provide any support to their staff or local communities as they focussed on doing what they could to survive. This is significantly higher than global at 5% and Asia Pacific at 7%. These results could reflect the lack of government support provided to PNG businesses and the public during 2020. While the majority of PNG family businesses did contribute more than their fair share to supporting their staff and the community in 2020, it does raise the question as to how much greater positive impact could these businesses have made with more government support to business.

The encouraging sign for PNG family businesses is that their growth expectations for 2022 are similar to what they told us in 2018. Whilst some 68% of PNG family businesses still see protecting the core business and covering costs to survive as the highest priority over the next two years (compared to only 37% globally and 46% in AsiaPac), there is still some 68% who are also prioritising diversification and/or expanding into new markets or products (82% globally and 82% in Asia Pacific). The other top priority at 59% was rethinking and adapting the business model to meet the new challenges, which surprisingly was a higher priority than globally or in any other AsiaPac territory.

Figure 2: Company's ambitions on growth with a comparison to the forecast in 2018

Q: Which of the following best describes your company's ambitions for 2021 and 2022?



Note: Base is all global respondents (2021: n=2,801; 2018: n=2,817-2,950), Asia Pacific respondents (2021: n=817; 2018: n=700) and PNG respondents (2021: n=34; 2018: n=31)
 Source: PwC Family Business Survey 2021

Sustainability and corporate responsibility

Why is a global priority not getting attention from PNG family business



Giving back is in the DNA of PNG family businesses. In fact 94% of respondents told us that they contribute to their local community (which is higher than the 62% globally and 56% in Asia Pacific). PNG family businesses have a strong sense of community and prioritise the wellbeing of their employees and society when thinking about the impacts of their businesses. Only 26% of PNG family businesses say they engage in philanthropy, which is lower than the 42% globally and 45% in Asia Pacific, but this reflects that PNG family businesses prefer to make a difference by getting closely involved in community activities rather than just donating funds to charity.

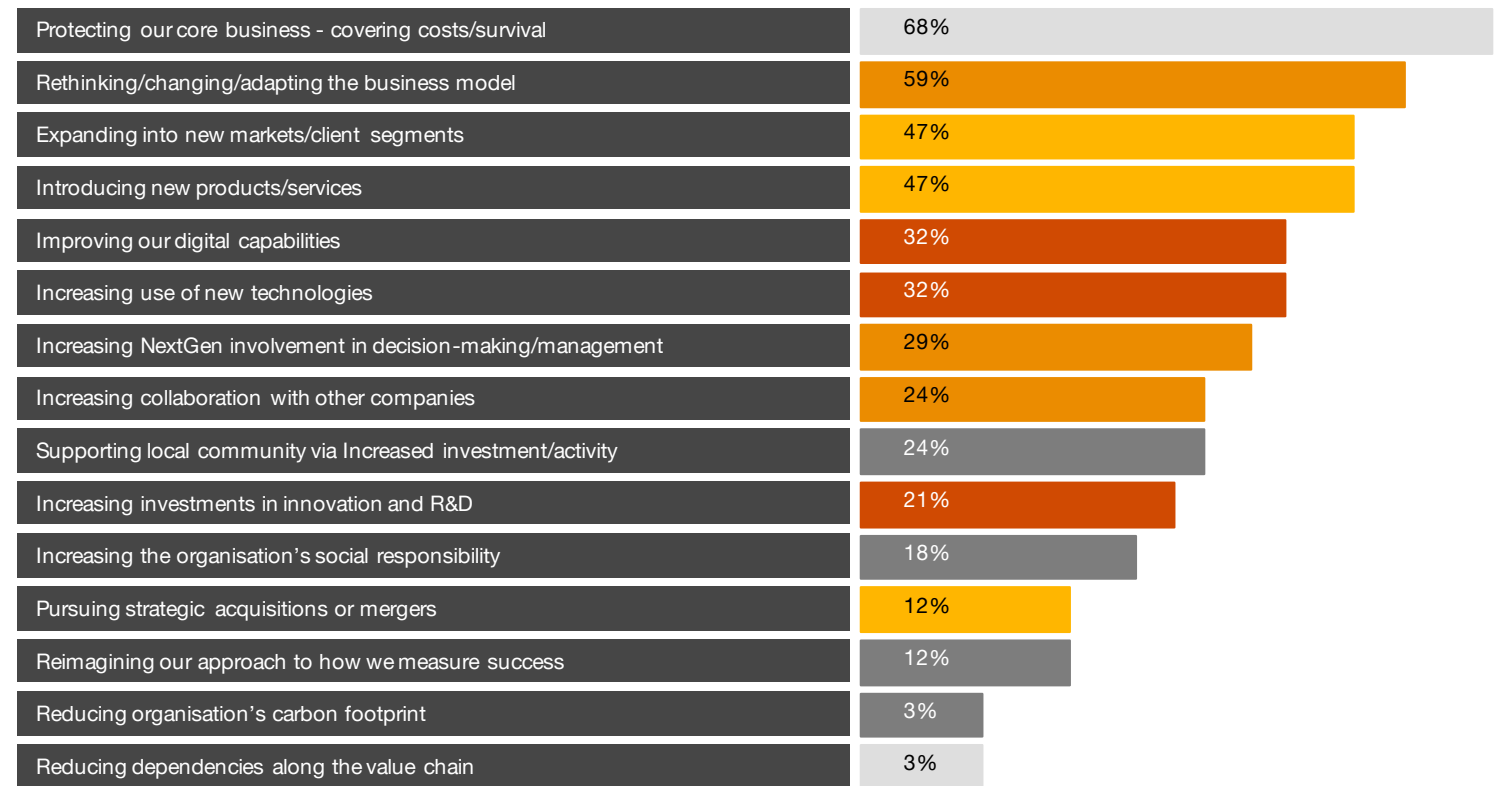
However whilst PNG family business clearly see a role in supporting the development of their local communities, their commitment to ensuring sustainability is at the heart of everything they do is less evident. Only 47% (compared to 49% globally and 58% in Asia Pacific) and only 32% had actually developed a strategy on sustainability.

In 2017, PwC identified five urgent challenges facing the world: wealth disparity, technology disruption, demographic pressures, polarisation of opinion and declining trust. Unfortunately you just need to pick up a newspaper in PNG to see that all of these challenges are already impacting us locally. As a consequence the time to act on these issues is now and as family businesses inherently take a long term approach, and are relatively free from short term pressures, it would seem that they are ideally placed to lead on the environmental, social and governance (ESG) issues of today that will help protect their legacy for future generations.

Figure 3a: Family businesses say that protecting their core business is their priority

Q: Which, if any, of the following are the company's top five priorities for the next two years?

■ Evolving/new thinking (76%)
 ■ Expansion/diversification (68%)
 ■ Digital, innovation, technology (59%)
 ■ Sustainability/local community (41%)
 ■ Other



Note: Base is all PNG respondents (2021: n=34).

Source: PwC Family Business Survey 2021

In fact 53% of respondents said that there is an opportunity for them to lead the way on sustainable business practices and 38% said they are unlikely to lead but will play their part when required. Therefore more than nine out of ten PNG family businesses are willing to take action on sustainability. This is the same as family businesses globally and in Asia Pacific.

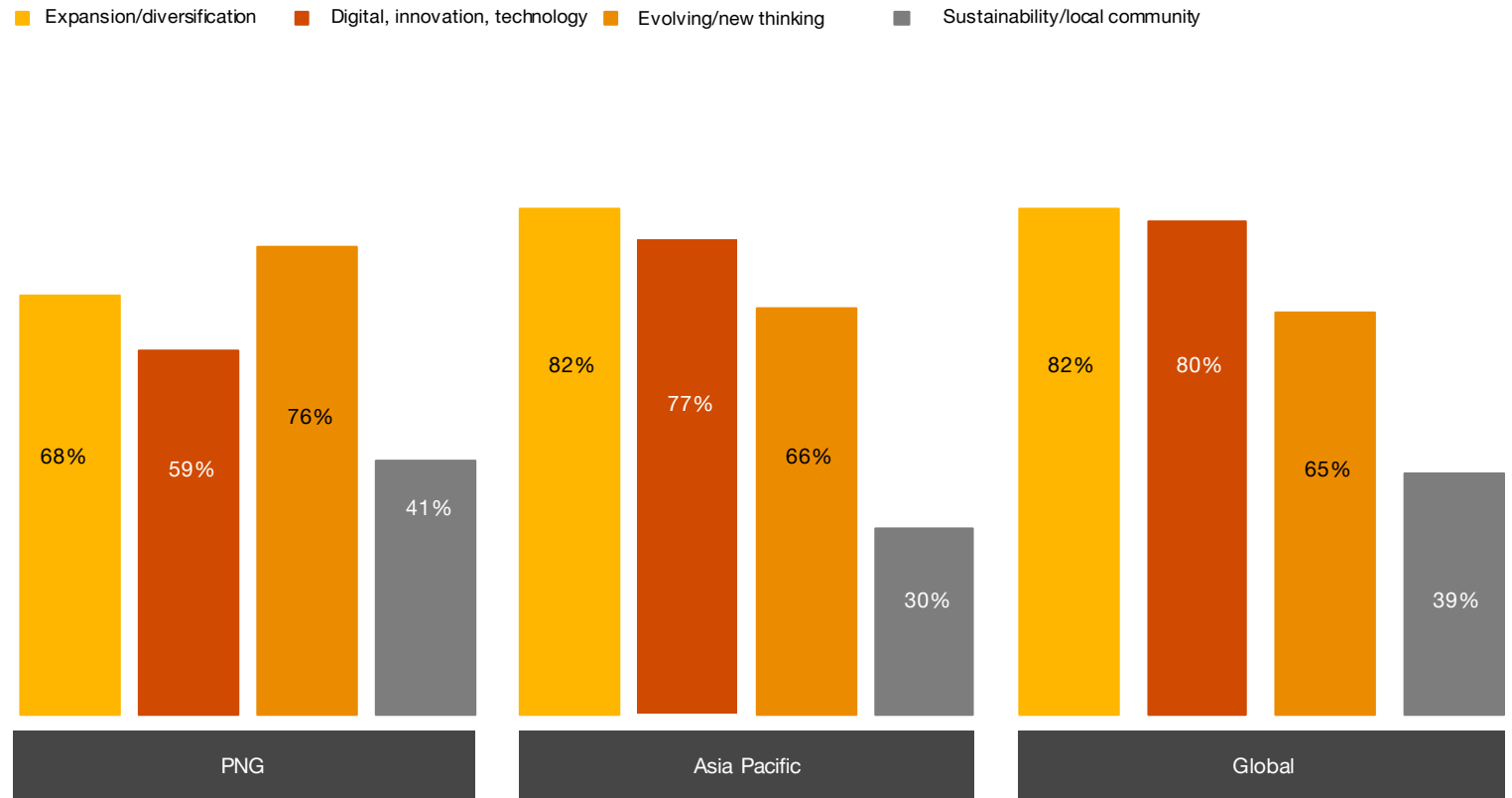
But there is a risk that established approaches and ways of thinking, particularly regarding what sustainability means and how family businesses are governed, could hold them back. For now PNG family businesses continue to prioritise other areas instead of ESG or sustainable practices. The table below shows that sustainability/local community is seen as a high priority at 41%; however, increasing the organisation's social responsibility is a low priority at only 18%.

This lack of prioritisation is a rare example of family businesses being hindered by their independence. Listed PNG entities and multinational businesses operating in PNG are feeling increased pressure from their stakeholders and parent entities to act on sustainability and other social issues. PNG family businesses are not subject to this type of external pressure, although we are increasingly seeing tender documents for government and overseas funded contracts requiring some ESG credentials. Interestingly 44% of PNG family businesses also told us that in order to succeed going forward their business is going to need to deliver greater benefits for the planet and human society and 44% also mentioned that they will play their part, but they see it as the role of government not businesses like theirs, to deliver greater benefits for the planet and human society. At 88% this is higher than the 83% both globally and in Asia Pacific.

For PNG family businesses it appears there is an opportunity to lead on ESG practices and policies when achieving their top priority of evolving or applying new thinking to their businesses. But the question remains as to how PNG family businesses will reclaim the ESG agenda.

Figure 3b: Expansion and diversification is a key priority for both Global and the Asia Pacific, while evolving and new thinking is a focus for PNG.

Q: Which, if any, of the following are the company's top five priorities for the next two years?



Note: Base is all global (2021: n=2,801), Asia Pacific (2021: n=817) and PNG respondents (2021: n=34).
Source: PwC Family Business Survey 2021

Reclaiming the ESG agenda

Given the impressive results for PNG on sustainability, why don't we see this translating into results? It appears that this is due to the fact that the way we think about sustainability needs to change. In PNG the connection between social responsibility activities and outcomes on sustainability appears to be linked to the current generation of the family business. Currently 94% of respondents were either first generation or second generation businesses (70% globally and 83% in Asia Pacific). In the next five years this is not expected to be materially different, with the number reducing to 85% compared to 59% globally and 73% in Asia Pacific.

At the moment many PNG family businesses are focusing on the day to day operations of the family business, and react when needed on sustainability, as opposed to making sustainability central to their business operations. But why should PNG family businesses be concerned about ESG?

With the PNG government focused on economic development and local empowerment, it is unlikely that environment issues will have a high priority. Therefore, like many issues in PNG, the business community needs to shoulder the burden and take up the responsibility. But what if they don't? We have an emerging middle class in PNG and a society that is now more connected to the world outside PNG and therefore able to attain information

faster and from more sources. Those family businesses in PNG that don't demonstrate their commitment to sustainable practices could be punished by consumers, the media and even regulators.





PNG family business owners want, above all, to create an enduring asset for future generations. Legacy matters - it's top of mind for 56% of respondents (behind the 64% globally and 63% in Asia Pacific). If sustainability isn't a priority now for PNG family businesses, their licence to operate, and their legacy are at risk. The events of 2020 appear to have increased the desire of PNG family business owners to protect their business and create a legacy.

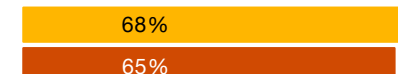
Figure 4: The top long-term priorities for family businesses

Q: How important to you are the following longer-term goals, i.e., over the next five years or longer?

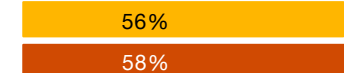
Protect the business as the most important family asset



Create dividends for family members



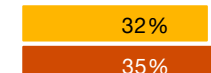
Ensure the business stays in the family



Create a legacy



Create employment for other family members



■ 2021 ■ 2018

Note: Base is all PNG respondents (2021: n=34; 2018: n=31).
Source: PwC Family Business Survey 2021

From our 10th Global Family Business Survey - How to get your sustainability agenda started

Here are four areas to consider to help embed ESG into your business operations and to engage with both the NextGen and your board in the process.

- Measure the total impact of ESG actions. PwC has created a [Total Impact Measurement and Management](#)⁵ framework to help companies develop the capabilities to act on ESG goals and make better-informed business decisions.
- Follow best practices on non-financial reporting. The World Economic Forum recently published its [Measuring Stakeholder Capitalism](#) report, which describes a set of universal metrics under four pillars: people, planet, prosperity and principles of governance.⁶
- Your family is unique, and so are your children. [Take a short quiz](#) to find out which NextGen path they may be on, and explore case studies and tailored recommendations for the incumbent generation and next generation.⁷
- Consider shaking up the board composition. [A more diverse board](#) that is not comprised of family or friends of family will help challenge thinking.⁸

5 PwC, Total Impact Measurement and Management, accessed in Jan. 2021, <https://www.pwc.com/gx/en/services/sustainability/total-impact-measurement-management.html>.

6 World Economic Forum news release, "Measuring Stakeholder Capitalism: Top Global Companies Take Action on Universal ESG Reporting," 22 Sept. 2020, <https://www.weforum.org/press/2020/09/measuring-stakeholder-capitalism-top-global-companies-take-action-on-universal-esg-reporting/>.

7 PwC, *Global NextGen Survey 2019*, 2019, <https://www.pwc.com/gx/en/services/family-business/nextgen-survey.html>.

8 Jared Landaw (Barrington Capital Group LP), "Maximizing the Benefits of Board Diversity: Lessons Learned From Activist Investing," Harvard Law School Forum on Corporate Governance, 14 July 2020, <https://corpgov.law.harvard.edu/2020/07/14/maximizing-the-benefits-of-board-diversity-lessons-learned-from-activist-investing/>.



The view from the front line

Feedback from our PNG family business leader, representing a diversified PNG family business



Our PNG family business leader agreed that protecting the environment is important and there is a lot more than could be done in PNG. However, it is a process that does take time, effort and additional resources. Our PNG family business leader had explained that they have already gone through the process to revisit the family businesses' mission, and reinforce what their values are. In the ESG space this has included the use of free reusable shopping bags years prior to the change enforced by the PNG Government; the supply of "green paint" and the re-export to recycle products. Amazingly only a fraction of these initiatives are well publicised and none are reported by the family business.

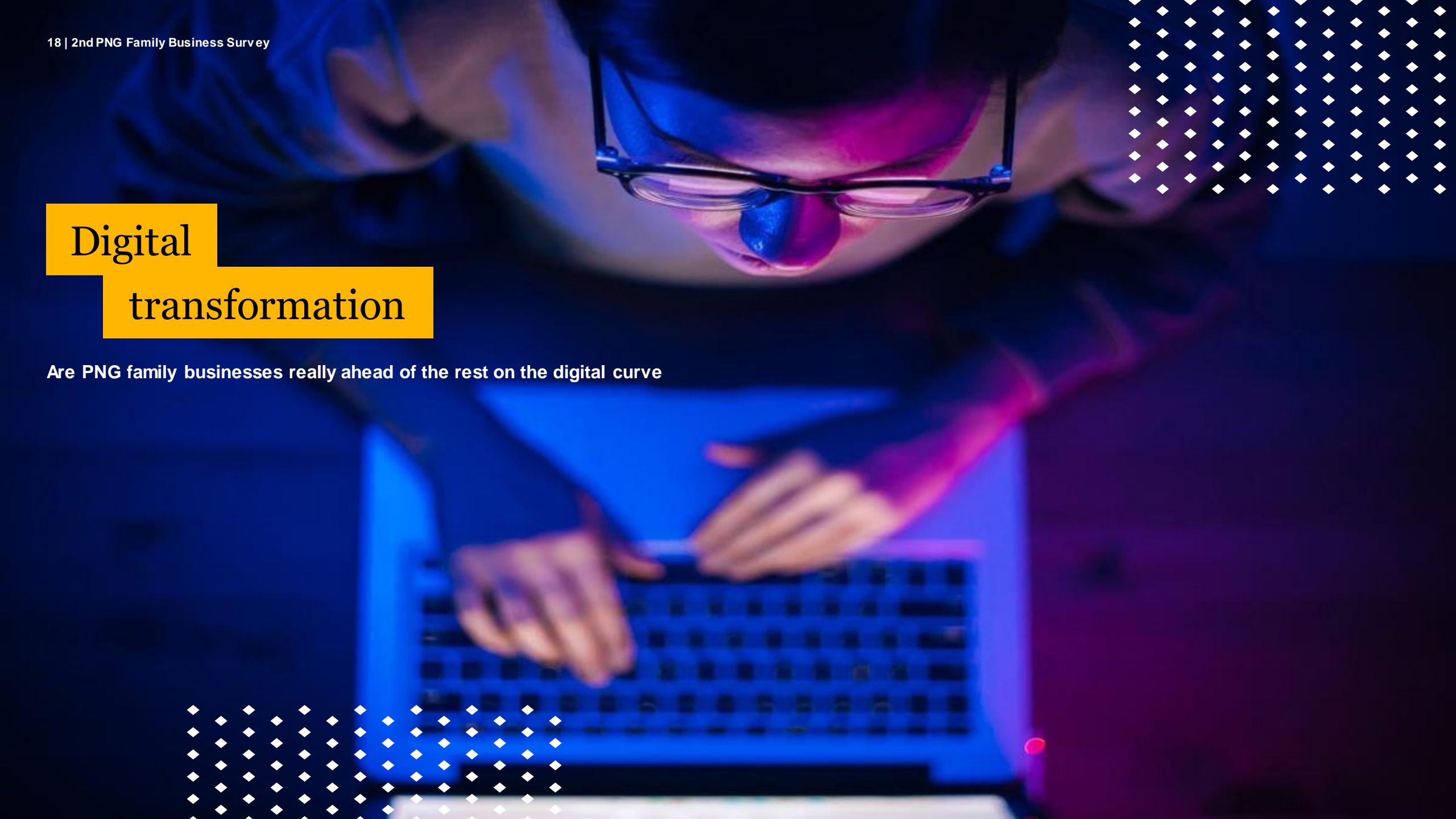
The family business leader did also agree that family businesses were well positioned as being more agile to respond to implement changes but they realise that they need to do more on how to measure sustainable practices. They also believe that while their stakeholders are not the driving force for change at the present time, they will be an important factor to medium and long term change in PNG.

"We forgot what we stood for when it came to sustainability. It took a leadership team meeting three years ago to really understand what we stood for and how we could drive real change on environmental matters in PNG. Since then we have embedded sustainability into our way of doing business."

Jim Gui, managing director, PNG Namba Wan Trophy Limited, retailer, Papua New Guinea

Digital transformation

Are PNG family businesses really ahead of the rest on the digital curve

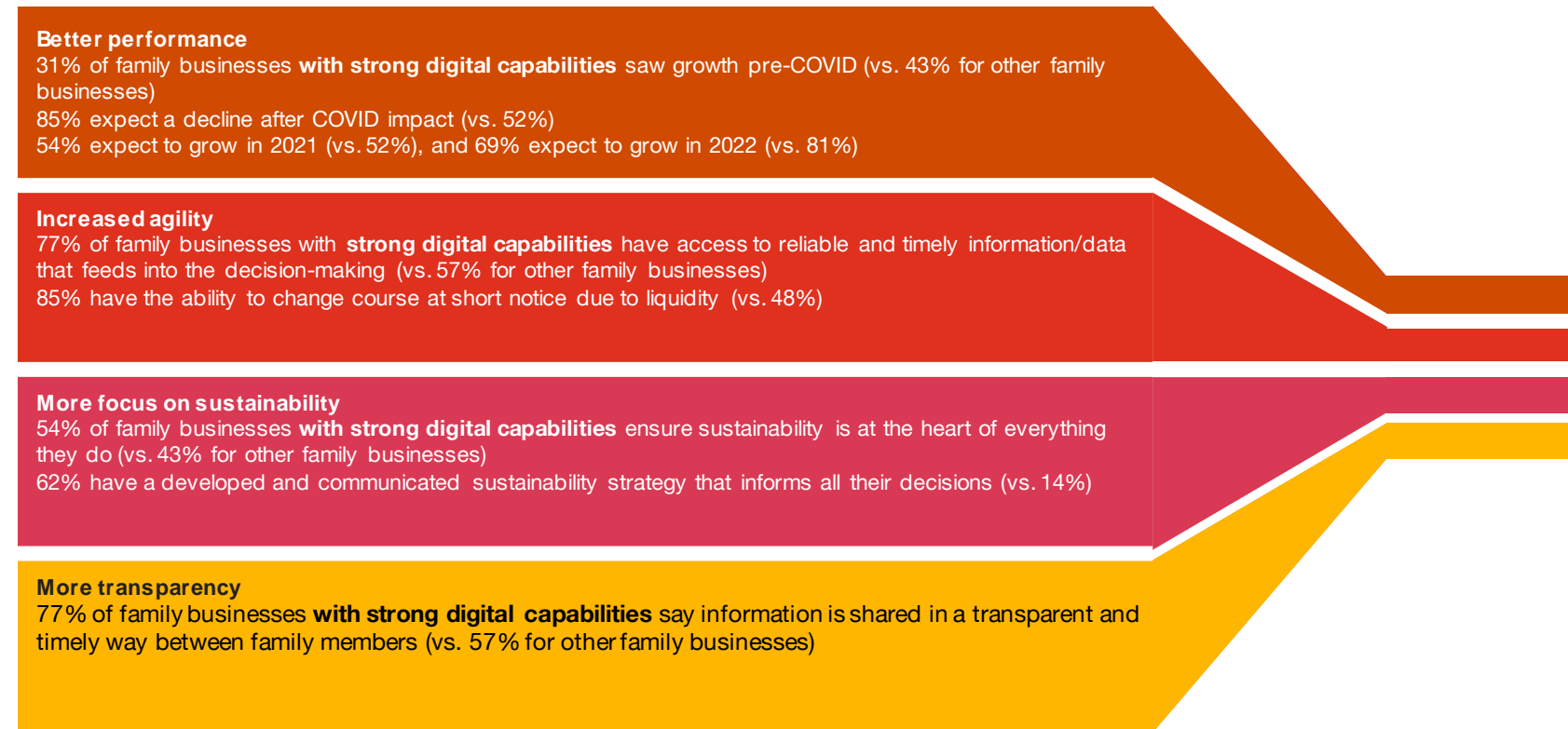


2020 was the year that many PNG businesses were able to start experiencing the benefits of embracing a digital transformation. The Coral Sea Cable system and improved internal networks have been the enabler of this transformation, bringing increasing speeds and capacity, better reliability and lower cost digital services to PNG businesses and consumers. The COVID-19 crisis and related restrictions only accelerated this digitalisation.

Interestingly, 38% of PNG respondents said their digital capabilities are already strong, which is the same as the global average, but well ahead of family businesses in Asia Pacific (33%). And only 59% of PNG family business included digital and technology as a Top 5 priority, compared to 80% globally and 77% in Asia Pacific. Even 35% of PNG respondents acknowledged that their digital capability was not strong but it was still not a priority for them. So this only left 33% who identified digital capability as still a priority, which is well below the global total of 52% and AsiaPac total of 47%. So this suggests that many PNG family businesses are being complacent about the benefits and transformation that digitalisation and technology can bring.

For many business globally digitalised services became the norm overnight, switching from physical stores to online ordering and delivery and remote working models, and those businesses with established digital capabilities fared better than those who had to scramble to catch up. PNG respondents did not reflect a similar trend in improved performance. However, those with strong digital capabilities and access to good data were more agile at responding to changing conditions than others (see Figure 5). These results indicate there is scope for significant benefits to be gained by prioritising digital capabilities and improved technology with the right leadership and investment.

Figure 5: Strong digital capabilities have yet to fully translate into strong business performance



Note: Base is all PNG respondents (2021: n=34).
Source: PwC Family Business Survey 2021

The experience of PNG family businesses that have already upgraded their digital capabilities shows that only 23% of them had developed a clear and documented roadmap for their digital transformation (well behind the 33% globally and 28% in Asia Pacific). As a consequence PNG family businesses have mainly used technology to improve their compliance and reporting capability (at 85%, compared to the 58% globally and 55% in Asia Pacific) rather than to create new business opportunities (only 23% and well behind the 56% globally and 55% in Asia Pacific) or to create a superior customer experience (better at 54%, but still behind both those globally and in Asia Pacific at 58%). There still appears to be a significant opportunity for these PNG family businesses to gain a competitive advantage through the use of digital capabilities.

These lessons appear to have been learnt by those respondents who recognised that they still needed to improve their digital capabilities, with a reduced percentage planning to use technology to improve compliance and reporting and a higher percentage planning to use technology to create new business opportunities,

create a superior customer experience and drive efficiency and collaboration in the business. But disappointingly, only 18% of those respondents who planned to improve their digital capabilities had actually developed a clear and documented roadmap for how they were going to achieve their digital transformation.

The other lesson from the responses is the recognition that to execute on a digital transformation you need to invest in the required digital capabilities of employees and also empower the next generation to take a leading role. Only 31% of PNG family businesses that have upgraded their digital capabilities have invested in the required digital capabilities among their employees (which is the lowest in Asia Pacific and well behind the average globally of 62% and in Asia Pacific of 52%), and only 15% of these respondents that allowed the next generation to take an increased role in improving their digital capabilities (again this is below the 33% globally and 38% in Asia Pacific). Both these percentages improved amongst those who were still planning their digital transformation journey.

It is also interesting to note that digitalisation, innovation and technology (as well as sustainability) are more of a priority for third- and fourth-generation businesses. As PNG has only 6% of respondents in this category, shifting to 15% in five years' time, the driver for this priority may be more about being part of a retirement plan or exit strategy or the recent transfer of business ownership to the next generation with a better understanding of digital capabilities. In any case it does show that maybe PNG is not really ahead of the rest on the digital curve and action is needed.



The view from the front line

Feedback from our PNG family business leader, representing a diversified PNG family business



Our PNG family business leader agreed that the digital capabilities in PNG need to be improved. Our PNG family business leader admitted this would take more time in PNG as currently stakeholders aren't really driving the change. That being said the desire to help improve the day to day experience for stakeholders with their business is the leading driver for digital change. This digital transformation journey was primarily driven by a desire to improve the experience for customers and employees.

“We have been trying to find a better way to make our team feel connected with management. This can be quite the challenge with the diverse range of operating locations we have. We have also been trying to make sure that there is a flow of accurate and timely information between employees and management and vice versa. We now have a cloud based HR platform and biometrics to assist our team and management.”

Jim Gui, managing director, PNG Namba Wan Trophy Limited,
Papua New Guinea

“When we first set up our e-commerce platform we faced a number of obstacles. The major obstacles have been confirming who our customer was and then the logistics of the delivery. A few adjustments and now we have our click and collect platform.”

Jim Gui, managing director, PNG Namba Wan Trophy Limited,
Papua New Guinea

From our 10th Global Family Business Survey - How to make your digital transformation move faster

Moving faster along a digital journey requires an understanding of the value of data and analytic tools, as well as a commitment to upskilling your workforce. You should also recognise that transformation must be a part of a cultural shift that is supported by highly engaged leaders. Start this process by asking the right questions:

- How can I make faster and better decisions by optimising my data assets?⁹
- Do I understand the critical success factors for transforming my business?¹⁰
- Is my workforce ready for the future?¹¹

9 PwC, Data and analytics, accessed in Jan. 2021, <https://www.pwc.com/gx/en/issues/data-and-analytics.html>.

10 Al Kent, David Lancefield and Kevin Reilly, "The four building blocks of transformation," *strategy+business*, 22 Oct. 2018, <https://www.strategy-business.com/article/The-Four-Building-Blocks-of-Transformation?gko=aa2b7>.

11 PwC, New world. New skills. Accessed in Jan. 2021, <https://www.pwc.com/us/en/services/consulting/workforce-of-the-future/new-world-new-skills.html>.



Family

governance

Is now the right time to act for PNG family businesses



Family businesses in PNG have been successful due to the entrepreneurial spirit and dedication to the business from the previous and current generation of business owners. Many are still in the founding or second generation of ownership and these are now approaching a critical phase of considering ownership and management succession. As a founder's sole ownership moves into a sibling partnership of the second generation children, or beyond into a third and subsequent generation cousin consortium, the issues relating to transfers of ownership and management roles within the family business become more complex. As a result of this complexity it becomes a common source of rivalry and conflict unless expectations are properly managed.

Subsequent generations may be less emotionally attached to the family business, and may not have the same entrepreneurial spirit or leadership qualifications, as earlier generations. Unfortunately for many of these PNG business families they may also need to make a decision as to whether the future for the family remains in PNG or elsewhere, which could result in a decision to exit the business at some stage.



62% of family businesses say family members communicate regularly about the business

Figure 6: Family values matter, 29% have put them in writing and half have codified governance policies

Q: How strongly do you agree or disagree that...

The family have a clear sense of agreed values and purpose as a company



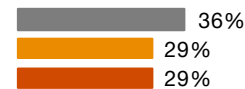
The family have a documented vision and purpose statement (mission) for the company



The family have a defined code of conduct



The family have the family values and mission for the company articulated in written form



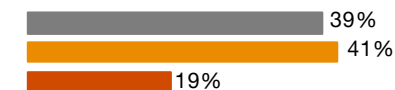
■ Asia Pacific 2021 ■ PNG 2021 ■ PNG 2018

Note: Base is all Asia Pacific respondents (2021: n=817) and all PNG respondents (2021: n=34; 2018: n=31).

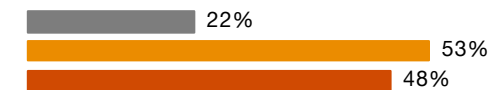
Source: PwC Family Business Survey 2021, PwC Family Business Survey 2018

Q: Which of the following policies and procedures, if any, do you have in place?

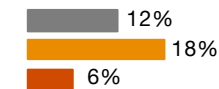
Shareholders agreement



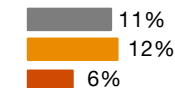
Testament/last will



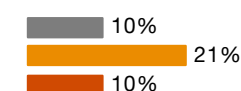
Emergency and contingency procedures



Entry and exit provision



Conflict resolution mechanisms



■ Asia Pacific 2021 ■ PNG 2021 ■ PNG 2018

Note: Base is all Asia Pacific respondents (2021: n=817) and all PNG respondents (2021: n=34; 2018: n=31).

Source: PwC Family Business Survey 2021



This choice dynamic may be why we are seeing our respondents tell us that communication between family members and across generations is not what it could be. Almost seven out of ten respondents (68% globally and 63% in Asia Pacific) say that family members who are not on the board trust the family members who are on the board, but the evidence hints at underlying discord: only 56% (58% globally and 55% in Asia Pacific) say that all family members share similar views about the company's direction.

There are many sensitive issues to discuss and many areas in which progress is falling short (see Figure 7). Almost two-thirds (62%) of respondents report that family members communicate regularly about the business (66% globally and 63% in Asia Pacific), but nearly one-fifth (18%) say they have no formal mechanisms in place to deal with potential areas of disagreement (21% globally and 31% in Asia Pacific).

Figure 7: Written values correlate strongly with success

Better performance

70% of family businesses **with values in a written form** saw growth pre-COVID (vs. 25% for other family businesses)
 20% expect growth after COVID impact (vs. 8%)
 70% expect to grow in 2021 (vs. 46%), and 80% expect to grow in 2022 (vs. 75%)

More transparency

70% of family businesses **with values in a written form** say information is shared in a transparent and timely way between family members (vs. 63% for other family businesses)
 70% say family members regularly communicate about the business (vs. 58%) and were more communicative during the pandemic (70% vs. 50%)
 60% say family members have similar views/priorities about company's direction (vs. 54%)

More supportive of staff, suppliers and the community

30% of family businesses **with values in a written form** provided emotional/mental health support to staff (vs. 29% for other family businesses)
 10% supported suppliers by making non-critical orders (vs. 4%)
 70% took action to support their local community (vs. 38%)

Better prepared for succession

60% of family businesses **with values in a written form** have a robust, documented and communicated succession plan in place (vs. 33% for other family businesses)
 17% have a succession plan that has been revised in light of COVID (vs. 13%)

Note: Base is all PNG respondents (2021: n=34).
Source: PwC Family Business Survey 2021

Some form of conflict in a family business is unavoidable, but there appears to be more conflict in PNG family businesses than in family businesses outside PNG. Only 15% of PNG family businesses say that they have never had a disagreement (compared to 23% globally and 25% in Asia Pacific). Disagreements that occur from time to time are experienced by 53% of PNG family businesses (33% globally and 32% in Asia Pacific).

Dealing with disagreement is very much a private affair; 94% of respondents who report having disagreements deal with them within the family (75% globally and 76% in Asia Pacific). But just 17% have an established conflict resolution system (slightly ahead of the 13% globally and 11% in Asia Pacific) and only 3% have used an external third-party conflict resolution service (12% globally and 8% in Asia Pacific).

Our survey results confirm that there are four main areas for potential conflict within our PNG family businesses- ownership succession, wealth distribution, participation in business and family governance and strategy.

Succession planning continues to be a topic that is regularly discussed with PNG family business owners and we are pleased to note that many PNG family businesses have now started to take action in this area. Some 41% of PNG family businesses say they now have a formal, documented and communicated succession plan, up from 13% in 2018. This is significantly higher than counterparts globally at 30% (15% in 2018) and Asia Pacific at 24% (12% in 2018).

In our previous 2018 survey, about one-quarter (23%) of PNG family businesses expected that the NextGen family members should be majority shareholders within five years (24% globally and 17% in Asia Pacific). In the 2020 survey, this number rises to just over one-fifth (22% which is lower than the 32% globally and 30% in Asia Pacific). Succession planning is therefore a looming issue for these businesses. Whilst there may be a next generation of family business owners who are willing, and able, to take on a much larger role, the current generation also need to be in a position where they are ready to start letting go and to

give the next generation increased responsibility and this may also require choices between who is to be given those opportunities. This can result in conflict due to the misalignment between family members expectations.

For those business owners who are ready to move onto new challenges but do not have a suitable next generation ready or willing to take over management, or who are looking at eventual exit from the business, they may instead turn to bringing in external management. A very high 88% of PNG respondents say that they have a strong leadership team in place (compared to 71% globally and 64% for AsiaPac), although none of them currently have an external CEO running their businesses. Some 82% of family businesses in PNG are directly managed by the owner or family, compared with 70% globally and 75% in Asia Pacific. This is expected to change dramatically in the next five years with only 62% of PNG family businesses expecting to still be owner or family managed and 18% expecting to have an external CEO. This creates the potential for further risk of conflict amongst the business family.



A further potential area where conflict may arise is in relation to involvement in strategic decision making. Currently 68% of PNG family businesses advised that they were focussed only on their core business, which is a lot different to their counterparts globally at 37% and in Asia Pacific at 46%. However, over the next five years 53% of PNG family businesses expect their businesses to become diversified (compared to 44% globally and 43% in Asia Pacific). This change of direction for the business may cause conflict within the family unless there is clear understanding and buy-in from the family members.

So how do PNG family business owners help reduce the conflict? Clear company values can help to bridge the generational gap and give the NextGen that sense of purpose they crave as well as help external managers understand what is important to the family and therefore the business. Family businesses with clearly understood values are also better prepared for succession and are more communicative and transparent. And they performed better and were more agile and resilient than their peers during 2020, too (see Figure 7). But although 65% of PNG family businesses consider that they have a clear set of family values and 68% of PNG family businesses say they have a clear set of agreed values and purpose for the family company, only 29% have actually articulated them in written form (44% globally and 36% in Asia Pacific).

Family harmony should never be taken for granted. It needs work and planning, and it should be approached with the same focus and professionalism that's applied to business strategy and operational decisions. 82% of PNG family businesses have some form of governance policy or procedure in place (79% globally and 69% in Asia Pacific) - up from 65% when we asked the same question in 2018.

This can take different forms, such as shareholders agreements, family constitutions, and rules governing dividend policy, family employment, entry and exit provisions and conflict resolution mechanism - but for many, there are still significant gaps. Interestingly, PNG appears to be ahead of every country in Asia Pac other than Australia in having last wills and testaments in place (53% compared to 34% globally and 22% in Asia Pac), but that still seems far too low given the disruption to a family and a family business that can result from an intestate estate. Our work with PNG family businesses over the last two years has shown a clear interest in putting more formal family governance protocols in place and an understanding of the significant advantages these bring to both the family and the family business.



The view from the front line

Feedback from our PNG family business leader, representing a diversified PNG family business



Our PNG family business leader agreed that family dynamics in PNG are a sensitive issue. A lot of time it is difficult for the nextgen coming into the family business. This can be due to the lack of quality data in the business. The lack of data can be due to the fact that data may be difficult to source. Even when the data is sourced it may not be readily available or accessible when it is needed. Then there is the final issue that the data that has been sourced and provided may not be used appropriately. For the current generation these issues are able to be overcome by experience, but for a nextgen member their lack of experience means that the current generation are not yet willing and able to hand over control without either the issue with data or experience being addressed by the nextgen.

“It is important to bring in external talent into the management team of a family business. They help to professionalise the business and bring in a different perspective in a different way to a family member. The problem can be that without quality data available there is a need to micromanage the external talent until they are sure of the data they are being provided. This makes the process counterproductive.”

Jim Gui, managing director, PNG Namba Wan Trophy Limited, Papua New Guinea

From our 10th Global Family Business Survey - How to start addressing family governance

Family dynamics are always an emotional issue, but one that, when addressed, can lead to significantly stronger outcomes. Here are some initial steps to help ensure good working relationships within a family business.

- Join a network that offers peer-to-peer learning and helps family business owners identify trusted advisers. Such networks operate through regional and international organisations, including the Family Business Network International and PwC's Family Owners Network.
- Regularly revise your family governance provisions based on best practice targets. [PwC's Owners Agenda](#), for example, creates a practical framework to help prioritise actions.¹²
- Develop well-planned [family leadership summits](#) that engage with the next generation. This is a tried-and-true practice that can engage NextGens and provide career path guidelines.¹³
- Review your [board composition](#).¹⁴

¹² PwC, Family business services, accessed in Jan. 2021, <https://www.pwc.com/gx/en/services/family-business.html>.

¹³ Bob Frisch and Cary Greene, "Leadership Summits That Work," *Harvard Business Review*, Mar. 2015, <https://hbr.org/2015/03/leadership-summits-that-work>.

¹⁴ Beatrice Ballini, "Every Family Business Needs an Independent Director," *Harvard Business Review*, 27 Jan. 2020, <https://hbr.org/2020/01/every-family-business-needs-an-independent-director>.



What does success look like for PNG family businesses

For PNG family businesses, there is a fair bit of good news in these survey findings (both in comparison to where they were in 2018 and where they are placed alongside their counterparts globally and in Asia Pacific), but also a wake-up call, so they should not be complacent. The resilience of PNG family businesses gained through many decades of working in the “Land of the Unexpected” through previous peaks and troughs left them well placed to adapt quickly to the 2020 crisis, and although they are cautious about the next few years, they are well-placed to succeed. But action is needed to help them meet the aspirations of the next generation and other stakeholders in relation to sustainability, digital and governance. If they can accomplish these, their power to fuel the post-2020 recovery grows even more important because of their financial impact. To retain their licence to operate, they will need to revisit their purpose and use the trust they have gained to create measurable non-financial impact. The NextGen family members or external managers will play a vital role in pushing family businesses forward in policy areas that are essential to the company’s legacy. Our final conclusions focus on the three key areas in which immediate actions will help secure a lasting formula for success for the generations to come.

Deliver on ESG. PNG family businesses have a reputation for prioritising the welfare of their employees and the communities in which they operate. But they also need to think beyond the short-to-medium term and step up to lead the ESG agenda in PNG for themselves. PNG family businesses need to learn how to measure and communicate their ESG agenda to a wider stakeholder group otherwise they risk being participants as opposed to leaders in this area.

Transform digital capabilities. While nearly a third of PNG family businesses said they have strong digital capabilities there was also 61% that advised that it is not where it needs to be. We were advised by those that had already embarked on their digital journey that they were better placed during 2020. Now is the time to act. There remains 35% of respondents who are not making digitalisation a priority and have not made progress will face significant challenges in protecting their legacy.

Professionalise family governance. While we have seen a vast improvement in PNG family businesses when it comes to governance, we are seeing a lot more conflict within PNG family businesses. This is a concern as conflict brings with it a risk to the family or the business dynamics. To help ensure harmony we expect to see more PNG family businesses professionalise their family governance to help with both business performance and family communications.

Methodology

About the Family Business Survey

The Family Business Survey is a global market survey of owners and executives. The yearly turnover of participating companies ranges from under US\$5m to more than US\$6bn. The goal of the survey is to get an understanding of what family businesses are thinking on the key issues of the day. All results were analysed by Jig saw Research.

2,801 online surveys conducted in 87 territories between 5 October and 11 December 2020



Europe

1061

Middle East

73

Africa

231

North America

205

Latin America

413

Asia-Pacific

817

Note: Sum of surveys doesn't total to 2,801, because one respondent was unable to select a territory.

Source: PwC Family Business Survey 2021

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