

# Built around you

## Entrepreneurial and Private Business Newsletter

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Issue 8 - August 2023

Welcome to our eighth edition of the Entrepreneurial and Private Business (EPB) newsletter! The purpose of these newsletters is to keep you informed of current developments impacting private and family businesses operating in PNG.

## PNG Family Business Survey

We are pleased to announce the release of our PwC Papua New Guinea's (PNG) 3rd Family Business Survey (FBS). The FBS conducted in the last quarter of 2022 came at a pivotal time for the PNG economy and PNG family businesses. PNG businesses appeared to have navigated well the challenges they had faced and there was increasing optimism due to the raised expectations for the re-opening of the Porgera gold mine and progression of a number of other resource developments (with a focus on the Papua LNG project). However, this was against the backdrop of significant global uncertainty caused by the geopolitical turmoil created by the war in Ukraine, heightened tensions in the Asia Pacific region, global supply restrictions and significant rises in inflation and interest rates.

Given that the resource dependent PNG economy is highly reliant on the international economy, trade flows and commodity pricing, it has not been immune to inflationary pressure and rising costs and tightening of global investment liquidity.

The focus of the FBS for 2022 is on trust, which is fundamental to long term sustainability. Businesses rely on the trust of their customers, business partners, employees, shareholders and other stakeholders that they will be able to meet their expectations - whether that is product quality, service delivery, financial performance, employee engagement, business ethics and integrity or care for the environment and society. Family businesses also rely on the trust of the family members to ensure just and fair treatment and the avoidance of family conflict. Family and privately owned businesses have traditionally held a premium on trust, being driven by deeper core values and sense of community than multinational public companies.

However, the FBS for 2022 is indicating that the very nature of trust has changed and family companies are struggling to prioritise the strategies and actions that

build trust with stakeholders and, just as importantly, to communicate your company's mission, values and impact.

Our report focuses on what constitutes the new trust formula, what global family business leaders are doing to bridge the trust gap and how PNG business leaders can transform their own family businesses to build trust.

**Most family businesses in Papua New Guinea performed strongly in the last financial year and expect a similar performance in the next two years.**

The majority of family businesses in PNG (59%) have experienced increased sales in the last financial year as would be expected post pandemic, and 40% of these experienced double digit growth. However, this lags behind the 71% globally (66% in Asia Pacific) who experienced sales growth (and 43% with double digit growth (41% in Asia Pacific). Interestingly, some 19% of PNG respondents reported a decline in sales, compared to only 8% globally (12% in Asia Pacific). This can probably be explained by local factors such as the extended closure of the Porgera gold mine, uncertainty leading up to the 2022 elections, continuing foreign currency shortages and supply chain issues.

At the same time, the growth ambitions of PNG family businesses over the next two years are less ambitious than their global counterparts, with 67% expecting to grow steadily or quickly compared to 77% globally (75% in Asia Pacific), and there were still 12% of PNG respondents who expected to restructure or downsize over the next two years compared to only 3% globally (also 3% in Asia Pacific).



**67%**  
are expecting to grow steadily or quickly compared to 77% globally and 75% in the Asia Pacific.

Clearly, whilst there was some cause for optimism at the end of 2022, PNG family businesses are aware of the potential risks to the economy, and the ability of the government to create an appropriate environment for

growth, and deliver on their development priorities.

This is also reflected in differences in strategic priorities over the next two years. For global family business, the most important priorities are expansion (51%) (55% in Asia Pacific), improving digital capabilities and protecting the core business for survival (both 44%) (43% and 53% in Asia Pacific) and increasing customer loyalty (42%) (40% in Asia Pacific).

The key priorities facing PNG family businesses are to protect their core business for survival (52%), increase customer loyalty (50%) and adapt the business model (45%) (34% globally and 37% in Asia Pacific), with only 38% prioritising expansion and improving digital capabilities.



**52%**

Protect their core business for survival



**50%**

Increase customer loyalty



**45%**

Adapt the business model



**38%**

Prioritise expansion and improve digital capabilities

This suggests that many PNG family businesses are still in "consolidate and wait and see" mode rather than being proactive in developing new strategies.

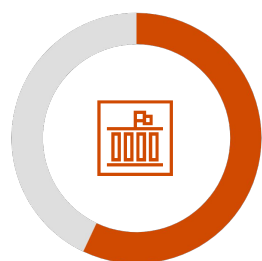
Perhaps an even more stark contrast is that only 17% of PNG respondents prioritise employee trust, compared to 32% globally (30% in Asia Pacific), only 7% are looking to innovate compared to 27% globally (28% in Asia Pacific) and only 2% are prioritising reducing the organisation's carbon footprint compared to 20% globally (12% in Asia Pacific).

In the longer term, there is some greater consistency in prioritising the generation of long term value for the family and delivering value to customers, although some 24% of PNG respondents are still looking to maximise short term profits compared to only 10% of family businesses globally (14% in Asia Pacific). This suggests a relatively short term perspective for many PNG business families.

This is also influenced by the fact that 26% of PNG respondents do not see it as important that the business stays in the family (compared with 12% globally and 17% in Asia Pacific).

At the same time, the level of trust between family members is generally considered high, with 66% of PNG respondents saying that they were fully trusted by other family members, however below the 74% globally (71% in Asia Pacific), but only 50% of respondents say there is family alignment about the direction of the company (compared to 59% globally and 55% in Asia Pacific).

And PNG family businesses are still lagging behind their global counterparts when it comes to having a clear governance structure (57% in PNG, 65% globally and 61% in Asia Pacific), clear set of family values (57% in PNG, 70% globally and 63% in Asia Pacific) and documented business purpose (24% in PNG, 45% globally and 36% in Asia Pacific). This is interesting given that 57% of PNG respondents see it as important to ensure the business stays in the family, and 45% say it is important to create a legacy, over the next five years (66% and 67% globally and 55% and 61% in Asia Pacific).



**57%**

of family businesses are still lagging behind when it comes to have a clear governance structure.

This suggests further work is needed to help owners in PNG to meet their goals relating to the longevity of their business and legacy.

## Family businesses need to adopt new priorities to build trust and ensure sustainability

Trust is as vital in business as it is in personal relationships. From a personal perspective, building trust and rapport requires demonstrating credibility, reliability, intimacy and low self-orientation, often built up through a succession of interactions. But if someone lets you down once, then that trust automatically vanishes. However, for companies, trust has more levels and many more stakeholder relationships to consider.



Customers trust you to provide quality goods and services that meet their expected standards at a fair price.



Suppliers trust you to pay them on time and meet other supply conditions.



Employees trust you to treat them fairly and respectfully, compensate them fairly and transparently, provide a safe working environment and provide appropriate feedback and development opportunities.



Governments and authorities trust you to comply with the laws and regulations.



Shareholders expect you to meet high standards of corporate governance, be transparent, true and fair in your corporate reporting and for management not to act in their own self interest.

In today's digitalised world, we trust companies to protect our personal and corporate information, keep it private and only use it for the purposes it was initially provided for. We are seeing too many issues. Impacts of the effect of data breaches on companies and their customers are becoming increasingly common.

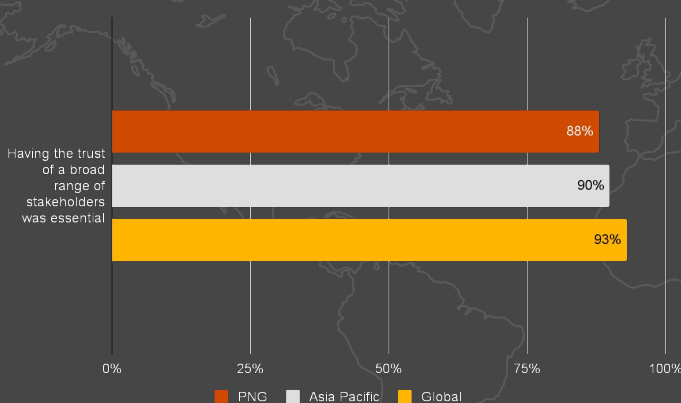
In addition, increasingly there is also a broader societal expectation on companies that they will help meet social needs, protect the public health and environment and act in a fair manner that contributes to good governance.

So trust is vital for business and brings benefits at a macro-economic level. This has been confirmed in a number of studies where there is a positive relationship between trust and growth (see [Trust, Associational Life and Economic Performance](#) by Stephen Knack). Multinational corporations are all well aware of the strong correlation between trust and profitability and are investing heavily, not only in building the competencies, motives, means and impact they are having, but just as importantly, in communicating the message that they can be trusted to do the right thing.

Trust has always been a vital competitive advantage for family businesses. Family businesses do not have to focus on short term profit goals and meeting the expectations of the market - they take a longer term view of success and typically have a wider sense of building value and contributing to their local

communities. Traditionally the [Edelman Trust Barometer](#) confirms that family businesses are more trusted than other businesses. However, the gap is closing - because most international corporations have been proactive in building trust and broader ESG initiatives into their strategies and communicating to wider stakeholder groups. So the message for family businesses is that you need to close the gap between your traditional views about trust and the expectations of current and future generations of stakeholders.

## So what has the FBS for 2022 told us about trust?



88%

of PNG respondents considered having trust of a broad range of stakeholders essential.

Some 93% of global respondents considered that having the trust of a broad range of stakeholders was important or essential (88% for PNG respondents and 90% in Asia Pacific) but only around 37% of respondents considered that they don't encounter any major challenges building trust with stakeholders (36% for PNG respondents and 34% in Asia Pacific). This leaves the potential for an issue where trust may be eroded over time.

We will be doing an event in the 3rd quarter in Port Moresby and Lae to share more information about our PNG FBS and provide more insights into Trust with customers, employees and family members. You can find out more about the 3rd FBS report using this [link](#).



## IPA Updates

### **Registrar of Companies issues final warning to business name owners and reminder to companies to re-register of face removal**

The Investment Promotion Authority (IPA) through the Office of the Registrar of Companies has issued a final warning to owners of Business Names that have expired to come forward and renew them by August 31st 2023 or risk an automatic cancellation by the system. This means that any owner who wishes to maintain or restore the same business name after its cancellation will be required to pay a penalty of K250 plus a renewal of K150.

Similarly, the Office is warning directors of both local and overseas companies to re-register their companies during the remaining four months grace period which ends on 30th November 2023. Those who fail to do so will see their companies automatically removed from the registry on December 1st 2023 when the automated compliance system for annual returns is activated.

## IRC Updates

### **IRC and Nasfund sign MOU to enhance information sharing and combat salary packaging abuse**

A memorandum of understanding (MOU) was signed between the Nasfund and the IRC which will enable the IRC to better apply the regulations and assess risks associated with salary packaging abuse by employees through their employers. The MOU is a significant step forward in promoting transparency and accountability in managing employee benefits.

### **The IRC and the PNG Forestry Authority have signed a Memorandum of Understanding (MOU) on information sharing**

Another memorandum of understanding was signed by the IRC and this time with the PNG Forestry Authority (PNGFA). This MOU aims to address the issues and deficiencies associated with transfer pricing and tax evasion, by having correct and up-to-date information

readily available to audit and assess players in the logging industry. It further strengthens and compliments the ongoing transfer pricing audit exercises currently being undertaken by the IRC.

### **Taxpayer mapping exercise for the business owners in the National Capital District**

The IRC has conducted taxpayer mapping for business operations within the National Capital District from 13-23 June 2023. The purpose of this initiative is to gather accurate and reliable information about every business in the country. The IRC has successfully completed similar exercises in other provincial centres over the past two years. Following this exercise, a comprehensive Tax Registration Number (TIN) deregistration exercise will be conducted.

### **Issuance of a Section 65A Notice**

The IRC last 8 July has issued under Section 65A of the Goods and Services Tax Act 2003 a new list of Government Departments, Agencies, SOEs and subnational governments that act on behalf of the IRC and withhold or deduct the payment of GST (10%) on their suppliers' (tax) invoices and remit directly to the IRC. Full list can be seen in the link.

### **Ensuring tax compliance a call to all group employers**

The IRC would want to remind everyone of their responsibility to comply with tax laws and regulations to ensure a fair and transparent tax system. IRC would want to remind employers to ensure that all benefits paid to the employees are appropriately accounted for and salaries and wages tax appropriately deducted. Failing to do so may result in serious consequences, including penalties and potential legal action.

## Department of Lands and Physical Planning Update

The Department of Lands and Physical Planning is now undertaking Debt Recovery Action which focuses on settling the outstanding land rent payments and securing future compliance.

Launch of eLands system which is established for online Billing and Receipting System. All billing for Land Lease Rentals will be accepted solely through this platform

Our first event will happen on 19 September, and we'll be discussing residency transitioning and remuneration planning for business owners and senior executives.

## Owner's Agenda

We're dedicated to understanding what matters to you and your business - our framework the 'Owner's Agenda', is a personalised and holistic approach to help you manage ownership and growth at every stage of your business. Our approach reflects on your needs as a business owner and leader. You can find out more [here](#).

## Don't miss your deadlines

### 2023 Provisional tax notice

Companies:

- third provisional tax notice - 31 Oct 2023

Individuals, Estates and Trusts

- Individuals - 30 Sep 2023
- Estates - 30 Sep 2023
- Trusts - 30 Sep 2023

Income Tax Return lodgements (tax agent program)

- taxable entities - 31 Aug 2023
- non-taxable entities - 31 Sep 2023

For substituted accounting period entities, the provisional tax due dates are four months, seven months and ten months after the preceding balance date, whilst the tax return lodgement date is four months after balance date for taxable entities.

### IPA related deadlines

- Business name renewal extension - 31 Aug 2023
- Business re-registration - 30 Nov 2023





## We would like to hear from you

At PwC, we get that your decisions aren't always about business. We are here to support you in achieving growth today, whilst helping you shape your legacy for the future. Our EPB teams in Port Moresby and Lae are wholly focused on providing advisory, accounting and tax services to private and family businesses.

Please do not hesitate to contact us if you have questions, queries, or comments on our events or any changes that have an impact on your business.

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