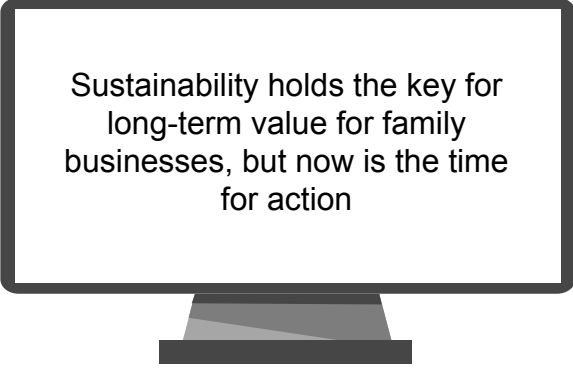


Let's chat

Making the ESG agenda work for your family business



Sustainability holds the key for long-term value for family businesses, but now is the time for action

Our recent PwC Global Family Business Survey (**PwC Global Survey**) highlighted that in today's business environment, in which the pace of change is accelerating and uncertainty has rarely been greater, financial success for the family business needs to be aligned with purpose for the business family. "Your values are what binds the family together, and provides consistency, and clarity to other stakeholders on your strategy for a sustainable legacy" says Stephen Beach, PwC PNG EPB Principal.

Are you and your family members able to provide the same answer to these questions: What are our family and business values; What do we see as our contribution and responsibility to society; and What kind of legacy do we want to leave for future generations?

As more pressure is put on companies to demonstrate their environmental, social and corporate governance (**ESG**) credentials, our PwC global survey indicates that family businesses are not assuming the leadership role they could, in the area of ESG.

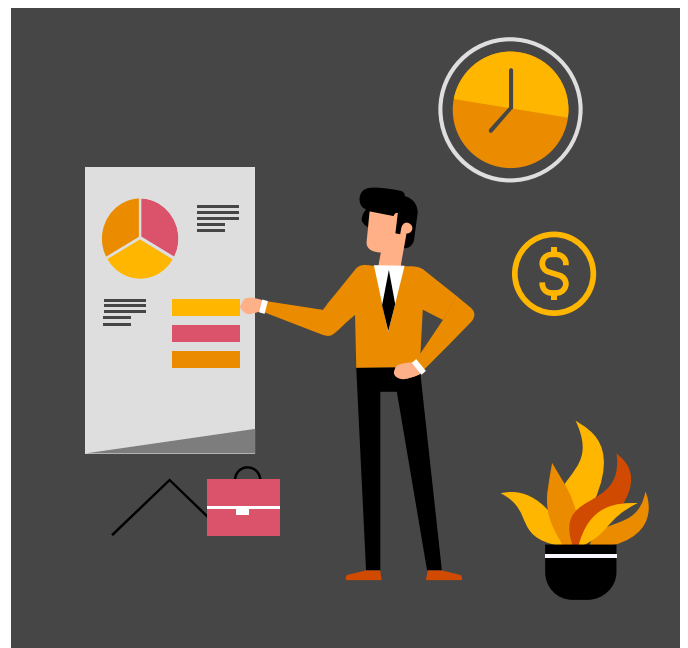
"ESG is an existential issue and the risk of not being able to demonstrate commitment to it is that of losing your license to operate and, ultimately, jeopardising your legacy" says Peter Englisch, PwC's Global Family Business Leader.

So how can this resonate and become an action plan for family businesses in PNG?

Importance of ESG

The concept of corporate social responsibility (or CSR) that extended the role of business beyond that of making money (the so-called triple bottom line) has been around for several decades. The first set of Sustainability Reporting Guidelines were issued by the Global Reporting Initiative in 1999, and since then, most listed corporates have been required to include some CSR reporting in their annual reports. However CSR has now matured into ESG which provides a more specific and measurable set of criteria denoting the environmental, social, and governance impacts of a business.

For investors, ESG considerations are a growing priority — and with good reason. ESG performance has been shown to correlate strongly with financial performance. Millennials are more aware than previous generations that their world is changing, and they want to be associated with brands and companies, that make a difference. Also advances in technology has made the ability to access, collate, analyse and report a far wider range of information much easier.



ESG is also a chance for family businesses to differentiate, discover new opportunities, and deliver impact for stakeholders.



Listed companies tend to publicise their ESG record, partly because legislation requires it, and the market expects it, but also because they know that their long-term survival and their access to capital depend on it. In 2020, one of every three dollars under professional management in the U.S. was managed according to sustainable investing strategies, up 42 percent over two years. A recent PwC review of the 2021 annual reports for the Top 100 listed companies on ASX showed that over 80% disclosed a sustainability strategy.

But when we look at family businesses, they are lagging behind, and sustainability is far down the list of priorities. In our PwC global survey, over 80 percent of the respondents said they engaged in some form of social responsibility activities, and 42 percent said they gave back directly through philanthropy — but they are not making ESG part of their core operations. Just 37 percent have an articulated sustainability strategy, and overall, less than half (49 percent) said sustainability was at the heart of their work. The results for our PNG respondents were even lower than the global responses.

However a private business which has a business model that embraces ESG is likely to: attract better talent; derive more consumer loyalty; be more profitable and efficient in the medium and long term; and have higher returns on investment due to its perceived lower risks and better resilience.

ESG is therefore a chance for family businesses to differentiate, discover new opportunities, and deliver impact for stakeholders.

What is involved in embracing ESG?

The “E” in ESG stands for environmental criteria which looks at how a company contributes and performs on environmental challenges. This focuses on areas such as:

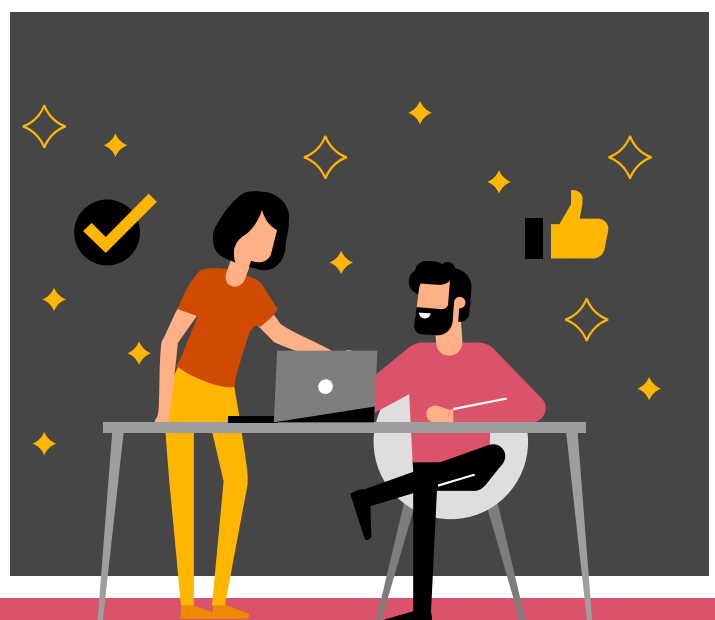
- managing carbon and climate change vulnerabilities
- water, waste and pollution management
- transition to a circular economy
- renewable energy and clean technology
- deforestation, and
- consideration of the unique rights of citizens to access, maintain and protect their lands.

The “S” stands for social criteria which looks at how a company considers humans and other interdependencies. It concentrates on factors such as:

- human capital development
- health and safety
- ethical supply chain and sourcing
- human rights
- privacy and data security
- community engagement and
- opportunities for citizens in the workforce and as service providers.

The “G” stands for governance criteria and covers:

- ESG reporting
- risk-mitigation and management
- board diversity
- executive pay
- tax transparency
- political contributions and lobbying
- business ethics and
- policies that enhance corporate behaviour including protection of human rights.



A sustainability agenda for PNG businesses

One of the traditional Papua New Guinean values is “reciprocity” and PNG family businesses have a strong sense of giving back to the community. During the latest COVID-19 pandemic, they have prioritised the wellbeing of their employees and the wider community, as they adapt and respond to the impacts on their businesses. “PNG family businesses prefer to make a difference by getting closely involved in community activities rather than just through philanthropic donations” says Beach.

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 and the government is unlikely to prioritise sustainability as part of its development agenda. So family businesses in PNG are ideally placed to put their values into action and show leadership in this area.

Practical steps towards adopting ESG measures

For now, most of the PNG family businesses are prioritising other areas of the business instead of ESG or sustainability practices. Usually, family businesses will take action or react only when needed. This may be missing an opportunity.

“You don’t need dramatic changes, but think big and start implementing some initiatives, however small they might seem” says Beach. There are a number of clear areas where PNG family businesses can start some ESG initiatives, for example:

- Reviewing your wastage in operational and administration areas and your waste disposal practices
- Reviewing the recyclability of your products and packaging
- Consider your supply chain and the business practices of those you engage with
- Increasing the use of solar power to supplement grid or generator supply
- Having clear policies on diversity and inclusiveness in the workplace and developing your citizen talent
- Treating your customers and employees data privacy as importantly as you would your own
- Being transparent, honest and ethical in all your business and personal dealings.

PNG family businesses need to change the way they think about sustainability. Now is the time to embrace the ESG agenda and take sustainability as central to your business operations.

PwC, as a global network, has publicly committed itself to achieving net zero emissions by 2030, and PwC PNG has already started collating the data and developing our own local strategy to ensure we contribute toward this.

To start your own ESG journey, here are some practical steps:

- Have a clear understanding of exactly who your stakeholders are and what issues are important to them and to your family.
- Align your strategy with these material issues and develop an ESG roadmap in response.
- Set ESG targets and report continuously and transparently on those targets.
- Consult with your Next Generation and give them a role in identifying and implementing ESG initiatives - their views may be very different to those of the current leaders.

We are here to help.

At PwC, we know that it’s imperative for family businesses to demonstrate their ESG credentials and preserve stakeholder trust. We can help family businesses navigate through the ESG world.

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